CALIBER I.D.

IMAGING & DIAGNOSIS ON A CELLULAR LEVEL

Benign Mole

Melanoma

Basal Cell Carcinoma

Offering Memorandum

October 25, 2013

OTCQB: LCDX

OFFERING MEMORANDUM

- **Shares of Common Stock**

We are offering up to ● shares of our common stock in this offering to selected institutions or individuals which qualify as "accredited investors", subject to (i) execution of subscription agreements and other related documents; (ii) approval of certain legal matters; and (iii) certain other conditions.

An "accredited investor," as used herein, is an entity defined as an "accredited investor" in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). This offering is intended solely for investors that purchase our common stock in the ordinary course of their business for their own accounts for investment and not with a view to, or pursuant to or in connection with any arrangements or understandings regarding, any subsequent distributions.

We prepared this offering memorandum in connection with this offering. This offering is subject to withdrawal, cancellation or modification without notice. Prospective investors are encouraged to read this offering memorandum carefully before making an investment decision regarding whether to purchase our common stock.

We and H.C. Wainwright & Co., LLC (the "Placement Agent") reserve the right to reject any prospective investment, in whole or in part, or to allot to any prospective investor less than the number of shares of our common stock such investor desires to purchase.

The Placement Agent has been engaged by us to introduce it to purchasers who will qualify as accredited investors. This offering memorandum has been prepared from publicly available documents and from information provided by our management.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 3 of this offering memorandum for some risks regarding an investment in our common stock.

We anticipate entering into agreements with the purchasers of our common stock whereby we will covenant and agree to prepare and file with the Securities and Exchange Commission, within a period of time agreed to with the purchasers of our common stock, a registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by holders thereof of all of the shares of our common stock sold hereunder (the "Registration"). The agreements we enter into with the purchasers of our common stock shall state that (a) the Registration shall be on a Form S-1 or another appropriate form permitting registration of our common stock sold hereunder for resale by such holders in the manner or manners designated by them and (b) we will use our commercially reasonable efforts to cause the Registration to become effective under the Securities Act for a period of one (1) year or until such earlier time as our common stock sold hereunder may be resold without restriction pursuant to Rule 144.

IMPORTANT CONSIDERATIONS FOR PROSPECTIVE INVESTORS

AN INVESTMENT IN THE SECURITIES IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 3 OF THIS OFFERING MEMORANDUM. PROSPECTIVE INVESTORS SHOULD BE PREPARED TO SUSTAIN A LOSS OF HIS, HER OR ITS ENTIRE INVESTMENT. SUBSCRIBERS WILL BE REQUIRED TO REPRESENT THAT THEY ARE FAMILIAR WITH AND UNDERSTAND THE RISKS OF AN INVESTMENT IN THE SECURITIES.

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT IN RELIANCE ON THE AVAILABILITY OF AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS BY VIRTUE OF THE COMPANY'S INTENDED COMPLIANCE WITH THE PROVISIONS OF SECTION 4(2) THEREOF AND RULE 506(C) THEREUNDER. THE SECURITIES ARE SUBJECT TO LEGAL RESTRICTIONS ON TRANSFER AND RESALE AND INVESTORS SHOULD NOT ASSUME THEY WILL BE ABLE TO RESELL THEIR SECURITIES. THE SECURITIES MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS WILL BE REQUIRED TO SUBMIT TO THE COMPANY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF AN EXEMPTION AS A CONDITION TO ANY SUCH TRANSFER OR RESALE. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR OTHER JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED.

THE SECURITIES ARE BEING OFFERED IN RELIANCE ON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ARE NOT REQUIRED TO COMPLY WITH SPECIFIC DISCLOSURE REQUIREMENTS THAT APPLY TO REGISTRATION UNDER THE SECURITIES ACT.

THE COMMISSION HAS NOT PASSED UPON THE MERITS OF OR GIVEN ITS APPROVAL TO THE SECURITIES, THE TERMS OF THE OFFERING, OR THE ACCURACY OR COMPLETENESS OF ANY OFFERING MATERIALS.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY TO ANYONE IN ANY JURISDICITON IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT PERMITTED UNDER APPLICABLE LAW OR TO ANY PERSON WHO DOES NOT POSSESS THE QUALIFICATIONS DESCRIBED HEREIN.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS OFFERING MEMORANDUM OR ANY PRIOR OR SUBSEQUENT COMMUNICATIONS FROM THE COMPANY OR THE PLACEMENT AGENT AS INVESTMENT, LEGAL, OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN LEGAL COUNSEL AND ACCOUNTANT AS TO LEGAL, TAX, AND RELATED MATTERS CONCERNING AN INVESTMENT IN THE SECURITIES.

THE COMPANY'S COMMOM STOCK IS TRADED ON THE OTCQB MARKETPLACE QUOTATION SYSTEM. TRADING IS EXTREMELY LIMITED. ACCORDINGLY, EACH PROSPECTIVE INVESTOR SHOULD PROCEED ON THE ASSUMPTION THAT HE, SHE OR IT MUST BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD.

INVESTING IN SECURITIES INVOLVES RISK, AND INVESTORS SHOULD BE ABLE TO BEAR THE LOSS OF THEIR INVESTMENT.

NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALES MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS OFFERING MEMORANDUM. ALL DUTIES TO UPDATE THIS MEMORANDUM ARE HEREBY DISCLAIMED.

THE COMPANY WILL MAKE AVAILABLE TO EACH PROSPECTIVE INVESTOR OR HIS, HER OR ITS REPRESENTATIVE, PRIOR TO THE SALE OF SECURITIES TO SUCH INVESTOR, THE OPPORTUNITY TO ASK

QUESTIONS OF AND RECEIVE ANSWERS FROM MANAGEMENT OF THE COMPANY CONCERNING ANY ASPECT OF THIS OFFERING.

EACH PROSPECTIVE INVESTOR SHOULD THOROUGHLY REVIEW THIS OFFERING MEMORANDUM, INCLUDING THE EXHIBITS, BEFORE DECIDING TO PURCHASE ANY SECURITIES.

STATEMENTS CONTAINED HEREIN AS TO THE CONTENTS OF ANY AGREEMENTS OR OTHER DOCUMENTS ARE SUMMARIES AND, THEREFORE, ARE NECESSARILY SELECTIVE AND INCOMPLETE. COPIES OF THE DOCUMENTS REFERRED TO HEREIN MAY BE OBTAINED FROM THE COMPANY AND ARE AVAILABLE FOR INSPECTION AT THE OFFICES OF THE COMPANY.

THE SECURITIES ARE BEING OFFERED SUBJECT TO ACCEPTANCE, PRIOR SALE AND WITHDRAWAL, CANCELLATION OR MODIFICATION OF THE OFFERING AT ANY TIME WITHOUT NOTICE.

NO PERSON HAS BEEN AUTHORIZED TO MAKE REPRESENTATIONS OR GIVE ANY INFORMATION WITH RESPECT TO THE COMPANY OR THE OFFERING, EXCEPT THE INFORMATION CONTAINED HEREIN. PROSPECTIVE INVESTORS SHOULD NOT RELY ON ANY ORAL INFORMATION OR ANY INFORMATION NOT CONTAINED IN THIS OFFERING MEMORANDUM.

THESE SECURITIES ARE OFFERED ONLY TO INVESTORS WHO PURCHASE FOR THE PURPOSE OF INVESTMENT AND NOT FOR RESALE. THERE IS NOT CURRENTLY, NOR WILL THIS OFFERING RESULT IN, A PUBLIC MARKET FOR THE SECURITIES.

THE SECURITIES MAY BE SOLD ONLY TO "ACCREDITED INVESTORS", WHICH FOR NATURAL PERSONS ARE INVESTORS WHO MEET CERTAIN MINIMUM ANNUAL INCOME OR NET WORTH THRESHOLDS. EACH PURCHASER WILL BE REQUIRED TO PROVIDE A WRITTEN CONFIRMATION COMPLYING WITH RULE 506(C)(2)(II)(C) VERIFYING THAT SAID PURCHASER IS AN ACCREDTED INVESTOR.

THIS OFFERING MEMORANDUM CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SECURITIES ACT, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER. FORWARD-LOOKING STATEMENTS ARE NOT HISTORICAL FACTS. WHEN USED IN THIS OFFERING MEMORANDUM, THE WORDS "ESTIMATE," "PROJECT," "BELIEVE," "ANTICIPATE," "INTEND," "EXPECT," "PLAN," "PREDICT," "MAY," "SHOULD," "WILL," THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING THEM. WHILE FORWARD-LOOKING STATEMENTS ARE BASED ON CERTAIN HISTORICAL TRENDS, CURRENT CONDITIONS, EXPECTED FUTURE DEVELOPMENTS AND OTHER FACTORS THE COMPANY BELIEVES ARE APPROPRIATE, SUCH STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE SUBJECT TO RISKS, UNCERTAINTIES AND OTHER FACTORS, MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY, ARE DIFFICULT TO PREDICT AND COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR FORECASTED IN THE FORWARD-LOOKING STATEMENTS. CERTAIN OF THESE RISKS AND UNCERTAINTIES ARE DESCRIBED IN "RISK FACTORS" AND ELSEWHERE IN THIS MEMORANDUM; PROVIDED THAT SUCH RISKS AND UNCERTAINTIES ARE INTENDED TO BE ILLUSTRATIVE AND NOT EXHAUSTIVE. POTENTIAL INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS.

THERE CAN BE NO ASSURANCE THAT THE ACTUAL RESULTS THE COMPANY ANTICIPATED WILL BE REALIZED OR, EVEN IF SUBSTANTIALLY REALIZED, THAT THEY WILL HAVE THE EXPECTED CONSEQUENCES TO OR EFFECTS ON THE COMPANY OR ITS BUSINESS OR OPERATIONS. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS OFFERING MEMORANDUM SPEAK ONLY AS OF THE DATE OF THIS OFFERING MEMORANDUM. THE COMPANY ASSUMES NO OBLIGATION TO UPDATE PUBLICLY ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

IN ADDITION TO THE OTHER RISKS DESCRIBED ELSEWHERE IN THIS OFFERING MEMORANDUM, INCLUDING THE RISK FACTORS SECTION BEGINNING ON PAGE 3 OF THIS OFFERING MEMORANDUM,

IMPORTANT FACTORS TO CONSIDER IN EVALUATING SUCH FORWARD-LOOKING STATEMENTS INCLUDE: (I) CHANGES IN EXTERNAL COMPETITIVE MARKET FACTORS WHICH MIGHT IMPACT TRENDS IN THE COMPANY'S RESULTS OF OPERATIONS; (II) CHANGES IN WORKING CAPITAL AND OTHER CASH REQUIREMENTS; (III) GENERAL CHANGES IN THE INDUSTRY IN WHICH THE COMPANY COMPETES; (IV) FAILURE TO OBTAIN FROM THIRD-PARTY PAYERS ADEQUATE REIMBURSEMENT FOR OUR PRODUCTS; AND (V) VARIOUS OTHER COMPETITIVE OR REGULATORY FACTORS THAT MAY PREVENT THE COMPANY FROM COMPETING SUCCESSFULLY IN THE MARKETPLACE. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS OFFERING MEMORANDUM.

CIRCULAR 230 NOTICE:

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (B) SUCH DISCUSSION IS INCLUDED IN THIS OFFERING MEMORANDUM TO SUPPORT THE PROMOTION OR MARKETING OF INTERESTS IN THE INVESTOR LLC; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with information different from that contained in this offering memorandum. We are offering to sell shares of our common stock and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the common stock.

For investors outside the US: Neither we nor our agent has done anything that would permit this offering or possession or distribution of this offering memorandum in any jurisdiction where action for that purpose is required, other than in the US. You are required to inform yourselves about, and to observe any restrictions relating to, this offering and the distribution of this offering memorandum.

INDUSTRY AND MARKET DATA

We obtained statistical data and certain other industry forecasts used throughout this offering memorandum from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable. While we believe that the statistical and industry data and forecasts and market research used herein are reliable, we have not independently verified such data. We have not sought the consent of the sources to refer to their reports in this offering memorandum.

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It does not contain all of the information you should consider before investing in us. You should read this entire offering memorandum carefully, especially the ''Risk Factors'' section and our financial statements and the related notes appearing at the end of this offering memorandum, before deciding to invest. Unless otherwise stated or the context otherwise requires, references in this offering memorandum to ''Caliber I.D.,'' ''we,'' ''us,'' ''our'' and similar references refer to Lucid, Inc. doing business as Caliber Imaging & Diagnostics or ''Caliber I.D."

Our Business

We are a medical device company that develops, manufactures, markets and sells point-of-care cellular imaging systems. Our patented and FDA-cleared VivaScope® technology provides physicians with real-time images of the epidermis and superficial dermis of the skin, as well as other epithelial tissues at a cellular level that can be interpreted by the physician at the bedside and/or transferred securely to a pathologist on VivaNet®, our HIPAA-compliant private telepathology network for remote diagnosis. With sensitivity and specificity that can rival the current "gold standard", clinical histopathology, but without all of the associated costs of a traditional biopsy, our platform imaging technology has the potential to significantly improve patient outcomes while simultaneously reducing costs.

Our core products are FDA 510(k) cleared for clinical use and have regulatory approvals in most major markets. Our technology is already in use by physicians and researchers at major academic hospitals and by pharmaceutical and cosmetic companies across the globe. Our devices allow these researchers to quickly and efficiently study the efficacy of new products, test ingredients, validate claims and determine safety. The technology is protected by 78 issued or pending patents worldwide.

To date, our proprietary platform imaging technology has been the subject of more than 350 independently sponsored studies or publications spanning numerous clinical and research fields. Extensive research has been conducted in dermatologic disorders including melanoma and nonmelanoma skin cancers, dermatoses, inflammatory and pigmentation disorders. Additionally, the technology has been used to noninvasively study burns, wound healing, neuropathy and oral tissues. Ex-vivo research has been conducted in head and neck, breast biopsy and surgical specimens. Our in-vivo products are ideal for applications in which a traditional biopsy is counterproductive, such as validating the diagnosis of benign lesions (thus, reducing unnecessary biopsies), monitoring noninvasive therapies and determining product efficacy. In the future, the technology may be used to perform real-time pathology in the operating room on tissues removed from the body and to identify tissues in the body during surgery.

Risks Associated with our Business

Our business is subject to a number of risks discussed under the heading "Risk Factors" included in this ofering memorandum on page 3.

The Offering

Common stock offered by us	● shares
Common stock outstanding after the offering	● shares
Pending Recapitalization	Contingent on raising $6.0 million in this offering, the outstanding principal and interest on $5.0 million of the Company's debt will be converted into common stock on the same terms as the shares sold to other investors in this offering. In addition, the maturity date of $7.0 million of the Company's debt will be extended to July 3, 2020, with interest of 7% payable only on maturity.
Use of proceeds	We intend to use the net proceeds received by us from this offering for working capital and general corporate purposes, including further expansion of our sales and marketing efforts in the United States, and to provide increased visibility to the Company and its products, continued investments in research and development and studies for applications in skin cancer as well as for applications beyond skin cancer. We do not have any specific uses of the net proceeds planned, nor have we determined the amounts that we will actually spend on those

	uses. See ‘‘Use of Proceeds.’’
Risk factors	You should read the “Risk Factors” section of this offering memorandum for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Market trading symbol	LCDX

The number of shares of our common stock to be outstanding after this offering above is based on 8,507,374 shares outstanding on September 30, 2013, and unless otherwise indicated, excludes:

- 3,412,000 shares of common stock issuable as of the date of this prospectus upon the exercise of outstanding stock options at a weighted average exercise price of $1.40 per share;
- 4,130,470 shares of common stock issuable upon the exercise of warrants at a weighted average exercise price of approximately $3.10 per share.

Summary of Financial Information

The following table sets forth summary financial data, which is derived from our financial statements. The summary financial statement as of June 30, 2013, and for the six months ended June 30, 2013 and 2012, are derived from our unaudited condensed financial statements, and the summary financial statement data for the years ended December 31, 2012 and 2011 are derived from our audited consolidated financial statements, both included elsewhere in this offering memorandum. You should read this summary financial data in conjunction with, and it is qualified in its entirety by, reference to our historical financial information and other information provided in this offering memorandum, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes appearing elsewhere in this offering memorandum. The historical results set forth below are not necessarily indicative of the results to be expected in future periods.

	Six Months Ended June 30,		Year Ended December 31,	
	2013	2012	2012	2011
Statement of Operations Data:				
Revenue	$ 1,574,424	$ 889,558	$ 2,434,585	$ 3,576,885
Operating expenses:				
Cost of revenue	1,331,941	1,106,946	2,401,729	1,890,381
General and administrative	880,961	2,564,586	4,025,245	5,437,835
Sales and marketing	684,502	1,042,034	1,809,434	1,360,183
Engineering, research and development	794,848	1,880,589	3,764,816	1,456,890
Total operating expenses	3,692,252	6,594,155	12,001,224	10,145,289
Loss from operations	(2,117,828)	(5,704,597)	(9,566,639)	(6,568,404)
Other expenses, net	(206,994)	(14,585)	(253,986)	(2,485,360)
Net loss	$ (2,324,822)	$ (5,719,182)	$ (9,820,625)	$ (9,053,764)
Net loss attributable to common stockholders	$ (2,324,822)	$ (5,719,182)	$ (9,820,625)	$ (15,960,330)
Basic and diluted net loss per common share	$ (0.28)	$ (0.73)	$ (1.23)	$ (7.37)
Weighted-average number of common shares outstanding	8,384,708	7,806,241	7,998,662	2,164,232

	As of June 30, 2013
Cash and cash equivalents	$ 3,922,421
Long term debt:	
Notes payable – related parties[(1),(2)]	$ 11,731,818
Warrant liabilities	26,377
Stockholders' deficit:	
Preferred stock	-
Common stock	85,074
Additional paid-in capital	38,803,246
Accumulated deficit	(48,796,878)
Total stockholders' deficit	$ (9,908,558)
Total capitalization	$ (1,849,637)

(1) Net of debt discount of $268,182.

(2) Contingent on raising $6.0 million in this offering, the outstanding principal and interest on $5.0 million of the Company's debt will be converted into common stock on the same terms as the shares sold to other investors in this offering. In addition, the maturity date of $7.0 million of the Company's debt will be extended to July 3, 2020, with interest of 7% payable only on maturity.

The following table represents total common stock and derivative instruments outstanding:

	September 30, 2013	June 30, 2013	December 31, 2012
Common stock outstanding	8,507,374	8,507,374	8,507,374
Derivative instruments outstanding:			
Common stock warrants [(1)]	4,130,470	1,981,661	1,981,661
Common stock options	3,412,000	685,000	625,000
Total common stock and derivative instruments outstanding	16,049,844	11,174,035	11,114,035

(1) Includes an estimated 25,000 warrants issued as a result of an anti-dilution adjustments triggered by the issuances of shares of common stock or warrants.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this offering memorandum, before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition and results of operations would suffer. In that case, the trading price of our common stock would likely decline and you might lose all or part of your investment in our common stock. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial conditions and results of operations.

Risks related to Our Financial Position and Capital Requirements

We have a history of losses, and we anticipate that we will incur continued losses for the foreseeable future.

We reported net losses of approximately $9.8 million and $9.1 million in 2012 and 2011, respectively, and $2.3 million for the six months ended June 30, 2013. As of June 30, 2013, we had an accumulated deficit of approximately $48.8 million. We have devoted substantially all of our resources to research and development and sales of our products. Our success will depend upon, among other things, our ability to successfully market and sell our products and to generate revenues. Unanticipated problems, expenses and delays are frequently encountered in developing and commercializing new technology. These include, but are not limited to, competition, the need to gain clinical acceptance of our technology, the need for sales and marketing expertise, regulatory concerns, and setbacks in the continued development of new technology. As a result, we expect to continue to incur operating losses for the foreseeable future and require additional capital to fund ongoing operations. These losses, among other things, have had and will continue to have an adverse effect on our stockholders' equity. If we are not able to fund our cash needs, we may not be able to continue as a going concern, and it is likely that all of our investors would lose their investment. If we are unable to obtain the necessary capital or financing to fund our cash needs it will adversely affect our ability to fund operations and continue as a going concern. Additional financing may not be available when needed or may not be available on terms acceptable to us. If adequate funds are not available, we may be required to delay, scale back or eliminate one or more of our business strategies, which may affect our overall business results of operations and financial condition,

Our indebtedness and financing arrangements could negatively impact our business.

As of June 30, 2013, we had $11.8 million of outstanding debt. In October 2013, the holder of our debt agreed to convert $5.0 million of our long-term debt into common stock on the same terms as the shares that are sold to other investors pursuant to this Offering Memorandum. In addition, the maturity date of $7.0 million of long-term debt will be extended to July 3, 2020, with interest of 7% payable only on maturity. We cannot be sure that our future working capital or cash flows will be sufficient to meet our debt obligations and commitments. Any failure by us to repay such debt in accordance with its terms or to renegotiate and extend such terms would have a negative impact on our business and financial condition, and may result in legal claims by our creditors. In addition, the existence of our outstanding debt many hinder or prevent us from raising new equity or debt financing. Our ability to make scheduled payments on our debt as they become due will depend on our future performance and our ability to implement our business strategy successfully. Failure to pay our interest expense or make our principal payments would result in a default. A default, if not waived, could result in acceleration of our indebtedness, in which case the debt would become immediately due and payable. If this occurs, we may be forced to sell or liquidate assets, obtain additional equity capital or refinance or restructure all or a portion of our outstanding debt on terms that may be less favorable to us. In the event that we are unable to do so, we may be left without sufficient liquidity and we may not be able to repay our debt and the lenders may be able to foreclose on our assets or force us into bankruptcy proceedings or involuntary receivership.

We cannot assure you that we will be able to achieve or accomplish the projections of our operating results included in this offering memorandum.

This offering memorandum includes projections of our operating results for 2014 and 2015. Our future operating results for these periods may differ materially and we may fail to meet or exceed the projections due to risks, uncertainties and other factors, many of which are beyond our control, including but not limited to:

- the level and timing of expenses for product development and sales, general and administrative expenses;
- our ability to successfully enter into or maintain partnering arrangements, and the terms of those relationships;
- commercial success with our existing product and success in identifying and sourcing new product opportunities;

- the development of new competitive technologies or products by others and competitive pricing pressures;
- the failure to obtain appropriate reimbursement for public and private third-party payers;
- the occurrence of unforeseen regulatory, including FDA, requirements or restrictions;
- changes in demand for our products;
- changes in product development costs;
- changes in the amount that we invest to develop, acquire or license new technologies and processes;
- business interruptions;
- departures of executives or other key management employees;
- foreign exchange fluctuations;
- changes in general economic, industry and market conditions, both domestically and in our foreign markets; and
- changes in governmental, accounting and tax rules and regulations, environmental, health and safety requirements, and other rules and regulations.

Based on the above factors and other risks and uncertainties, our future operating results for these periods may differ materially from the projections included in this offering memorandum.

The report of our independent registered public accounting firm expresses substantial doubt about our ability to continue as a going concern.

Our auditors and prior auditors have indicated in their reports on our financial statements for the fiscal years ended December 31, 2012 and December 31, 2011 that conditions exist that raise substantial doubt about our ability to continue as a going concern due to our recurring losses from operations, deficit in equity, and the need to raise additional capital to fund operations. A "going concern" opinion could impair our ability to finance our operations through the sale of debt or equity securities. Our ability to continue as a going concern will depend on our ability to obtain additional financing when necessary, which is not certain. If we are unable to achieve these goals, our business would be jeopardized and we may not be able to continue. If we ceased operations, it is likely that all of our investors would lose their investment.

Any additional capital raising will likely cause dilution to existing stockholders and, if capital raising is a secured raise, it may restrict our operations or adversely affect our ability to operate our business.

The sale of equity or issuance of debt to raise capital could result in dilution to our stockholders. The incurrence of indebtedness, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, expending capital, or declaring dividends, or which impose financial covenants on us that impede our ability to manage our operations.

Risks Related to the Development and Commercialization of Our Products

We have limited marketing experience, sales force or distribution capabilities. If we are unable to recruit key personnel to perform these functions, we may not be able to successfully commercialize our products.

Our ability to produce revenues ultimately depends on our ability to sell our products. We currently have limited experience in marketing or selling our products, and a limited marketing and sales staff and distribution capabilities. Developing a marketing and sales force is time-consuming and will involve the investment of significant amounts of financial and management resources, and could delay the launch of new products or expansion of existing product sales. In addition, we will compete with many companies that currently have extensive and well-funded marketing and sales operations. If we fail to establish successful marketing and sales capabilities or fail to enter into successful marketing arrangements with third parties, our ability to generate revenues will suffer.

Furthermore, even if we enter into marketing and distributing arrangements with third parties, we may have limited or no control over the sales, marketing and distribution activities of these third parties, and these third parties may not be successful or effective in selling and marketing our products. If we fail to create successful and effective marketing and distribution channels, our ability to generate revenue and achieve our anticipated growth could be adversely affected. If these distributors experience financial or other difficulties, sales of our products could be reduced, and our business, financial condition and results of operations could be harmed.

Our commercial success in clinical markets depends upon attaining significant market acceptance of our products by physicians, patients and healthcare payers.

The medical device industry is highly competitive and subject to rapid technological change. Our success in clinical markets depends, in part, upon physicians continuing to perform a significant number of diagnostic procedures and our ability to achieve and maintain a competitive position in the development of technologies and products in the skin cancer diagnosis field. If physicians, patients, or other healthcare providers opt to use our competitors' products, or healthcare payers do not accept our products, our commercial opportunity in clinical markets will be reduced and our potential revenues will suffer.

Biopsy of the lesion, followed by pathologic examination of the tissue specimen, is today's widely accepted standard of care with a long history of use. Two alternative diagnostic tools, clinical photography and dermoscopy, are currently gaining acceptance in the U.S. medical community. In addition, technological advances may result in improvements in these alternative diagnostic tools or new technologies may emerge that produce superior diagnostic results as compared to VivaScope and our telepathology server.

If we are unable to obtain adequate reimbursement from healthcare payers, or acceptable prices, for our products, our revenues and prospects for profitability in the clinical market will suffer.

Our future revenues and ability to become profitable will depend heavily upon the availability of adequate and timely reimbursement for the use of our products and services from governmental and other third-party payers. Reimbursement by a third-party payer may depend upon a number of factors, including the third-party payer's determination that use of a product is: (i) a covered benefit under its health plan, (ii) safe, effective and medically necessary, (iii) appropriate for the specific patient, (iv) cost effective, and (v) neither experimental nor investigational. Obtaining reimbursement approval for our products and services from each government or other third-party payer will be a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data to each payer. We may not be able to provide data sufficient to gain acceptance with respect to reimbursement. Even when a payer determines that a product is eligible for reimbursement, the payer may impose coverage limitations that preclude payment for some product uses that are approved by the FDA or similar authorities. Moreover, eligibility for coverage does not imply that any product will be reimbursed in all cases or at a rate that allows us to make a profit or even cover our costs. If we are not able to obtain coverage and profitable reimbursement promptly from government-funded and private third-party payers for our products, our ability to generate revenues and become profitable will be compromised.

The termination of our distribution relationships with any of our key distributors, or a decline in revenue from such distributors, could have a material adverse effect on our business, financial condition, and results of operations.

Our sales to date have been to a limited number of distributors and customers. For the year ended December 31, 2012, sales to two distributors were in the amounts of approximately $1.0 million and $0.4 million representing 39% and 15%, respectively, of our total revenues. For the six months ended June 30, 2013, sales to two distributors were in the amounts of approximately $0.6 million and $0.3 million representing 41% and 16%, respectively, of our total revenues. Our distribution agreements with these key distributors may be terminated, or our distributors may fail to perform their obligations under such agreements. If either of these events occurs, our marketing and distribution efforts may be impaired and our revenues may be adversely impacted. We may experience greater or lesser customer concentration in the future. However, it is likely that our revenue and profitability will continue to be dependent on a very limited number of large customers and distributors. In certain countries our regulatory approval is in the name of the distributor. In the event the relationship with such distributor terminated, we would need to go through the process of reobtaining the regulatory approval in another name which would impact our ability to sell product until such approval was obtained. The loss of, material reduction in sales volume to, or significant adverse change in our relationship with any of our key distributors could have a material adverse effect on our revenue in any given period and may result in significant annual and quarterly revenue variations. Although we may be able to sell directly to customers if our relationships with any or all of our key distributors terminate, the development of our sales and distribution capabilities could involve significant expense and delay.

We operate in highly competitive markets, which may result in others discovering, developing or commercializing products before, or more successfully, than we do.

Currently our largest competitive threat in clinical markets is a surgical biopsy, which is the standard of care. Although we possess patented technology for our VivaScope products and our VivaNet telepathology system, we face competition, both nationally and internationally, from companies marketing technologies which offer an alternative to confocal microscopy and traditional biopsy. Many of these companies have established name recognition, reputation, and market presence, and may have greater financial, technical, sales, marketing and other resources than we have, enabling them to better withstand the impact of risks associated with a highly competitive industry

Companies that have developed devices using confocal microscopy include those which have applications in ophthalmology, such as Nidek, and in gastroenterology, such as Mauna Kea Technologies, which has a confocal endomicroscopy device. Although we do not currently view these companies as competitors, these companies may compete with us in their respective application areas, which could possibly become broader and infringe on our applications. Our confocal imaging devices compete with other noninvasive screening technologies which are sold by companies such as FotoFinder Systems, Inc., Mela Sciences, Inc., Michelson Diagnostics and Verisante. Though we do not believe that we compete with any specific large companies currently, major medical imaging companies such as General Electric Co., Siemens and Philips Healthcare, each of which manufacture and market precision medical diagnostic products, could decide to develop or acquire a product or products to compete with our VivaScope confocal imagers.

New product development in the medical device industry is both costly and labor intensive with very low success rates for successful commercialization; if we cannot successfully develop or obtain future products, our ability to grow may be impaired.

Our long-term success is dependent, in large part, on the design, development and commercialization of new products and services in the medical technology industry. The product development process is time-consuming, unpredictable and costly. There can be no assurance that we will be able to develop or acquire new products, successfully complete clinical trials, obtain the necessary regulatory clearances or approvals required from the FDA on a timely basis, or at all, manufacture our potential products in compliance with regulatory requirements or in commercial volumes, or that potential products will achieve market acceptance. In addition, changes in regulatory policy for product approval during the period of product development, and regulatory agency review of each submitted new application, may cause delays or rejections. It may be necessary for us to enter into licensing arrangements in order to market effectively any new products or new indications for existing products. There can be no assurance that we will be successful in entering into such licensing arrangements on terms favorable to us or at all. Failure to develop, obtain necessary regulatory clearances or approvals for, or successfully market potential new products could have a material adverse effect on our business, financial condition and results of operations.

If our products are approved for reimbursement, we anticipate experiencing significant pressures on pricing.

Our customers can include hospitals and physicians that typically bill various third-party payers, including governmental programs (e.g., Medicare and Medicaid), private insurance plans and managed care programs, for the healthcare diagnostic services provided to their patients. The ability of customers to obtain appropriate reimbursement for their products and services from private and governmental third-party payers is critical to the success of medical technology companies. The availability of reimbursement affects which products or services customers purchase and the prices they may be willing to pay. Reimbursement varies from country to country and can significantly impact the acceptance of new products and services. In the U.S. and in some foreign markets pricing and profitability of medical devices may be subject to government control. In the U.S. many private payers look to the Centers for Medicare & Medicaid Services, or CMS, which administer the Medicare program, in setting their reimbursement policies and amounts. If CMS or other agencies limit coverage or decrease or limit reimbursement payments for doctors and hospitals, this may affect coverage and reimbursement determinations by many private payers. Legislative or administrative reforms to reimbursement systems in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for those procedures, including price regulation, competitive pricing, coverage and payment policies, comparative effectiveness of diagnostic tools, technology assessments and managed-care arrangements, could have a material adverse effect on our business, financial condition or results of operations.

Even if reimbursement programs cover a device for certain uses, that does not mean that the level of reimbursement will be sufficient for commercial success. We expect to experience pricing pressures in connection with the commercialization of our products and our future products due to efforts by private and government-funded payers to reduce or limit the growth of healthcare costs, the increasing influence of health maintenance organizations, and additional legislative proposals to reduce or limit increase in public funding for healthcare services. Efforts to impose greater discounts and more stringent cost controls upon healthcare providers by private and public payers are expected to continue. Payers frequently review their coverage policies for existing and new diagnostic tools and can, sometimes without advance notice, deny or change their coverage policies. Significant limits on the scope of services covered or on reimbursement rates and fees on those services that are covered could have a material

adverse effect on our ability to commercialize our products and therefore, on our liquidity and our business, financial condition, and results of operations.

We operate in a heavily regulated sector, and our ability to remain viable will depend on future legislative action and favorable government decisions at various points by various agencies.

Our products are regulated in the markets we operate as well as the associated manufacturing, labeling and record keeping procedures. Regulatory clearance or approval to market a diagnostic product may contain limitations on the indicated uses of the product. Marketing clearance or approval can also be withdrawn by regulators due to failure to comply with regulatory standards or the occurrence of unforeseen problems following initial clearance or approval. In addition, regulators have the authority to change or modify their regulations at any time, and also has the authority to change the medical classification of our products, thereby increasing the associated regulations to which we must adhere.

The regulations affecting healthcare change frequently, thereby increasing the uncertainty and risk associated with any healthcare related venture, including our business and our products. In addition, regulations and guidance are often revised or reinterpreted in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or regulations, guidance, or interpretations changed, and what the impact of such changes, if any, may be.

Applicable laws and regulations are extremely complex and, in some cases, still evolving. If our operations are found to be in violation of any of the laws and regulations that govern our activities, we may be subject to the applicable penalty associated with the violation, including civil and criminal penalties, damages, fines or curtailment of our operations. Any action against us for violation of these laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's time and attention from the operation of our business.

If we fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems, our products could be subject to restrictions or withdrawal from the market.

Any product for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data and promotional activities for such product, will be subject to continual review and periodic inspections by the FDA and other regulatory bodies. Regulatory approval of our products may be subject to limitations on the indicated uses for which the products may be marketed or contain requirements for costly post marketing testing and surveillance to monitor the safety or effectiveness of the products. Later discovery of previously unknown problems with our products, including unanticipated adverse events or adverse events of unanticipated severity or frequency, manufacturer or manufacturing processes, or failure to comply with regulatory requirements, may result in restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recall, fines, suspension of regulatory approvals, product seizures, injunctions or the imposition of civil or criminal penalties.

Our business is subject to inspection by the FDA and international authorities, and we could face penalties if we are found to be non-compliant with the regulations of the FDA or international authorities.

The FDA and various other authorities will inspect our facilities from time to time to determine whether we are in compliance with regulations relating to medical device manufacturing, including regulations concerning design, manufacturing, testing, quality control, product labeling, distribution, promotion, and record keeping practices. Our facility was most recently inspected by the FDA in August 2009. A determination that if we are in material violation of such regulations could lead to the imposition of civil penalties, including fines, product recalls, product seizures or, in extreme cases, criminal sanctions or a shutdown of our manufacturing facility. Even if regulatory approvals to market a product are obtained from the FDA, such approvals may contain limitations on the indicated uses of the product. The FDA could also limit or prevent the manufacture or distribution of our products and has the power to require the recall of products. FDA regulations depend heavily on administrative interpretation, and future interpretations made by the FDA or other regulatory bodies with possible retroactive effect may adversely affect us.

If the FDA or international authorities determine that our promotional materials or activities constitute promotion of our products for an unapproved use or other claim in violation of applicable law relating to the promotion of our products, it could demand that we cease the use of or modify our promotional materials or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider promotional or other materials to constitute promotion of telepathology or VivaScope for an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. Our competitors may also assert claims either directly or indirectly with the FDA concerning any alleged illegal or improper marketing promotional activity.

Healthcare policy changes, including legislation to reform the U.S. healthcare system, may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Political, economic and regulatory influences are subjecting the healthcare industry to potential fundamental changes that could substantially affect our results of operations. In response to perceived increases in health care costs in recent years, there have been and continue to be proposals and enactments by the Obama administration, members of U.S. Congress, state governments, regulators and third-party payers to control these costs and, more generally, to reform the U.S. healthcare system. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective treatments. Certain of these proposals and enactments or regulations promulgated to enforce them may limit the prices we are able to charge for our products or the amount of reimbursement that may be available if such products are approved for reimbursement. The adoption of some or all of these enactments and proposals could have a material adverse effect on us. We cannot predict the final form these might take or their effects on our business.

The Patient Protection and Affordable Care Act and Health Care and Education Affordability Reconciliation Act of 2010 were enacted into law in the U.S. in March 2010. As a U.S. headquartered company with sales in the U.S., this healthcare reform legislation will materially impact us. Certain provisions of the legislation will not be effective for a number of years, there are many programs and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impact of the legislation will be. The legislation imposes on medical device manufacturers such as a 2.3 percent excise tax on U.S. sales of Class I, II and III medical devices beginning in 2013. Both downward pressure on reimbursement and the excise tax could have a material adverse effect on our business, financial condition and the results of operations. Other provisions of this legislation, including Medicare provisions aimed at improving quality and decreasing costs, comparative effectiveness research, an independent payment advisory board, and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered, and may adversely affect our business and results of operations. Further, we cannot predict what healthcare programs and regulations ultimately will be implemented at the federal or state level, or the effect of any future legislation or regulation in the U.S. or internationally. However, any changes that lower reimbursements for our products or reduce medical procedure volumes could adversely affect our business and results of operations.

We must comply with complex statutes prohibiting fraud and abuse, and both we and physicians utilizing our products could be subject to significant penalties for noncompliance.

There are extensive federal and state laws and regulations prohibiting fraud and abuse in the healthcare industry that can result in significant criminal and civil penalties. These federal laws include: the Anti-Kickback Law which prohibits certain business practices and relationships, including the payment or receipt of remuneration for the referral of patients or the purchase, order or recommendation of goods or services for which payment will be made by Medicare or other federal healthcare programs; the physician self-referral prohibition, commonly referred to as the Stark Law; the Anti-Inducement Law, which prohibits providers from offering anything to a Medicare or Medicaid beneficiary to induce that beneficiary to use items or services covered by either program; the Civil False Claims Act, which prohibits any person from knowingly presenting or causing to be presented false or fraudulent claims for payment by the federal government, including the Medicare and Medicaid programs; HIPAA, which creates federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program and which also imposes certain obligations on entities with respect to the privacy, security and transmission of individually identifiable health information; the federal False Statements Statute, which prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; and the Civil Monetary Penalties Law, which authorizes the Department of Health and Human Services, ("HHS"), to impose civil penalties administratively for fraudulent or abusive acts. We are also subject to state laws that are analogous to the above federal laws, such as state anti-kickback and false claims laws (some of which may apply to healthcare items or services reimbursed by any third-party payer, including commercial insurers), as well as certain state laws that require pharmaceutical and medical device companies to comply with industry voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government.

Sanctions for violating these laws include criminal and civil penalties that range from punitive sanctions, damage assessments, money penalties, imprisonment, denial of Medicare and Medicaid payments, or exclusion from the Medicare and Medicaid programs, or both. As federal and state budget pressures continue, federal and state administrative agencies may also continue to escalate investigation and enforcement efforts to root out waste and to control fraud and abuse in governmental healthcare programs. Private enforcement of healthcare fraud has also increased, due in large part to amendments to the Civil False Claims Act in 1986 that were designed to encourage private persons to sue on behalf of the government. Our ongoing efforts to comply with these laws may be costly, and a violation of any of these federal and state fraud and abuse laws and regulations could have a material adverse effect on our liquidity and financial condition. The risk of our being found in violation of these laws is increased

by the fact that many of them have not been definitively interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of subjective interpretations. In addition, these laws and their interpretations are subject to change. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and damage our reputation. An investigation into the use of telepathology, telepathology workstations and VivaScope by physicians may dissuade physicians from either purchasing or using telepathology, telepathology workstations and VivaScope and could have a material adverse effect on our ability to commercialize our products.

The application of the privacy provisions of HIPAA is unclear, and we will become subject to other laws and regulations regarding the privacy and security of medical information.

HIPAA, among other things, protects the privacy and security of individually identifiable health information by limiting its use and disclosure. HIPAA directly regulates "covered entities" (insurers, clearinghouses, and most healthcare providers) and indirectly regulates "business associates" with respect to the privacy of patients' medical information. All entities that receive and process protected health information are required to adopt certain procedures to safeguard the security of that information. It is unclear whether we would be deemed to be a covered entity or a business associate under the HIPAA regulations. In either case, we will be required to physically safeguard the integrity and security of the patient information that we, or our physician customers, receive, store, create or transmit. If we fail to safeguard patient information, then we or our physician customers may be subject to civil monetary penalties, and this could adversely affect our ability to market our products. We also may be liable under state laws governing the privacy of health information. As and when we expand our commercialization efforts in the foreign markets that we have targeted, we will also become subject to a variety of international laws, regulations and policies designed to protect the privacy of health information. The costs associated with our ongoing compliance could be substantial, which could negatively impact our profitability.

Clinical trials associated with future applications of our technology may involve lengthy and expensive processes with uncertain outcomes, and results of earlier studies and trials may not be predictive of future trial results.

In the future, as we explore additional applications of our technology, clinical trials may be required for regulatory approval. We are not currently conducting any clinical trials related to any regulatory approval and we have no current plans to conduct any such clinical trials. However, should we decide to conduct such clinical trials, we cannot predict whether we will encounter problems with any future clinical trials, which would cause us or regulatory authorities to delay or suspend those clinical trials, or delay the analysis of data from those clinical trials. We estimate that clinical trials involving any of the various potential applications of VivaScope and telepathology which we may choose to pursue could continue for several years and that such trials may also take significantly longer to complete and may cost more money that we expect. Failure can occur at any stage of testing, and we may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent commercialization of the current, or a future, more advanced, version of our products, including but not limited to: delays in obtaining regulatory approvals to commence a clinical trial; slower than anticipated patient recruitment and enrollment; negative or inconclusive results from clinical trials; unforeseen safety issues; an inability to monitor patients adequately during or after treatment; and problems with investigator or patient compliance with the trial protocols.

A number of companies in the medical device industry, including those with greater resources and experience than us, have suffered significant setbacks in advanced clinical trials, even after seeing promising results in earlier clinical trials. Despite the successful results reported in early clinical trials regarding our products, we do not know whether any clinical trials we or our clinical partners may conduct will produce favorable results. The failure of clinical trials to produce favorable results could have a material adverse effect on our business, financial condition and results of operations.

Alternative applications of our technology may not be successful, which will limit our ability to grow and generate revenue.

Although we believe the early exploratory and pilot studies for other clinical applications of our technology beyond the early detection and diagnosis of skin cancer are encouraging, there can be no assurance any of these research and development activities, engineering efforts, or clinical studies will be successful or that any FDA clearances will be achieved for any of these other clinical applications. If alternative applications of our technology are not successful, our ability to grow the Company and generate revenue will be adversely impacted.

We face the risk of product liability claims and may not be able to obtain or maintain adequate insurance to protect against these claims.

Our business exposes us to the risk of product liability claims that is inherent in the testing, manufacturing and marketing of medical devices, including those that may arise from the misuse or malfunction of, or design flaws in, our products. We may be subject to product liability claims if any of our products cause, or merely appears to have caused, an injury or if a patient alleges that any of our products failed to provide appropriate diagnostic information on a lesion where melanoma, another skin cancer, or another form of disease, was subsequently found to be present. Claims may be made by patients, healthcare providers or others involved with telepathology, telepathology workstations or VivaScope. Although we carry product liability insurance that covers our VivaScope products, our anticipated current and anticipated product liability insurance may not be available to us in amounts and on acceptable terms, if at all, and if available, the coverage may not be adequate to protect us against any future product liability claims. If we are unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage, or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may harm our business. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could result in significant costs and significant harm to our business.

We may be subject to claims against us even if the apparent injury is due to the actions of others. For example, we rely on the expertise of physicians, nurses and other associated medical personnel to operate VivaScope. If these medical personnel are not properly trained or are negligent, we may be subjected to liability. These liabilities could prevent or interfere with our product commercialization efforts. Defending a suit, regardless of merit, could be costly, could divert management attention and might result in adverse publicity, which could result in the withdrawal of, or inability to recruit, clinical trial volunteers, or result in reduced acceptance of VivaScope in the market.

Insurance and surety companies have reassessed many aspects of their businesses and, as a result, may take actions that could negatively affect our business. These actions could include increasing insurance premiums, requiring higher self-insured retentions and deductibles, reducing limits, restricting coverage, imposing exclusions, and refusing to underwrite certain risks and classes of business. Any of these actions may adversely affect our ability to obtain appropriate insurance coverage at reasonable costs, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Operation of Our Business

We rely on intellectual property and proprietary rights and may not be able to protect these rights.

We rely heavily on proprietary technology that we protect primarily through patents, licensing arrangements, trade secrets, copyrights, trademarks, proprietary know-how and non-disclosure agreements. We have 58 issued patents and 20 pending patent applications worldwide. There can be no assurance that any pending or future patent applications will be granted or that any current or future patents, regardless of whether we are an owner or a licensee of the patent, will not be challenged, rendered unenforceable, invalidated, or circumvented or that the rights will provide a competitive advantage to us. There can also be no assurance that our trade secrets or non-disclosure agreements will provide meaningful protection of our proprietary information. Further, we cannot assure you that others will not independently develop similar technologies or duplicate any technology developed by us or that our technology will not infringe upon patents or other rights owned by others. In addition, in the future, we may be required to assert infringement claims against third parties, and there can be no assurance that one or more parties will not assert infringement claims against us. Any resulting litigation or proceeding could result in significant expense to us and divert the efforts of our management personnel as well as lead to unfavorable publicity that harms our reputation and causes the market price of our common stock to drop, whether or not such litigation or proceeding is determined in our favor. In addition, to the extent that any of our intellectual property and proprietary rights were ever deemed to violate the proprietary rights of others in any litigation or proceeding or as a result of any claim, we may be prevented from using them, which could cause a termination of our ability to sell our products. Litigation could also result in a judgment or monetary damages being levied against us.

We may be adversely affected by breaches of online security.

To the extent that our activities involve the storage and transmission of confidential information, security breaches could damage our reputation and expose us to a risk of loss, or to litigation and possible liability. A substantial portion of our revenue in future years will rely upon the transmission and storage of medical data through a virtual private network, or VPN, across the Internet. Our business may be materially adversely affected if our security measures do not prevent security breaches. In addition, such information may be subject to HIPAA privacy and security regulations, the potential violation of which may trigger concerns by healthcare providers, which may adversely impact our business, financial condition and results of operations.

All of our manufacturing operations are conducted at a single location. Any disruption at our facility could increase our expenses.

All of our manufacturing operations are conducted at a single location. We take precautions to safeguard our facility, including insurance, health and safety protocols, contracted off-site engineering services, and off-site storage of computer data. However, a natural disaster, such as a fire, flood or earthquake, could cause substantial delays in our operations, damage or destroy our manufacturing equipment or inventory, and cause us to incur additional expenses. The insurance we maintain against fires, floods, earthquakes and other natural disasters may not be adequate to cover our losses in any particular case.

Our manufacturing operations are dependent upon third-party suppliers, making us vulnerable to supply problems and price fluctuations, which could harm our business.

Our manufacturing efforts currently rely on various suppliers that supply components and subassemblies required for the final assembly and test of our devices. Some of these suppliers are sole-source suppliers. Contract manufacturers of some of our components, such as completed circuit boards, may also rely on sole-source suppliers to manufacture some of the components used in our products. Our manufacturers and suppliers may encounter problems during manufacturing due to a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunction, long lead times and environmental factors, any of which could delay or impede their ability to meet our demand. Our reliance on these outside manufacturers and suppliers also subjects us to other risks that could harm our business, including: suppliers may make errors in manufacturing components that could negatively affect the effectiveness or safety of our products, or cause delays in shipment of our products; we may not be able to obtain adequate supply in a timely manner or on commercially reasonable terms; we may have difficulty locating and qualifying alternative suppliers for our sole-source suppliers; our suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components to us in a timely manner; and our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements.

Any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders.

Our success will depend on our ability to attract and retain our personnel.

Our success is particularly dependent upon the continued service of our executive officers and other key employees. We have currently executed employment agreements with our CEO, CFO and CTO. The agreements range in term from three to five years and each are renewable for additional one-year terms unless either we or the executive send written notice to the other party of its intention not to renew at least ninety (90) days prior to expiration of the then-current term. Each of these executives has agreed, pursuant to his or her respective employment agreement, not to compete with us, nor solicit our customers or employees, for a period of one (1) year following the termination of such executive's employment. All of our employees, including our executive officers, have executed our standard form of Employee Invention, Copyright, Proprietary Information and Conflicts of Interest Agreement. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business and results of operations. Our future success will depend in part upon our ability to attract and retain highly qualified personnel. We may not be successful in hiring, retaining or developing sufficient qualified individuals.

Our employees may engage in misconduct or improper activities, including noncompliance with regulatory standards and prohibitions on insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with applicable manufacturing standards, comply with federal and state healthcare fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, or illegal misappropriation of drug product, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a Code of Business Conduct and Ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other

actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

We may be liable for contamination or other harm caused by materials that we handle, and changes in environmental regulations could cause us to incur additional expense.

Our manufacturing, research and development and clinical processes do not generally involve the handling of potentially harmful biological materials or hazardous materials, but they may occasionally do so. We are subject to federal, state and local laws and regulations governing the use, handling, storage and disposal of hazardous and biological materials. If violations of environmental, health and safety laws occur, we could be held liable for damages, penalties and costs of remedial actions. These expenses or this liability could have a significant negative impact on our business, financial condition and results of operations. We may violate environmental, health and safety laws in the future as a result of human error, equipment failure or other causes. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations. We may be subject to potentially conflicting and changing regulatory agendas of political, business and environmental groups. Changes to or restrictions on permitting requirements or processes, hazardous or biological material storage or handling might require an unplanned capital investment or relocation. Failure to comply with new or existing laws or regulations could harm our business, financial condition and results of operations.

Failure to maintain an effective system of internal control over financial reporting may not allow us to be able to accurately report our financial condition, results of operations or prevent fraud.

We regularly review and update our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks, such as processing system failures and errors. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the objectives of the system are met. Events could occur which are not prevented or detected by our internal controls. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could cause a failure to meet our reporting obligations under applicable federal securities laws, which could have a material adverse effect on our business, results of operations and financial condition.

If our products contain defects or otherwise fail to perform as expected, we could be liable for damages and incur unanticipated warranty, recall and other related expenses, our reputation could be damaged, we could lose market share and, as a result, our financial condition or results of operations could suffer.

Our products are complex and may contain defects or experience failures due to any number of issues in design, materials, deployment and/or use. If any of our products contain a defect or do not operate properly, we may have to devote significant time and resources to find and correct the issue. Such efforts could divert the attention of our management team and other relevant personnel from other important tasks. A product recall or a significant number of product returns could be expensive; damage our reputation and relationships with our customers and distributors; result in the loss of business to competitors; and result in litigation against us. Because our products are relatively new and we do not yet have the benefit of long-term experience observing product performance in the field, our estimates of a product lifespan and incidence of claims may be inaccurate. Should actual product failure rates, claims levels, material usage, or other issues differ from the original estimates, we could end up incurring materially higher warranty or recall expenses than we anticipate.

We are an "emerging growth company," or "EGC", and any decision on our part to comply only with certain reduced disclosure requirements applicable to "emerging growth companies" could make our common stock less attractive to investors.

We are an "EGC" as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation, from which we are currently exempt as a smaller reporting company, and stockholder approval of any golden parachute payments not previously approved in connection with a transaction resulting in a change of control.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised

accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We expect to take advantage these exemptions. If we do take advantage of any of these exemptions, investors may find our financial statements and other disclosures not comparable to companies that comply with public company effective dates, and will find our common stock less attractive as a result. The result may be a less active trading market for our common stock and the stock price may be more volatile.

Risks Relating to Our Securities

Because our securities are quoted on the OTCQB marketplace, our liquidity and the price of our securities are limited and our investors may be subject to significant restrictions on the resale of our securities due to state "Blue Sky" laws.

Our common stock and warrants are traded on the OTCQB marketplace quotation system, which is a FINRA-sponsored entity and operated inter-dealer automated quotation system for equity securities not included in a national exchange. Quotation of our securities on the OTCQB marketplace limits the liquidity and price of our securities more than if our securities were quoted or listed on the NYSE Amex or the Nasdaq Capital Market, which are national securities exchanges. Lack of liquidity will limit the price at which you may be able to sell our securities or your ability to sell our securities at all.

Each state has its own securities laws, often called "blue sky" laws, which (i) limit sales of securities to a state's residents unless the securities are registered in that state or qualify for an exemption from registration, and (ii) govern the reporting requirements for broker-dealers doing business directly or indirectly in the state. Before a security is sold in a state, there must be a registration in place to cover the transaction, or the transaction must be exempt from registration. The applicable broker must be registered in that state. We do not know whether our securities will be registered or exempt from registration under the laws of any state. Since our securities are listed on the OTCQB marketplace, a determination regarding registration will be made by those broker-dealers, if any, who agree to serve as the market-makers for our securities. There may be significant state blue sky law restrictions on the ability of investors to sell, and on purchasers to buy, our securities. You should therefore consider the resale market for our securities to be limited, as you may be unable to resell your securities without the significant expense of state registration or qualification.

The exercise of our warrants may also be subject to "blue sky" laws. As a result, depending on the state of residence of a holder of the warrants, a holder may not be able to exercise its warrants unless we comply with any state securities law requirements necessary to permit such exercise or an exemption applies. Although we plan to use our reasonable efforts to assure that holders will be able to exercise their warrants under applicable state securities laws if no exemption exists, there is no assurance that we will be able to do so. As a result, the ability to exercise the warrants may be limited. The value of the warrants may be significantly reduced if holders are not able to exercise their warrants under applicable state securities laws.

If our shares become subject to the penny stock rules, this may make it more difficult to sell our shares.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The OTC Markets does not meet such requirements and for so long as the price of our common stock is less than $5.00, our securities will be deemed penny stocks. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that prior to effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser's written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our securities, and therefore security holders may have difficulty selling their shares.

Our stock price may remain volatile and purchasers of our common stock could incur substantial losses.

As a result of the volatility which our stock has incurred since our initial public offering, a decline in the market price of our common stock could cause stockholders to lose some or all of their investment and may adversely impact our ability to attract and retain employees and raise capital. In addition, stockholders may initiate securities class action lawsuits if the market price of our

stock drops significantly. Whether or not meritorious, litigation brought against us could result in substantial costs and could divert the time and attention of our management. Our insurance to cover claims of this sort may not be adequate.

The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock: the announcement of new products or product enhancements by us or our competitors; developments or disputes concerning patents or other intellectual property rights; changes in the structure of third-party reimbursement in the U.S.; the departure of key personnel; results of our research and development efforts and our clinical trials; regulatory developments in the U.S. and foreign countries; developments concerning our clinical collaborators, suppliers or marketing partners; changes in financial estimates or recommendations by securities analysts; lack of trading volume in the stock, failure of any new products, if approved, to achieve commercial success; product liability claims and litigation against us; the strength and variations in our financial results or those of companies that are perceived to be similar to us; general economic, industry and market conditions; and future sales of our common stock.

Concentration of ownership among our directors, executive officers, and principal stockholders may prevent new investors from influencing significant corporate decisions.

Based upon beneficial ownership as of September 30, 2013, our directors, executive officers, holders of more than 5% of our common stock, and their affiliates, in the aggregate, beneficially owned a significant percentage of our outstanding common stock. To the extent that our affiliates may purchase additional shares, that percentage will be even higher. As a result, these stockholders, subject to any fiduciary duties owed to our other stockholders under New York law, will be able to exercise a controlling influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and will have significant control over our management and policies. Some of these persons or entities may have interests that differ from those of the stockholders. For example, these stockholders may support proposals and actions with which you may disagree or which are not in your interests. The concentration of ownership could delay or prevent a change in control of our Company or otherwise discourage a potential acquirer from attempting to obtain control of our Company, which in turn could reduce the price of our common stock. In addition, these stockholders, some of whom have representatives sitting on our Board of Directors, could use their voting influence to maintain our existing management and directors in office, delay or prevent changes of control of our Company, or support or reject other management and board proposals that are subject to stockholder approval, such as amendments to our employee stock plans and approvals of significant financing transactions.

Our charter documents and New York law may inhibit a takeover that stockholders consider favorable and could also limit the market price of our stock.

Provisions of our certificate of incorporation and bylaws and applicable provisions of New York law may make it more difficult for or prevent a third party from acquiring control of us without the approval of our Board of Directors. These provisions:

- limit who may call a special meeting of stockholders; and,

- do not permit cumulative voting in the election of our directors, which would otherwise permit less than a majority of stockholders to elect directors;

In addition, Section 912 of the New York Business Corporation Law generally provides that a New York corporation may not engage in a business combination with an interested stockholder for a period of five years following the interested stockholder's becoming such. An interested stockholder is generally a stockholder owning at least 20% of a corporation's outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive stockholders of the opportunity to sell shares to potential buyers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

We do not intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividend on our common stock and do not currently intend to do so for the foreseeable future. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Therefore, the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

Future sales of our common stock may cause our stock price to decline.

If our existing stockholders sell, or indicate intent to sell, substantial amounts of our common stock in the public market the trading price of our common stock could decline significantly. Moreover, a relatively small number of our stockholders own large blocks of shares. We cannot predict the effect, if any, that public sales of these shares or the availability of these shares for sale will have on the market price of our common stock.

Risks Related to this Offering

This offering is a private placement of shares of our common stock and the shares offered hereby are not registered under the Securities Act or any state securities laws.

Shares of our common stock offered in this offering have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act, applicable securities laws and the transfer restrictions described under "Description of Capital Stock." The agreements we entered into with the purchasers of our common stock related to this offering will require us to file a registration statement with the SEC following the offering. However, no assurance can be given as to if and when we will be able to file the resale registration statement to register these shares of common stock under the Securities Act and if and when the SEC will declare the resale registration statement effective.

If the SEC reviews such resale registration statement, we may be required to make changes in or additions to the description of our business and our financial and other information or data included in this offering memorandum. The SEC may not view certain of the financial information and other data included or omitted from this offering memorandum as complying with the rules, regulations and policies of the SEC. Accordingly, the registration statement may differ significantly from the information in this offering memorandum. Additionally, under current SEC rules and regulations, use of certain financial measures not in accordance with generally accepted accounting principles may be prohibited in filings made with the SEC and may not be included in the resale registration statement.

Investors in this offering will suffer immediate dilution in the net tangible book value per share.

The price per common stock is substantially higher than the net tangible book value per share of our outstanding common stock. As a result, a purchaser of the common stock will suffer immediate dilution in the net tangible book value of the common stock purchased in this offering.

This offering memorandum is not reviewed by securities regulators.

This offering is being made pursuant to exemptions from the registration requirements of federal and state securities laws, and, accordingly, you will not have the benefit of the review of this offering memorandum by the SEC or any state securities commission.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this offering memorandum regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations stated in the forward-looking statements we make. We have included important factors in the cautionary statements included in this offering memorandum, particularly in the "Risk Factors" section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Additional risks, uncertainties and factors, other than those discussed under "Risk Factors," could also cause our actual results to differ materially from those projected in any forward-looking statements we make. We operate in a very competitive and rapidly changing environment in which new risks emerge from time to time and it is not possible for us to predict all risk factors, nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update or revise any forward-looking statements, or to so update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

CAPITALIZATION

You should read this capitalization table together with the sections of this offering memorandum entitled "Management's Discussions and Analysis of Financial Condition and Results of Operations" and with the financial statements and related notes to those statements included elsewhere in this offering memorandum. The following table sets forth our capitalization as of June 30, 2013.

	As of June 30, 2013
Cash and cash equivalents	$ 3,922,421
Long term debt:	
Notes payable – related parties[1],[2]	$ 11,731,818
Warrant liabilities	26,377
Stockholders' deficit:	
Preferred stock	-
Common stock	85,074
Additional paid-in capital	38,803,246
Accumulated deficit	(48,796,878)
Total stockholders' deficit	$ (9,908,558)
Total capitalization	$ (1,849,637)

(1) Net of debt discount of $268,182.

(2) Contingent on raising $6.0 million in this offering, the outstanding principal and interest on $5.0 million of the Company's debt will be converted into common stock on the same terms as the shares sold to other investors in this offering. In addition, the maturity date of $7.0 million of the Company's debt will be extended to July 3, 2020, with interest of 7% payable only on maturity.

The following table represents total common stock and derivative instruments outstanding:

	September 30, 2013	June 30, 2013	December 31, 2012
Common stock outstanding	8,507,374	8,507,374	8,507,374
Derivative instruments outstanding:			
Common stock warrants[1]	4,130,470	1,981,661	1,981,661
Common stock options	3,412,000	685,000	625,000
Total common stock and derivative instruments outstanding	16,049,844	11,174,035	11,114,035

(1) Includes an estimated 25,000 warrants issued as a result of an anti-dilution adjustments triggered by the issuances of shares of common stock or warrants.

The following table summarizes information about common stock options outstanding at September 30, 2013:

	Options Outstanding			Options Exercisable		
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1.00 – 1.41	2,819,500	10.0 years	$ 1.01	--	--	--
2.00 – 2.50	315,000	4.8 years	2.00	185,000	4.8 years	$ 2.00
4.00 – 4.30	220,000	3.4 years	4.09	220,000	3.4 years	4.09
6.58	40,000	6.8 years	6.58	40,000	6.8 years	6.58
8.60 – 8.88	17,500	7.8 years	8.66	11,667	7.8 years	8.65
	3,412,000			456,667		

The following table summarizes information about common stock warrants outstanding at September 30, 2013:

	Warrants Outstanding			
Exercise Price		Number of Warrants	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1.00		2,125,000	5.4 years	$ 1.00
2.12 – 2.50		86,205	1.8 years [1]	2.30
4.00 – 5.04		1,384,911	3.1 years [2]	4.98
6.30 – 6.53	[3],[5]	415,521	2.2 years	6.53
7.15 – 9.22	[4] [5]	118,833	2.2 years	7.41
		4,130,470		

(1) Weighted average remaining contractual life excludes 40,000 warrants with no expiration date.

(2) Weighted average remaining contractual life excludes 35,261 warrants with no expiration date.

(3) Includes an estimated 20,000 warrants issued as a result of anti-dilution adjustments triggered by the issuances of shares of common stock or warrants. This adjustment changed the range of exercise price from $6.30 – $8.22 to an estimated $6.30 - $6.53 and the weighted average exercise price from $8.22 to an estimated $6.53.

(4) Includes an estimated 5,000 warrants issued as a result of anti-dilution adjustments triggered by the issuances of shares of common stock or warrants. This adjustment changed the range of exercise price from $9.04 – $10.14 to an estimated $7.15 - $9.22 and the weighted average exercise price from $9.17 to an estimated $7.41.

(5) Upon the conclusion of this offering at a price of ● per share, the warrant weighted average exercise price will be reduced to ● and the number of warrants outstanding will be increased by ●, as a result of anti-dilution adjustments triggered by the offering. We expect that in no case will the number of warrants be increased by more than 75,000 warrants, and that the weighted average exercise price will not be less than $2.50 per share.

USE OF PROCEEDS

We intend to use the net proceeds received by us from this offering for working capital and general corporate purposes, including further expansion of our sales and marketing efforts in the United States, to provide increased visibility to the Company and its products, continued investments in research and development and studies for applications in skin cancer as well as for applications beyond skin cancer. We do not have any specific uses of the net proceeds planned, nor have we determined the amounts that we will actually spend on those uses. As a result, the Company will retain broad discretion over the allocation of the net proceeds from this offering, and investors will be relying on the judgment of our management regarding the application of the net proceeds.

In the event that our plans change, our assumptions change or prove to be inaccurate, or the proceeds of this offering prove to be insufficient, it may be necessary or advisable to reallocate proceeds or to use proceeds for other purposes, or we may be required to seek additional financing or we may be required to curtail our operations. As a result of the foregoing, our success will be affected by our discretion and judgment with respect to the application and allocation of the proceeds of this offering.

Pending use of the proceeds from this offering, we may invest the proceeds in a variety of capital preservation investments, including cash, cash equivalents and short-term investments.

DIVIDEND POLICY

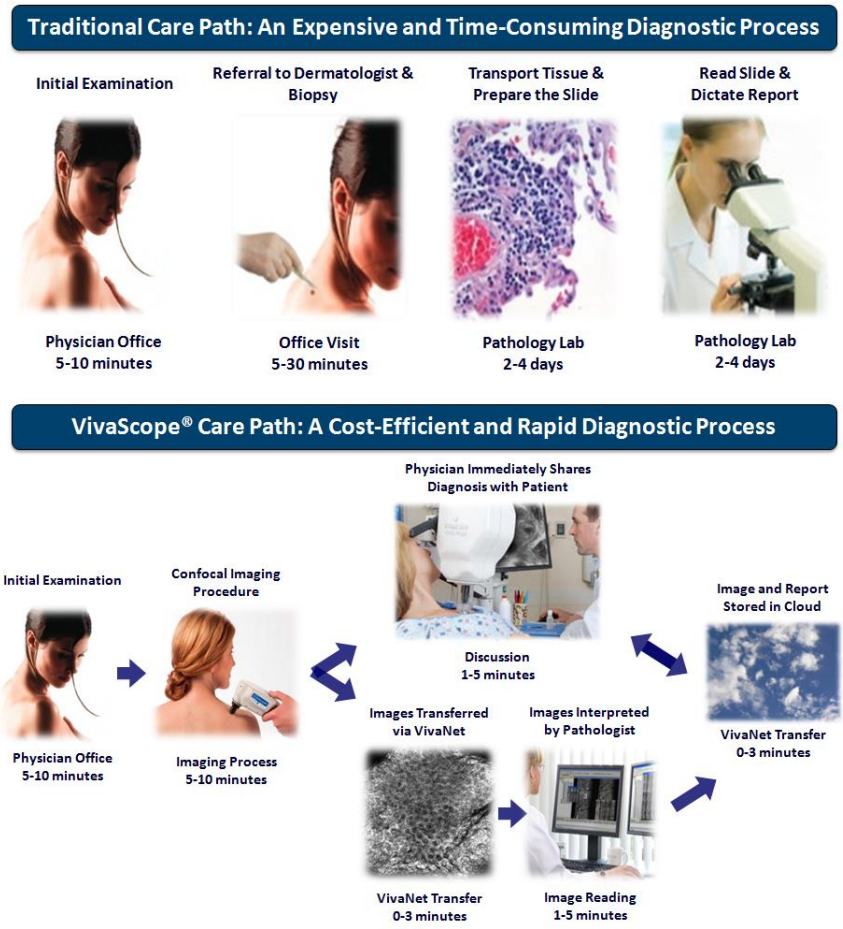
We have never declared or paid cash dividends on our common stock. We currently intend to retain our cash for the development of our business. We do not intend to pay cash dividends to our stockholders in the foreseeable future. We are now, and expect in the future, to be subject to covenants in debt arrangements that place restrictions on our ability to pay dividends. Other than those restrictions, and the limitation that applicable law provides that dividends may only be paid out of available surplus, the payment of dividends will be at the discretion of our Board of Directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements, any limitations on the payment of dividends present in our current or future debt agreements, and other factors that our Board of Directors may deem relevant.

OUR BUSINESS

Overview

We are a medical device company that develops, manufactures, markets and sells point-of-care cellular imaging systems. Our patented and FDA-cleared VivaScope® technology provides physicians with real-time images of the epidermis and superficial dermis of the skin, as well as other epithelial tissues at a cellular level that can be interpreted by the physician at the bedside and/or transferred securely to a pathologist on VivaNet®, our HIPAA-compliant private telepathology network for remote diagnosis. With sensitivity and specificity that can rival the current "gold standard", clinical histopathology (illustrated below right), but without all of the associated costs of a traditional biopsy, our platform imaging technology has the potential to significantly improve patient outcomes while simultaneously reducing costs.

Our core products are FDA 510(k) cleared for clinical use and have regulatory approvals in most major markets. Our technology is already in use by physicians and researchers at major academic hospitals, and by pharmaceutical and cosmetic companies across the globe. Our devices allow these researchers to quickly and efficiently study the efficacy of new products, test ingredients, validate claims and determine safety. The technology is protected by 78 issued or pending patents worldwide.

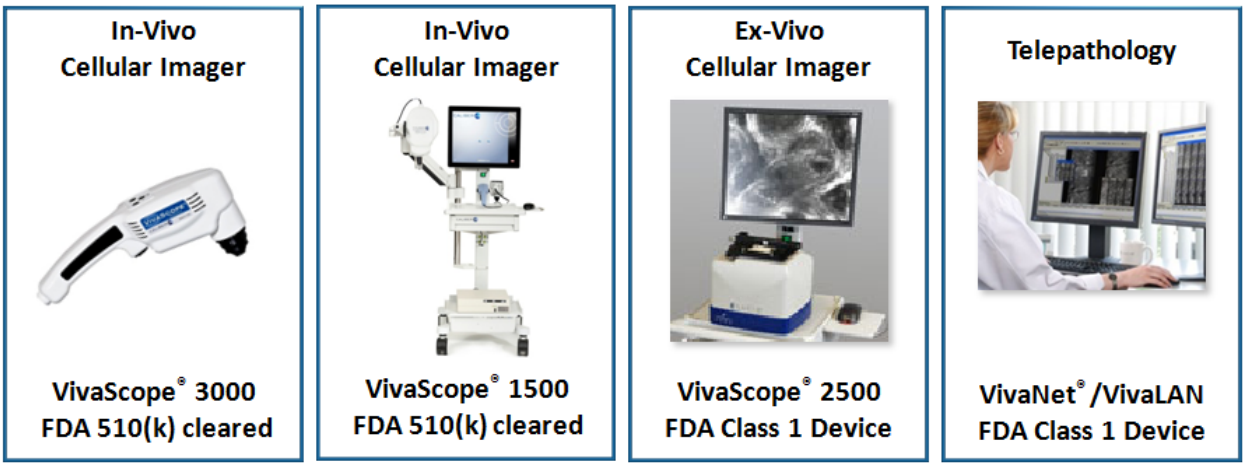


To date, our proprietary platform imaging technology has been the subject of more than 350 independently sponsored studies or publications spanning numerous clinical and research fields. Extensive research has been conducted in dermatologic disorders including melanoma and nonmelanoma skin cancers, dermatoses, inflammatory and pigmentation disorders. Additionally, the technology has been used to noninvasively study burns, wound healing, neuropathy and oral tissues. Ex-vivo research has been conducted in head and neck, breast biopsy and surgical specimens. Our in-vivo products are ideal for applications in which a traditional biopsy is counterproductive, such as validating the diagnosis of benign lesions (thus, reducing unnecessary biopsies), monitoring noninvasive therapies and determining product efficacy. In the future, the technology may be used to perform real-time pathology in the operating room on tissues removed from the body and to identify tissues in the body during surgery.

Our Product Portfolio

Our product portfolio, shown below, consists of a variety of in-vivo and ex-vivo imaging systems, as well as a telepathology system, covering a wide variety of applications.

Our VivaScope in-vivo devices, the VivaScope® 3000 (handheld device) and the VivaScope® 1500, use confocal cellular imaging to create a layer-by-layer scan of living tissue, with a >0.2mm imaging depth. This provides physicians with a microscopic view of living cells in the skin, with 3-5 micron cellular resolution comparable to histology. Our in-vivo imagers are both FDA 510(k) cleared with an intended use to "acquire, store, retrieve, display and transfer in-vivo images of tissue, including blood collagen and pigment, in exposed unstained epithelium and the supporting stroma for review by physicians to assist in forming a clinical judgment."

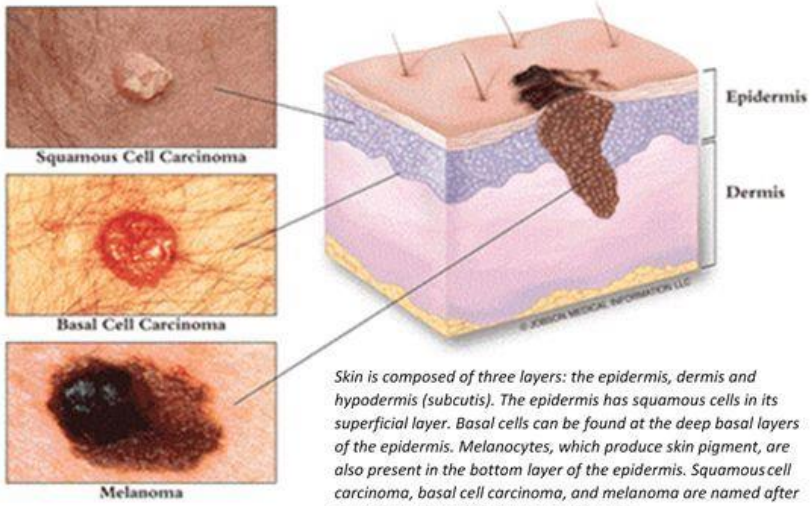


Our VivaScope ex-vivo device, the VivaScope 2500, uses confocal imaging to produce electro-optically enlarged images of unstained and unsectioned excised surgical tissue without the laborious tissue preparation procedures required to prepare the microscope slides used in traditional pathologic examination of tissue. As a Class I medical device, the VivaScope 2500 is exempt from 510(k) clearance.

Primary Market Opportunity: Dermatology

Our primary market opportunity is in dermatology, where our non-invasive, platform imaging technology can provide immediate and significant benefits for patients, physicians, and payers.

Skin cancer is the most prevalent cancer in the United States, with 3.5 million new cases annually and a lifetime incidence rate of 20% (one in five Americans), more than the combined incidence of breast, prostate, lung and colon cancers. Conventionally, skin cancers are diagnosed initially by visual inspection, with any suspect areas subsequently biopsied, an invasive and painful procedure in which a tissue sample is surgically removed – which can lead to complications such as infection or scarring – and then examined in a laboratory over the next few days.



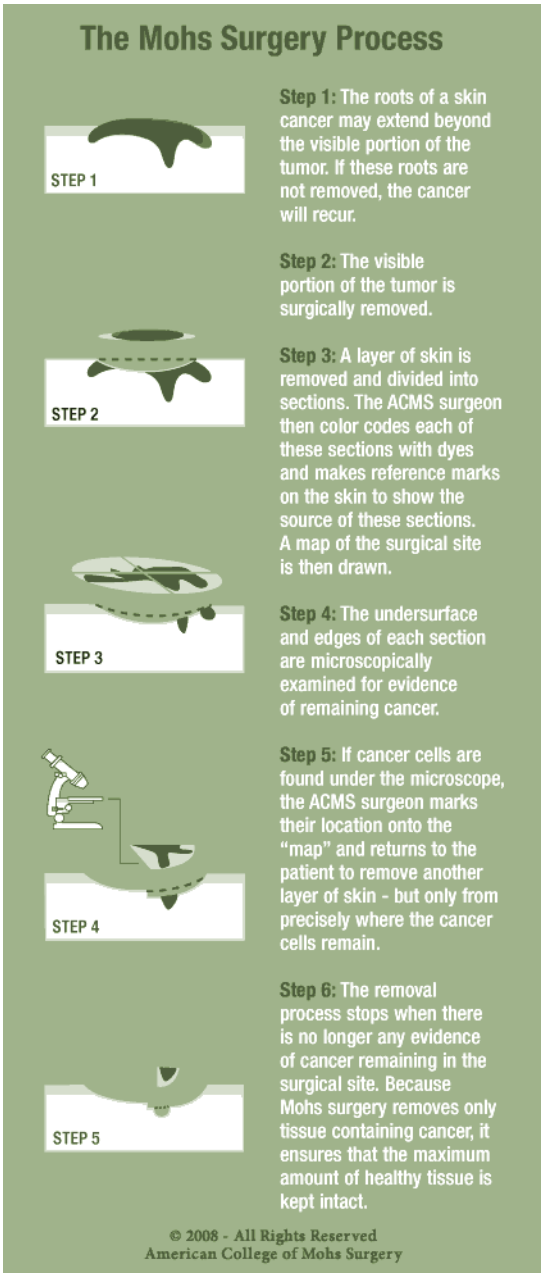
Skin is composed of three layers: the epidermis, dermis and hypodermis (subcutis). The epidermis has squamous cells in its superficial layer. Basal cells can be found at the deep basal layers of the epidermis. Melanocytes, which produce skin pigment, are also present in the bottom layer of the epidermis. Squamous cell carcinoma, basal cell carcinoma, and melanoma are named after the skin cells in which the cancer develops.

Source: National Cancer Institute, NCI Visuals Online. http://visualsonline.cancer.gov.

Empirical data shows that visual inspection is a poor diagnostic screening tool. Of the approximately 14.5 million biopsies performed annually in the United States at an estimated cost of $4.9 billion, only 3.5 million reveal skin cancer; the remaining 11 million biopsies are unnecessary. Visual inspection may miss skin cancers that visually appear benign. Of the three most common skin cancers, basal cell carcinoma (BCC), squamous cell carcinoma (SCC) and melanoma, melanoma is by far the most lethal. However, to detect the 0.1 million new cases of melanoma diagnosed annually, physicians perform an estimated 2.2 million biopsies –as many as 29 biopsies for each confirmed case of melanoma. Clearly, there is a significant unmet need for more accurate, cost-efficient, and rapid diagnosis of skin cancers and benign lesions.

With diagnostic sensitivity and specificity that can rival the current "gold standard", clinical histopathology, physicians using our non-invasive, point-of-care imaging technology can quickly and accurately differentiate between malignant and non-malignant tissues. In addition, physicians can quickly get a second opinion by instantly transmitting patient images through our secure VivaNet telepathology network to a trained pathologist. Thus, while our proprietary platform imaging technology does not entirely replace the need for surgical biopsies, widespread adoption of our technology would significantly reduce the number of biopsies performed and, as a result, costs. By eliminating or reducing the number of unnecessary biopsies performed, we estimate that our technology could result in cost avoidance of more than $1 billion annually.

Our technology offers significant secondary benefits to patients, physicians and payers, as well. Patients benefit by receiving an immediate and painless diagnosis at the point-of-care, rather than having to wait for days or even weeks for results to come back from the pathology lab. When lesions are benign, confocal imaging can reduce the time, expense and side effects of an unnecessary biopsy. When lesions are malignant, treatment may begin immediately depending on the diagnosis, or can be planned, reducing the time to a treatment or cure. We believe that physicians who early adopt will have a significant competitive advantage over late adopters: patients informed of the advantages of VivaScope technology over traditional biopsy are likely to migrate to dermatology or primary care practices offering this service, attracting new patients and increasing overall practice revenues. Finally, in addition to significantly reduced costs, payers will benefit by earlier and more widespread detection of skin cancers, allowing them to be treated more proactively. However, until reimbursement is widely available for the use of our products, we believe that sales to dermatology practices will be extremely limited.



Secondary Market Opportunities

Downstream, our platform imaging technology could provide significant benefits in a variety of in-vivo and ex-vivo surgical applications by allowing physicians to quickly identify and differentiate between various tissues. A number of the potential surgical applications of our technology where we offer significant potential advantages include the following:

Mohs surgery

The Mohs procedure entails removing one thin layer of tissue at a time, testing each layer until cancerous tissue is no longer detected which, although time-consuming, is beneficial because it spares the greatest amount of healthy tissue. With cure rates for BCC and SCC at 98% or higher, significantly better than the rates for standard excision or any other accepted method, Mohs is clearly the most effective technique for removing BCCs and SCCs on the face, head and neck. Of the 3.5 million new BCC and SCC cases diagnosed per year in the United States, one in four (25%) patients with BCC or SCC will have a Mohs procedure to eliminate the cancer, resulting in a significant potential market opportunity.

As shown in the diagram at left, the current approach for Mohs surgery involves removing a thin layer of tissue, which is then prepared by frozen section histology at an in-house lab for subsequent examination by the surgeon (or, in most of Europe, a pathologist). Preparation of each excision takes 20-45 minutes, during which time the patient waits with an open wound on their face under local anesthesia. While most Mohs procedures require only a few excisions, more invasive cases can require as many as 20 excisions; thus, on average, a Mohs procedure requires a minimum of two hours and, for invasive cases, can tie up an operating suite for much longer. While waiting for the slides to be prepared, Mohs surgeons typically operate on other patients, rotating back and forth between patients as pathology results become available. While effective, this is a time-consuming process that requires each patient to stay in the operating suite for a prolonged period of time.

By comparison, our VivaScope 2500 ex-vivo device allows surgeons to receive the same information in as little as four minutes – a five-fold decrease in the minimum time to receive pathology results – which then reduces the

total operate suite time to an hour or less per procedure. As a result, individual patients spend much less time in the operating suite and, by eliminating unnecessary transfers between patients, surgeons are able to perform substantially more procedures within a given period of time. Downstream, we believe that our VivaScope 3000 in-vivo device could be used to further improve accuracy and decrease downtime by allowing surgeons to image the tissue directly to determine whether enough tissue has been excised.

Based on our market research, we believe that conventional Mohs histopathology is reasonably well entrenched in the U.S. and, as a result, will require a considerable investment of resources to displace. However, in Europe, the Mohs procedure is newer, and with our inherent advantages over conventional pathology, we believe we can seize a meaningful share of this market in the near-term. We believe that widespread use of our technology in Mohs surgery in Europe would create tailwinds toward adoption of our technology in the U.S.

Thyroid Cancer

Another area where adoption of our technology could significantly improve patient outcomes while simultaneously reducing costs is in thyroid cancer surgeries, where our technology has demonstrated feasibility in two independently sponsored studies.

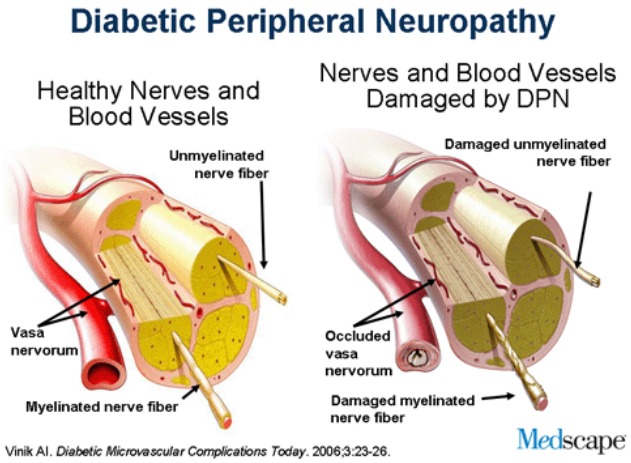
Thyroid cancer affects approximately 500,000 people in the U.S., with over 200,000 thyroid surgeries annually. During thyroid surgery, the surgeon removes cancerous tissue from the thyroid while being careful to avoid damaging the adjacent parathyroid glands. Visually differentiating the parathyroid glands is extremely challenging, and, as a result, the parathyroid glands are damaged in approximately one-third of surgeries causing temporary (or occasionally permanent) hypocalcemia.

At present, surgeons use pathological frozen section analysis of head and neck specimens to determine whether any of the tissue removed contained any of the four parathyroid glands and, if so, they must then re-implant that tissue into the muscle. Similar to Mohs surgery, preparation of each slide takes 20-45 minutes, which significantly prolongs the amount of time that a patient spends in the operating suite under general anesthesia.

By comparison, our VivaScope 2500 ex-vivo device allows surgeons to receive the same information in as little as four minutes, significantly reducing procedure times and costs. Downstream, we believe that our VivaScope 3000 in-vivo device could be used to further improve accuracy and decrease downtime by allowing surgeons to proactively image the tissue through a surgical incision to differentiate between various tissue types and identify exactly which tissue needs to be removed.

Neuropathy

Neuropathy encompasses a variety of disorders characterized by nerve damage (typically nerve axons) in the peripheral nervous system which generally manifests as pain and numbness in the hands and feet. Neuropathy is a relatively common disorder, affecting approximately 20 million people annually in the United States, including more than 60% of diabetes patients. While neuropathy is often idiopathic (with obscure or unknown cause), there are a number of conditions known to cause neuropathy include metabolic disorders (e.g. diabetes mellitus), traumatic injury, severe infections, prolonged alcoholism or exposure to certain toxins.



To diagnose neuropathy, patients undergo either (1) non-invasive testing, which can take up to four hours; or (2) skin biopsies to analyze their peripheral nerve endings, which can damage the tissue. By comparison, our technology allows physicians to make this determination in 30 minutes or less with minimal patient discomfort, resulting in significant cost savings. Conventional treatment of neuropathy symptoms involves administration of various biopharmaceutical therapies, including Cymbalta (duloxetine), an SSNRI antidepressant, Lyrica (pregabalin), an anticonvulsant, and Nucynta ER (tapentadol), a long-acting opioid. In addition, treatments that actually repair the damaged nerve fibers are in development, and this is an area of research where our technology provides significant advantages over alternative approaches, as our VivaScope system can be used to noninvasively monitor the response to these experimental drugs.

Breast Cancer

Breast cancer is one of the most prevalent and deadly cancers affecting women, accounting for approximately 23% of all cancers (excluding non-melanoma skin cancers) and causing approximately 459,000 deaths worldwide (14% of cancer deaths). In the United States, the lifetime incidence rate is 12% (one in eight), with approximately 235,000 new cases annually, of which approximately 65,000 are non-invasive (in situ) breast cancers.

Conventionally, treatment of in situ breast cancer involves surgical excision of the tumor through a lumpectomy or similar surgery. However, it is often difficult for surgeons to differentiate between cancerous and healthy tissue, and surgeons use pathology to determine whether enough tissue has been removed. Tissue processing for breast cancer takes more than 24 hours to complete so it is currently impossible to determine in real-time whether enough tissue was removed during the surgery itself. As a result, a second surgery is required in as many as 20-40% of cases to remove cancerous tissue that was missed during the first surgery.

By comparison, our VivaScope 2500 ex-vivo device may allow surgeons to receive the same information in minutes, in the operating room, allowing surgeons to determine in real-time whether their efforts have been successful. Adoption of our technology could drastically reduce the re-excision rate for patients undergoing lumpectomy for in situ breast cancers, significantly reducing costs and improving patient outcomes. Downstream, we believe that our VivaScope 3000 in-vivo device could be used to further improve accuracy and decrease downtime by allowing surgeons to proactively image the tissue through a surgical incision to differentiate between various tissue types and identify exactly which tissue needs to be removed.

Our Sales and Marketing Strategy

While our technology clearly offers meaningful advantages over standard-of-care, the fact that traditional biopsies are reimbursed by insurance companies and other payers in the U.S. while our optical biopsies are not currently reimbursable limits near-term adoption by individual physicians and physician groups. Ultimately, we believe that third-party payers will cover our technology, but, in the interim, our sales and marketing strategy focuses on markets where our technology offers significant benefits that are not reimbursement-sensitive.

The three distinct markets that we are targeting are as follows: (1) skin cancer screening via managed care organizations, concierge medicine groups and non-U.S. physicians; (2) skin care product research and development; and (3) therapeutic monitoring.

In addition, we intend to raise our visibility through advertisements in trade publications, appearances at trade shows, social media campaigns, direct-to-consumer advertising, targeted public relations, investor relations, strategic placement of loaner systems with potential high-revenue customers, and other general marketing efforts.

Skin Cancer Screening via Managed Care Organizations, Concierge Medicine Groups and Non-U.S. Physicians

Dermatology is one of the largest areas of expense for managed care organizations and integrated health networks (e.g. HMOs, MSOs, and ACOs), and rapid adoption of our technology can significantly reduce short-, intermediate- and long-term costs for these payers through (1) fewer referrals to dermatologists; (2) the reduction in unnecessary biopsies; and (3) earlier detection of potentially deadly skin cancers.

We believe that larger managed care organizations and integrated health networks are an attractive market to target because they are highly concentrated: in the U.S., only 50 companies account for approximately 75% of industry revenues. This concentration can help us to generate significant sales with a relatively small managed care-focused sales force.

Examples of the managed care organizations and integrated health networks that we intend to target are as follows:

- Aetna Inc.
- AMERIGROUP Corporation
- Coventry Health Care, Inc.
- Health Net, Inc.
- HealthSpring, Inc.
- Humana Inc.
- Kaiser Foundation Health Plan and Hospitals
- UnitedHealth Group Inc.
- WellPoint, Inc.

By comparison, concierge medicine groups are less focused on cost avoidance and more focused on providing best-in-class care for their patients, who pay an annual fee of $1,500-1,800 per year, on average, and are willing to bear significant additional out-of-pocket expenses for best-in-class care, such as a non-invasive optical biopsy using our VivaScope technology.

We believe that both managed care organizations and concierge medicine groups will embrace an imaging center concept to service their network PCPs, and we intend to work closely with individual managed care organizations and concierge medicine groups to either integrate these imaging centers into existing facilities or launch new facilities owned either by the managed care organizations, concierge medicine groups, or possibly Caliber I.D.

Finally, we will continue to actively market our VivaScope technology to physicians outside of the U.S., where we already have traction and where reimbursement is less of a barrier to entry. To date, we have shipped 125 VivaScope systems to physicians, the majority of which are outside of the United States.

Our goal is to build a regionally based managed care-focused sales team by the second quarter of 2014, composed of three regional sales representatives as well as the necessary demonstration equipment to support them. We also plan to hire two support personnel responsible for installation and training. Assuming this initiative achieves some initial success, we would intend to hire two additional sales representatives later in 2014. For the Skin Cancer Screening market, the focus for 2014 will be on establishing interest and implementing trials at a number of managed care organizations and concierge medicine groups, which we believe will translate into 2015 U.S. sales of more than $5.0 million.

Skin Care Product Research and Development

Another market that is readily addressable prior to reimbursement is the skin care product research and development market (i.e. companies developing pharmaceuticals, biotherapeutics, cosmetics, cosmeceuticals, as well as companies engaged in human and animal pathology), where we have shipped more than 300 VivaScope systems. Our VivaScope 1500 in-vivo imaging device is suited for this market, allowing researchers and product developers to quickly and efficiently create and store image tissues.

We believe that the skin care product research and development market is an attractive market to target because our technology allows researchers and product developers to (1) repeatedly and nondestructively examine the same tissue, demonstrating tissue changes over time; and (2) quickly evaluate the safety and efficacy of new products without the time and expense of traditional biopsies, significantly shortening development cycles.

Examples of the skin care product research and development companies to whom we have shipped a VivaScope system (*) and/or that we intend to target are as follows:

- Allergan, Inc.
- Arch Chemicals, Inc.
- Ashland Inc.
- Avon Products Inc.*
- BASF SE
- Bayer AG
- Beiersdorf AG*
- Clariant International AG
- Colgate-Palmolive Co.*
- E.I. du Pont de Nemours and Co.
- Eastman Chemical Company
- Genentech, Inc.
- Genzyme
- GlaxoSmithKline PLC*
- Janson Beckett Cosmeceuticals
- Johnson & Johnson*
- Kao Corporation*
- Kimberly Clark Corporation*
- L'Oréal SA*
- McNeil PPC, Inc.
- Medicis Pharmaceutical Corporation
- Merck & Co Inc.
- Neutrogena*
- Ortho Dermatologics
- Pfizer Incorporated*
- Proctor & Gamble Company*
- Revlon, Inc.*
- Roche Holding Limited
- Royal DSM NV
- Sanofi-Aventis
- Schick Manufacturing, Inc.*
- SkinMedica Incorporated*
- The Body Shop International
- The Estée Lauder Companies Inc.*
- Unilever Group*

We intend to build a skin care product research and development-focused sales force. We already have a sales representative covering the research and development market on the East Coast, and we intend to hire two additional sales representatives by year-end 2013 to cover the Midwest and West Coast markets. In 2014, we intend to further expand our sales infrastructure by adding one regional sales representative and a support representative to provide application and other technical support. We will also contract with a software developer to develop a customized software package for use with our system that would facilitate the quantitative analysis and application notes needed to support the research environment. For the Skin Care Product Research and Development market, we estimate U.S. sales for 2014 and 2015 of $1.5 million and $3.0 million, respectively.

Therapeutic Monitoring

Therapeutic monitoring is another market where our technology provides numerous benefits over existing technologies, allowing physicians to quickly and efficiently monitor treatment results. At present, the only way to determine cancer margins is to perform a traditional biopsy, which is painful and time-consuming.

We believe that the therapeutic monitoring market is an attractive market to target because our technology allows physicians to (1) repeatedly and nondestructively examine tissue to determine whether it is responding to therapy; and (2) quickly and efficiently examine the tissue surrounding excised cancerous tissue to determine whether surgery was successful. We are already in partnership discussions with several original equipment manufacturers (OEMs) to integrate our VivaScope 3000 in-vivo handheld imaging device into their existing systems.

Examples of the applications within this market are as follows:

- Superficial Radiation Therapy
- Laser Ablation Therapy
- Photo Dynamic Therapy
- Brachytherapy
- Topical Biotherapeutics

We intend to support sales growth in this market. At present, negotiations with OEMs are being handled by management, and once these agreements are in place, direct sales will be handled by our OEM partners. In addition, we plan to hire a project manager to coordinate activity between OEMs and Caliber I.D.'s engineering team. We will need to integrate our VivaScope software with the OEM product, potentially obtain regulatory approvals for the new integrated product, and develop training programs for users of the new device. Since sales of an OEM product will typically consist of components of a VivaScope System, we expect the sales price to be less than a standard system. For the Therapeutic Monitoring market, we estimate U.S. sales for 2015 of $3.0 million. Importantly, this market also allows us to gather data that supports the use of our technology in various intra-surgical applications and real-time pathology, opening up other market opportunities in the future.

Distribution Partners

Internationally, we have established exclusive distribution relationships pursuant to which the distributor sells our products within its specified territory. Our largest distributor is Mavig GmbH ("Mavig") with territories including Europe and the Mediterranean region. ConBio (China) Co., Ltd. is our distributor in the People's Republic of China, including Hong Kong.

Reimbursement

We have retained the services of a medical reimbursement firm, Scott Taylor & Associates, which has commenced discussions with certain third party private payers in an effort to obtain positive coverage decisions and routine reimbursement.

A skin biopsy is typically performed by a dermatologist. We have designed our VivaScope and telepathology system to facilitate the detection of skin disease which we believe over time can make medical practices more productive by shifting physician procedures from surgical biopsies of suspicious lesions to excising or noninvasively treating lesions known to be cancerous as determined by confocally imaged optical biopsies.

The Company believes that third party private payers will reimburse users of our products, although the Company does not know what the timing of such reimbursement might be or if the reimbursement amount will be deemed adequate by the physicians and patients.

Research and Development

Our technical R&D plan includes routine hardware and software product improvements that are generally driven by customer feedback. These items include activities such as the development of more clinically and environmentally acceptable disposables, enhanced VivaScope application software (VivaScan®) with features honed for use by private practice dermatologists and VivaNet® telepathology workstation features that will enhance the efficiency of pathologists in analyzing images and reporting their interpretations.

During 2012 we redesigned many optical and electrical components within our in-vivo confocal imagers to improve quality, manufacturability and functionality. This project began in the first quarter and was substantially completed by September 2012. Our redesigned products generate images which have a significantly improved level of optical quality and our devices now have greater reliability and repeatability. We have also improved the user interface with a touch-screen monitor and have incorporated an ergonomic redesign of the handheld device.

We have plans to further improve our existing products, both to further increase functionality as well as to streamline production and decrease costs. In addition, customers using our devices continue to suggest modifications to facilitate additional applications, many of which are easily accommodated.

Ongoing and planned U.S. and European studies include:

- An ongoing U.S. based multi-center trial funded by the National Cancer Institute evaluating >400 pigmented lesions suspicious for malignancy based on clinical exam.
- Two planned payer-based pilot studies to evaluate the economics of confocal imaging to set reimbursement rates within a primary care and dermatology clinical setting for the treatment of skin cancer.
- An ongoing European-based study evaluating confocal images over a telepathology network with clinical sites in Italy and Spain.
- A planned U.S. based study to differentiate parathyroid gland from lymph node and other tissues, intraoperatively.

Scientific Advisory Board

We utilize our scientific advisory board ("SAB") to: assist us in the medical education programs; advise us in the design of future products; help us design Company initiated clinical studies; and assist us in evaluation of external investigator proposed studies.

Martin C. Mihm Jr. MD, Chair. Dr. Mihm is clinical professor of dermatology and pathology at Harvard Medical School and director and co-director of the melanoma programs at the Brigham and Women's Hospital and the Dana Farber Cancer Institute as well as co-director of the European Organization for Research and Treatment of Cancer (EORTC) melanoma pathology program. Dr. Mihm holds five adjunct professorships at different medical schools in the United States.

Allan Halpern MD. Dr. Halpern is Chief of the Dermatology Service and co-leader of the Melanoma Disease Management Team at Memorial Sloan-Kettering Cancer Center (MSKCC). He pioneered the development and use of whole-body photography for the early detection of melanoma. He previously served as the director of the Pigmented Lesion Clinic at the University of Pennsylvania.

Giovanni Pellacani MD, PhD. Dr. Pellacani is currently the Chairman of the Department of Dermatology of the University of Modena and Reggio Emila. He is a member of the scientific board in the International Dermoscopy Society (IDS); European Association of Dermato Oncology (EADO); International Confocal Working Group (ICWG); Associazione Italiana di Diagnostica Non Invasiva in Dermatologia (AIDNID). He has published over 200 papers, 19 book chapters and over 150 abstracts in national and international congresses and conferences.

Salvador Gonzalez MD, PhD. Dr. Gonzalez is a faculty member of Memorial Sloan-Kettering Cancer Center in New York and a research advisor at the Hospital Ramón y Cajal, Madrid. He is world renowned as an expert in the fields of optical diagnosis and sun protection. His work was fundamental for the approval of Reflective Confocal Microscopy by the FDA (Food & Drugs Administration). He is the President of the International Confocal Working Group (ICWG) and of the Grupo Español de Microscopía Confocal (Spanish Group of Confocal Microscopy). In February 2012, he was awarded the category of Full Professor (Catedrático) by the Spanish Education Ministry.

Phyllis Gimotty PhD. Dr. Gimotty is Professor of Biostatistics and a member of the Abramson Cancer Center's Biostatistical Unit at the University of Pennsylvania. She serves as the Director of two biostatistics cores that support translational cancer research in melanoma and esophageal cancer. She also serves as the Principal Investigator of the Cancer Biostatistics Training Grant and is the Associate Director of Biostatistics Educational Programs in the Basic Sciences in the School of Medicine at the University of Pennsylvania.

Intellectual Property

General. Our policy is to protect our intellectual property by obtaining U.S. and foreign patents to protect the technology, inventions, and improvements important to the development of our business, U.S. and international trademarks to protect our company name, logo, brands and trade secrets, which we enforce through confidentiality agreements with our employees, members of our board of directors and scientific advisory board, and through non-disclosure agreements with certain others outside the Company. Our employees and consultants are required to execute patent assignment agreements.

Patents. We currently hold 58 patents, which consist of 45 U.S. patents, five Australian patents, three Japanese patents, three European patents, one Chinese patent and one Canadian patent. These patents are all owned by the Company, with the exception of two non-fundamental patents which are co-owned. In addition, we have 20 additional U.S. and foreign patents pending. Our portfolio of issued patents includes both method and apparatus patents in areas such as handheld imaging, imaging quality, surgical pathology, tissue stabilization and tissue navigation. Generally, we file foreign counterparts of our most fundamental U.S. patents and we have been successful in obtaining issuance of these fundamental foreign patents in Europe, Australia, Japan, China and Canada while other foreign patent applications remain pending. Our pending patents include pending foreign counterparts of our U.S. patents and patent applications as well as pending U.S. patents on new technology. We have granted limited licenses to our European intellectual property to our distribution partner in Europe.

Trademarks and Domain Names. We have obtained U.S. trademark registrations for the following marks: "VivaScope", "Caliber I.D.", "Lucid", VivaBlock", "VivaStack", "VivaCam", "VivaNet", "VivaCell", "VivaScan", "VivaScopy" as well as our corporate logo. Certain foreign trademarks have been obtained corresponding to some of our U.S. trademarks and others are pending foreign trademark approval.

Manufacturing

Our in-house manufacturing process is largely an assembly-and-test process that operates under the standardized procedures of our quality system. Piece parts such as mechanically machined components, populated circuit boards, precision optical components and electro-mechanical optical scanning devices are purchased from suppliers to either our custom specifications or the standard specifications of the supplier. We also purchase computers, LCD displays and medical grade equipment carts which are integrated into our completed VivaScope Systems. The application software for our VivaScopes is written by our in-house software staff and runs under a Windows operating system.

Generally, we single-source our component purchases to suppliers with which we have had a long-term relationship. In the event these suppliers are unable to deliver parts we generally have back-up suppliers established. A few of our VivaScope components are from sole source suppliers, which means we are purchasing a unique component from them that is not available from other suppliers. As we design future generations of VivaScopes, it is our intention to eliminate these specialized sole sourced component designs whenever possible.

Competition

Currently our largest competitive threat in clinical markets is a surgical biopsy, which is the standard of care. Although we possess patented technology for our VivaScope products and our VivaNet telepathology system, we face competition, both nationally and internationally, from companies marketing technologies which offer an alternative to confocal microscopy and traditional biopsy. Many of these companies have established name recognition, reputation, and market presence, and may have greater financial, technical, sales, marketing and other resources than we have, enabling them to better withstand the impact of risks associated with a highly competitive industry.

Companies that have developed devices using confocal microscopy include those which have applications in ophthalmology, such as Nidek, and in gastroenterology, such as Mauna Kea Technologies, which has a confocal endomicroscopy device. Although we do not currently view these companies as competitors, these companies may compete with us in their respective application areas, which could possibly become broader and infringe on our applications. Our confocal imaging devices compete with other noninvasive screening technologies which are sold by companies such as FotoFinder Systems, Inc., Mela Sciences, Inc., Michelson Diagnostics and Verisante. Though we do not believe that we compete with any specific large companies currently, major medical imaging companies such as General Electric Co., Siemens and Philips Healthcare, each of which manufacture and market precision medical diagnostic products, could decide to develop or acquire a product or products to compete with our VivaScope confocal imagers.

Regulation

FDA Regulation of Medical Devices. Our products are considered medical devices and are subject to regulation by the FDA. The Food, Drug, and Cosmetic Act, or "FD&C Act," and other federal and state statutes and regulations govern the research, design, development, preclinical and clinical testing, manufacturing, safety, approval or clearance, labeling, packaging, storage, record keeping, servicing, promotion, import and export, and distribution of medical devices.

The FDA cleared our 510(k) application for our VivaScope System (i.e., our VivaScope 1500 and VivaScope 3000) as a Class II device in September 2008. Our ex-vivo imager, the VivaScope 2500 is registered with the FDA as a Class I device, similar to conventional medical microscopes used by pathologists to view microscope slides of human tissue, and our VivaNet telepathology server is registered with the FDA as a Class I device. We believe these FDA clearances for our VivaScope products and telepathology are sufficient for us to pursue our business strategy for the foreseeable future. Future products or applications may require additional FDA clearances and may also involve clinical trials to demonstrate whether they are safe and effective for their indicated medical applications.

Devices like our VivaScopes that are approved or cleared and placed in commercial distribution are subject to numerous regulatory requirements, including: 1) establishment registration and device listing; 2) Quality System Regulation (QSR) which is an FDA requirement that manufacturers follow design, testing, control, documentation and other quality assurance procedures; 3) labeling regulations that impose labeling restrictions and prohibit the promotion of products for unapproved or "off-label" uses; 4) medical device reporting regulations that require reporting to the FDA if a device caused or contributed to a death or serious injury or malfunctioned so as to cause or contribute to a death or serious injury if the malfunction were to recur; and 5) corrections and removal reporting regulations that require manufacturers to report field corrections and product recalls or removals undertaken to reduce risk to health by the device or to correct an FD&C violation that presents a risk to health. Also, the FDA may require postmarket surveillance studies or establishment and maintenance of a system for tracking products through the distribution channel to the patient level.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may lead to any of the following sanctions: 1) warning letters; 2) fines and civil penalties resulting in unanticipated expenditures; 3) approval delays or refusal to approve our applications, including supplements; 4) withdrawal of FDA approval; 5) product recall or seizure; 6) interruption of production; 7) operating restrictions; 8) injunctions; and 9) criminal prosecution. To date, we have never received any such enforcement actions by the FDA.

International Medical Device Regulation. International sales of medical devices are subject to foreign government regulations that vary substantially from country to country. Some countries have little to no regulation whereas other countries have a premarket notice or premarket acceptance similar to the FDA for clinical applications. The time required to obtain approval in a foreign country may be either shorter or longer than that required for FDA approval, and the requirements for approval may differ. Generally, international sales of our products for non-clinical use require little or no registration.

Our VivaScope 1500 and VivaScope 3000 are entitled to bear the CE mark for distribution as medical devices in the European Union, ("EU"). The EU has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear the CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout Europe.

Outside of the European Union, regulatory approval needs to be sought on a country-by-country basis in order for us to market our products for clinical applications. In this regard, we have obtained regulatory approval to market our VivaScope 1500 for clinical applications in Canada through its Health Canada Administration, in Australia through its Therapeutic Goods Administration, in Brazil through its Brazilian Health Surveillance Agency, and in China through its State Food and Drug Administration, although in China we are currently in a renewal process.

One aspect of CE compliance is that manufacturers are required to comply with international standards for quality management maintained by the International Organization for Standardization, ("ISO") and its 13485 series of standards for quality operations necessary for EU and SFDA registration. The method of assessing conformity to EU regulations varies depending on the class of the product. Generally conformance involves self-assessment by the manufacturer and third party assessment by a "Notified Body." This third party assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's product. An assessment by a Notified Body of one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In order to meet this requirement, our quality system, device designs and manufacturing facilities are assessed annually by GMED North America, a certified EU Notified Body.

Other Government Regulation. The advertising of our medical devices is, and will continue to be, subject to both FDA and Federal Trade Commission regulations. In addition, the sale and marketing of our medical devices are subject to complex federal and state laws and regulations generally intended to deter, detect, and respond to fraud and abuse in the healthcare system. These laws and regulations often restrict or prohibit pricing, discounting, commissions and other commercial practices that are typical outside of the healthcare market. In particular, anti-kickback and self-referral laws and regulations limit our promotional programs and financial arrangements related to the sale of our products and related services to physicians seeking reimbursement from Medicare, Medicaid, private insurers or patients. Sanctions for violating the above federal laws include criminal and civil penalties ranging from punitive sanctions, damage assessments, money penalties, imprisonment, denial of Medicare and Medicaid payments, or exclusion from the Medicare and Medicaid programs.

Many states have adopted laws or have pending legislative proposals similar to the federal fraud and abuse laws, some of which prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of whether the service was reimbursed by Medicare or Medicaid. Many states have also adopted laws or are considering legislation to increase patient protections, such as limiting the use and disclosure of patient-specific health information. These state laws typically impose criminal and civil penalties similar to the federal laws.

Private enforcement of healthcare fraud is also increasing, due in part to amendments to the Civil False Claims Act in 1986. These amendments encourage private persons to sue on behalf of the government. HIPAA, in addition to its privacy provisions, created a series of new healthcare-related crimes. Our products fall under the regulation of HIPAA when our HIPAA-compliant telepathology server is used for clinical applications.

Product Liability and Insurance

Our business exposes us to the risks of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices, including those which may arise from design flaws or the misuse or malfunction of our products. We may be subject to product liability claims if any one of our products causes or appears to have caused an injury. Claims may be made by patients, healthcare providers or others using our medical devices.

Employees

As of September 30, 2013, we had 26 full-time employees. Eight of our employees were engaged in product and software research and development, two in clinical and regulatory affairs, seven in production, five in marketing and sales and four in administration.

Emerging Growth Company Status

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation, from which we are currently exempt as a smaller reporting company, and stockholder approval of any golden parachute payments not previously approved in connection with a transaction resulting in a change of control. We expect to take advantage of these exemptions. By taking advantage of these exemptions, some investors may find our common stock less attractive as a result, which may in turn result in a less active trading market for our common stock and the stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We could remain an "emerging growth company" for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three year period. Please see Part II, Item 1A. Risk Factors in our 10-K.

Facilities

We lease approximately 20,000 square feet of office, laboratory, and assembly space in the same building as our principal executive offices located in 95 Methodist Hill Drive, Suite 500, Rochester, NY 14623 under a lease which expires in February 2018. In addition, we lease office space in Boston, MA under an agreement that expires in November 2013. We believe these facilities will be adequate to meet our current and reasonably foreseeable requirements, and that, if needed, we will be able to obtain additional space on commercially reasonable terms.

Litigation

We are not currently subject to any material legal proceedings.

About Us

We were organized as a New York corporation on November 27, 1991 under the name Lucid Technologies, Inc. We subsequently amended our Certificate of Incorporation to change our name to Lucid, Inc**.** We are operating as Caliber Imaging & Diagnostics. Our principal executive offices are located at 95 Methodist Hill Drive, Suite 500, Rochester, New York 14623. Our telephone number is (585) 239-9800. Our web site is www.caliberid.com. Our website is not incorporated into, and does not constitute a part of, this offering memorandum.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing at the end of this offering memorandum. Some of the information contained in this discussion and analysis or set forth elsewhere in this offering memorandum, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties – see "Special Note Regarding Forward-Looking Statements." You should review the "Risk Factors" section of this offering memorandum for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

	Six Months Ended June 30,		Year Ended December 31,	
	2013	**2012**	**2012**	**2011**
Statement of Operations Data:				
Revenue	$ 1,574,424	$ 889,558	$ 2,434,585	$ 3,576,885
Operating expenses:				
Cost of revenue	1,331,941	1,106,946	2,401,729	1,890,381
General and administrative	880,961	2,564,586	4,025,245	5,437,835
Sales and marketing	684,502	1,042,034	1,809,434	1,360,183
Engineering, research and development	794,848	1,880,589	3,764,816	1,456,890
Total operating expenses	3,692,252	6,594,155	12,001,224	10,145,289
Loss from operations	(2,117,828)	(5,704,597)	(9,566,639)	(6,568,404)
Other expenses, net	(206,994)	(14,585)	(253,986)	(2,485,360)
Net loss	$ (2,324,822)	$ (5,719,182)	$ (9,820,625)	$ (9,053,764)
Net loss attributable to common stockholders	$ (2,324,822)	$ (5,719,182)	$ (9,820,625)	$ (15,960,330)
Basic and diluted net loss per common share	$ (0.28)	$ (0.73)	$ (1.23)	$ (7.37)
Weighted-average number of common shares outstanding	8,384,708	7,806,241	7,998,662	2,164,232

Six Months Ended June 30, 2013 and 2012

We reported a net loss of $2.3 million or $(0.28) per share for the six month period ended June 30, 2013 as compared to a consolidated net loss of $5.7 million or $(0.73) per share for the six month period ended June 30, 2012. Decreased net losses for the six months ended June 30, 2013 resulted from increased sales and an overall decrease in operating expenses as compared to the six months ended June 30, 2012.

The following presents a more detailed discussion of our operating results:

Revenues. For the six months ended June 30, 2013 and 2012, we recorded sales of our products of $1.6 million and $0.9 million, respectively. The increase was primarily attributed to increases in sales of $0.3 million in North America, $0.3 million in Europe and $0.2 million in Asia. During 2012, we began a significant enhancement program to increase the speed and functionality of our VivaScope confocal imagers which was substantially completed by September 30, 2012. We believe that sales of our existing products were negatively impacted for the first three quarters of 2012 primarily because we informed our key distributors at the end of 2011 about the 2012 Enhancement Program.

Percentages of total sales by geographic region are as follows:

	Six Months Ended June 30,			
	2013		2012	
	Product Sales (in millions)	%	Product Sales (in millions)	%
North America	$0.5	28%	$0.2	26%
Europe	0.6	41%	0.3	37%
Asia	0.4	24%	0.2	20%
Latin America	0.1	7%	0.2	17%
Total	$1.6	100%	$0.9	100%

Cost of revenue. For the six months ended June 30, 2013 and 2012, we incurred cost of revenue of $1.3 million and $1.1 million, respectively. The increase in absolute dollars of cost of sales reflects a significant increase in sales compared to the six months ended June 30, 2012. As a percentage of product sales, cost of revenue was 85% and 124% for the six months ended June 30, 2013 and 2012, respectively.

General and administrative expenses. For the six months ended June 30, 2013, general and administrative expenses totaled $0.9 million, a decrease of $1.7 million from the same period last year. The decrease resulted primarily from a $0.6 million decrease in severance costs, a $0.5 million decrease in stock-based compensation costs and a $0.4 million decrease in legal and accounting fees.

Sales and marketing expenses. For the six months ended June 30, 2013, sales and marketing expenses totaled $0.7 million, a decrease of $0.4 million from the same period in the prior year. The decrease primarily resulted from a decrease of $0.1 million in expenses related to physician education, reimbursement consulting and marketing support as well as a decrease in demo equipment expenses of $0.1 million.

Engineering, research and development expenses. For the six months ended June 30, 2013, engineering, research and development expenses totaled $0.8 million, a decrease of $1.1 million from the same period in the prior year. The decrease in engineering, research and development expenses primarily resulted from a $0.4 million decrease in stock-based compensation charges, a $0.2 million decrease in severance costs and other compensation expenses and a $0.4 million decrease in consulting fees related to the 2012 Enhancement Program.

Interest expense. Interest expense increased $0.2 million from $0.1 million for the six months ended June 30, 2012 to $0.3 million for the six months ended June 30, 2013. The increases in interest expense were a result of the increase in the long term loan payable balance.

Gain (loss) on extinguishment of debt. The Company recorded gain on extinguishment of debt of $0.1 million for the six months ended June 30, 2013 as compared to a loss on extinguishment of debt of $0.4 million during the same period of 2012. The decrease in the loss was a result of the conversion of debt in 2012 in connection with the IPO which resulted in a loss.

Fair value adjustment of warrants expense. We recognized income for the change in fair value for these warrants for the six months ended June 30, 2013 and 2012 of approximately $35,000 and $0.5 million, respectively.

Years Ended December 31, 2012 and 2011

We reported a consolidated net loss of $9.8 million or $(1.23) per share for the year ended December 31, 2012 as compared to a consolidated net loss of $9.1 million or $(7.37) per share for the year ended December 31, 2011. The increase in net losses in 2012 resulted from increased operating costs primarily related to the 2012 Enhancement Program, employee related termination costs, an increase in warranty costs, and an overall decrease in sales over the year ended December 21, 2011.

The following presents a more detailed discussion of our consolidated operating results:

Product sales. For the years ended December 31, 2012 and 2011, we recorded sales of our products of $2.4 million and $3.2 million, respectively. The decrease was primarily attributed to a decrease in distributor sales in Asia of $0.4 million combined with decreased distributor sales in Europe of $0.3 million. Percentages of total sales by geographic region are as follows:

	Year Ended December 31,			
	2012		2011	
	Product Sales *(in millions)*	Percent	Product Sales *(in millions)*	Percent
North America	$ 0.5	23%	$ 0.6	16%
Europe	1.0	39%	1.3	41%
Asia	0.6	25%	1.0	32%
Latin America	0.2	8%	0.2	7%
Australia	0.1	5%	0.1	4%
Total	$ 2.4	100%	$ 3.2	100%

During the year ended December 31, 2012, we began a significant enhancement program to increase the speed and functionality of our VivaScope confocal imagers. The 2012 Enhancement Program was substantially completed by September 31, 2012, and sales in the fourth quarter were $1.1 million.

Non-product revenue. As of December 31, 2012, we had not recorded revenue from our telepathology server.

Cost of revenue. For the year ended December 31, 2012 and 2011, we incurred cost of revenue of $2.4 million and $1.9 million, respectively. As a percentage of product sales, cost of revenue was 99% and 59% for the years ended December 31, 2012 and 2011, respectively. The increase in cost of sales as a percentage of product sales reflects an increase in warranty repairs as well as charges to increase our warranty reserves.

General and administrative expenses. General and administrative expenses consist primarily of salaries and benefits, professional fees (including legal and accounting incurred during the year ended December 31, 2011 in connection with becoming a public company), occupancy costs for our office, insurance costs and general corporate expenses. For the year ended December 31, 2012, general and administrative expenses totaled $4.0 million and had decreased $1.4 million from the prior year resulting primarily from decreases in professional fees of $0.7 million in connection with our 2011 IPO. There was an additional decrease of $0.2 million resulting from a decrease in fees to affiliates. For the year ended December 31, 2012 as compared to the prior year, benefits increased significantly due to severance expenses incurred throughout the year.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salaries and benefits and general marketing expenses. For the year ended December 31, 2012, sales and marketing expenses totaled $1.8 million, an increase of $0.4 million from the prior year. The increase in sales and marketing expenses primarily resulted from an increase of $0.5 million in expenses related to increased sales and marketing efforts. The increase was offset by a decrease in stock-based compensation expenses of $0.3 million

Engineering, research and development expenses. Engineering, research and development expenses consist primarily of salaries and benefits and material costs used in the development of new products and product improvements. For the year ended December 31, 2012, engineering, research and development expenses totaled $3.8 million, an increase of $2.3 million from the prior year. The increase in engineering, research and development expenses primarily resulted from an increase in benefits of $0.5 million due to severance benefits incurred during the year, combined with an increase in stock-based compensation charges of $0.4 million. Additionally, the 2012 Enhancement Program resulted in an increase of $0.8 million over the prior year.

Interest expense. Interest expense decreased $1.9 million from $2.3 million for the year ended December 31, 2011 to $0.4 million for the year ended December 31, 2012. The decrease in interest expense was a result of the conversion to equity of the debt underlying our 2010/2011 and July 2011 Convertible Debt Offerings upon the completion of our IPO.

Loss on extinguishment of debt. Loss on extinguishment of debt decreased $2.3 million from $2.7 million for the year ended December 31, 2011 to $0.4 million for the year ended December 31, 2012. The decrease in the loss was a result of the conversion in connection with the 2011 IPO of the 2010/2011 Convertible Debt Offering, July 2011 Convertible Debt Offering and the fee arrangement with an affiliate.

Fair value adjustment of warrants expense. For the years ended December 31, 2012 and 2011, we recognized income of $0.6 million and $2.5 million, respectively, to record changes in the fair value of certain of our outstanding warrants not indexed to our own stock.

Liquidity and Capital Resources

As of June 30, 2013, we had $4.7 million in current assets and $2.9 million in current liabilities, resulting in a working capital surplus of $1.8 million. As of December 31, 2012, we had $2.5 million in current assets and $3.1 million in current liabilities, respectively, resulting in a working capital deficit of $0.6 million. Our working capital increased during the six months ended June 30, 2013 primarily as a result of the capital raised in May 2013 when the Company borrowed $5.0 million from an affiliate of the Company under a Subsequent Term Note (the "2013 Term Loan"). The increase in working capital was partially offset by net operating losses during the period. Our current assets consist of cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other current assets. Our current liabilities consist of the current portion of our long-term debt, accounts payable, accrued expenses, and deferred revenue.

We anticipate that we will continue to generate losses for at least the next year as we develop and expand our product offerings and seek to commercialize our products and expand our corporate infrastructure. We believe that our existing cash and cash equivalents will allow us to fund our operating plan through the fourth quarter of 2013.

We will require significant amounts of additional capital to fund our operations in the fourth quarter of 2013 and beyond, and such capital may not be available when we need it on terms that we find favorable, if at all. We may seek to raise these funds through public or private equity offerings, debt financings, credit facilities, or partnering or other corporate collaborations and licensing arrangements. If adequate funds are not available or are not available on acceptable terms, our ability to fund our operations, take advantage of opportunities, develop products and technologies, and otherwise respond to competitive pressures could be significantly delayed or limited, and we may need to downsize or halt our operations. Prevailing market conditions may not allow for such a fundraising or new investors may not be prepared to purchase our securities at prices that are greater than the purchase price of shares sold in our initial public offering.

There can be no assurance that the Company will be successful in its plans described above or in attracting alternative debt or equity financing. These conditions have raised substantial doubt about the Company's ability to continue as a going concern.

Because of the numerous risks and uncertainties associated with research, development and commercialization of medical devices, we are unable to estimate the exact amounts of our working capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the cost of development and growth of our VivaScope business;
- the cost of commercialization activities of our products, and of our future product candidates, including marketing, sales and distribution costs;
- the number and characteristics of any future product candidates we pursue or acquire;
- the scope, progress, results and costs of researching and developing our future product candidates, and conducting clinical trials;
- the timing of, and the costs involved in, maintaining and obtaining regulatory approvals for our existing products and future product candidates;
- the cost of manufacturing our existing VivaScope products and maintaining our telepathology server, as well as such costs associated with any future product candidates we successfully commercialize;
- our ability to establish and maintain strategic partnerships, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or royalties on, our future products, if any.

Summary of Cash Flows

	For the Six Months Ended June 30,	
	2013	**2012**
Operating activities	$ (1,755,095)	$ (3,630,008)
Investing activities	(5,158)	(75,775)
Financing activities	4,756,227	(1,044,623)
Net increase (decrease) in cash and cash equivalents	$ 2,995,974	$ (4,750,406)

Net cash used in operating activities. Cash used in operating activities was $1.8 million and $3.6 million for the six months ended June 30, 2013 and 2012, respectively. The decrease in cash used in operating activities resulted from the decrease in net loss of $3.4 million, partially offset by a decrease of $0.9 million in other liabilities relating to the change in severance liabilities over the period ended June 30, 2012 and a decrease of $0.6 million in accounts payable as a result of decreased balance of accounts payable at June 30, 2013.

Net cash used in investing activities. Cash used in investing activities was approximately $5,000 and $0.1 million for the six months ended June 30, 2013 and 2012, respectively, and represents the purchases of fixed assets during these periods.

Net cash provided by (used in) financing activities. Cash provided by financing activities was $4.8 million for the six months ended June 30, 2013 as a result of the $5.0 million borrowed by the Company under the 2013 Term Loan. Cash used in financing activities was $1.0 million for the six months ended June 30, 2012 primarily due to payments on the Company's 2011 Credit Facility and a final cash payment of $0.6 million of principal to certain holders of the 2010/2011 Convertible Debt Offering that did not convert to equity at the close of our IPO.

	For the Years Ended December 31,	
	2012	**2011**
Operating activities	$ (7,704,665)	$ (4,500,760)
Investing activities	(79,493)	(123,684)
Financing activities	3,814,464	8,681,510
Net (decrease) increase in cash and cash equivalents	$ (3,969,694)	$ 4,057,066

Net cash used in operating activities. Cash used in operating activities was $7.7 million and $4.5 million for the years ended December 31, 2012 and 2011, respectively. The increase in cash used in operating activities resulted from the increase in net loss of $0.8 million, combined with a net decrease in non-cash amounts in 2012 of $2.3 million. The change in non-cash amounts included an increase of $2.3 million and $1.1 million for loss on extinguishment of debt and accretion of debt discount, respectively, and an increase of $1.9 million for the fair value adjustment of warrants.

Net cash used in investing activities. Cash used in investing activities was $0.1 million for the years ended December 31, 2012 and 2011, and represents the purchases of fixed assets during these periods.

Net cash provided by financing activities. Cash provided by financing activities was $3.8 million and $8.7 million for the years ended December 31, 2012 and 2011, respectively. The decrease during the year ended December 31, 2012 as compared to the year ended December 31 2011 was a result of the net proceeds from our IPO, the sale of our July 2011 and 2010/2011 Convertible Debt Offerings and cash received from exercises of warrants that took place in the prior year offset by the proceeds from the 2012 Demand Note and 2012 Term Note in Q2 2012 and Q3 2012, respectively.

Term Loans. In July 2012, we borrowed $7.0 million from an affiliate pursuant to a Loan and Security Agreement (the "2012 Term Loan"), which refinanced a previous loan in the amount of $3.0 million. The 2012 Term Loan matures in July 2017 although we may prepay the note at any time, subject to certain notice requirements. The 2012 Term Loan bears interest at a rate of 7% per annum, payable quarterly commencing in July 2014 and is secured by all of the Company's assets.

The 2012 Term Loan contains customary affirmative and negative covenants, including covenants restricting the incurrence of debt, imposition of liens, the payment of dividends, and entering into affiliate transactions. The 2012 Term Loan also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with covenants. If an event of default occurs and is continuing under the 2012 Term Loan, the entire

outstanding balance may become immediately due and payable.

In May 2013, the Company borrowed an additional $5.0 million from the same affiliate of the Company under the 2013 Term Loan. The 2013 Term Loan matures in November 2014 and may be prepaid at any time. The 2013 Term Loan bears interest at a rate of 7% per annum, payable upon maturity and is secured by all of the Company's assets. The 2013 Term Loan includes cross default provisions with the existing 2012 Term Loan.

In October 2013, the Company and the holder of the 2012 Term Loan and 2013 Term Loan agreed to recapitalize the outstanding debt. Contingent on raising $6.0 million pursuant to this Offering Memorandum, the outstanding principal and interest on $5.0 million of the Company's debt will be converted into common stock on the same terms as the shares sold to other investors in this offering. In addition, the maturity date of $7 million of the Company's debt will be extended to July 3, 2020, with interest of 7% payable only on maturity.

Promissory notes. As of June 30, 2013 and December 31, 2012, promissory notes outstanding totaled $0.1 million and $0.4 million, respectively, on two notes which do not accrue interest. In May 2013, the outstanding balance of one of the two notes was settled in full. The principal of the second note of $0.1 million was classified as a current liability as of June 30, 2013 on the accompanying condensed balance sheets.

Trade payables and receivables. As of June 30, 2013, we had approximately $0.2 million of accounts payable which were aged over 180 days. Management has reached agreements with certain of these vendors to pay overdue amounts over time. Generally, the terms for our trade payables are 30 days from the date of receipt. Certain vendors require partial or full prepayment, especially for parts unique to the Company's orders.

As of June 30, 2013, we had accounts receivable of approximately $0.1 million. We generally request 50% prepayment from all customers, with the balance due 30 days after shipment, although in certain circumstances we require the full balance prior to shipment. Amounts collected prior to the recognition of revenue are recognized as customer deposits and are included in "accrued expenses and other current liabilities."

Warrants. At June 30, 2013, we had 1,981,661 warrants outstanding at a weighted average exercise price of $5.75. These warrants were issued primarily in connection with our convertible debt issuances prior to our initial public offering, as well as in the common units sold in our initial public offering. In August 2013, the Company issued to a financial advisor common stock warrants to purchase up to 2,125,000 shares of the Company's common stock, at an exercise price of $1.00 per share. In September 2013, we issued an estimated 25,000 warrants for the purchase of shares of common stock as a result of anti-dilution adjustments triggered by the issuances of shares of common stock or warrants. In October 2013, the holder of the 2013 Term Loan and the 2012 Term Loan agreed to recapitalize the Company's debt, contingent upon the closing of at least $6.0 million in a round of financing. In exchange for this recapitalization, upon closing, the Company will issue to the holder warrants to purchase 150,000 shares of the Company's common stock at an exercise price equal to the higher of $1.00 per share or the price paid by the other investors in this offering.

Stock options. At June 30, 2013, we had 685,000 stock options outstanding at a weighted average exercise price of $3.15. In September 2013, the Board of Directors granted to its employees, officers, directors, and a consultant of the Company a total of 2,759,500 stock options at an exercise price of $1.00 under the Company's 2010 Long Term Equity Incentive Plan and our 2012 Stock Option and Incentive Plan, reducing the total number of shares available for issuance upon the grant or exercise of awards to 859,721.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2013 and as of the date of this report.

Recently Issued Accounting Standards

In the normal course of business, management evaluates all new accounting standards issued by the Financial Accounting Standards Board, SEC, Emerging Issues Task Force, American Institute of Certified Public Accountants and other authoritative accounting bodies to determine the potential impact they may have on our financial statements. Based upon this review, we do not expect any of the recently issued accounting standards to have a material impact on our financial statements.

Critical Accounting Policies and Estimates

Fair Value. Certain elements of our financial statements require us to make estimates regarding the fair market value of our common stock. Our management determines this value from time to time utilizing a variety of factors, including the report of a third party valuation consultant, the general performance of the Nasdaq composite, and our financial results and condition. The Company uses Black-Scholes for financial option modeling. We believe that the results we have calculated using the Black-Scholes option pricing model approximate the results of the Binomial Options Pricing Model and has yielded a reasonable estimate of fair value for all assessed dates. However, it is likely that these results may have been different than our fair market value if our stock had been listed and traded on an exchange.

Historically, we have used estimates of the fair value of our common stock at various dates for the purpose of:

- Determining the fair value of our common stock on the date of grant of a stock-based compensation award to our employees and non-employees as one of the inputs into determining the grant date fair value of the award.

- Determining the fair value of our common stock on the date of grant of a restricted stock award to determine the amount of compensation expense to be recorded over the requisite service period.

- Determining the fair value of our common stock to be issued at the date of conversion of convertible debt instruments into our common stock.

- Determining the intrinsic value of certain debt features, such as beneficial conversion features, on the date of issuance of convertible instruments.

- Determining the fair value of our common stock at each reporting period as an input into our model to value warrants classified as liabilities.

Management has estimated the fair value of our common stock during the period from 2011 through June 30, 2013 as follows:

Date of Valuation	Estimate of Fair Value	Purpose
April 1, 2011	$ 8.60	Grants of stock-based awards
April 8, 2011	$ 8.62	Grants of stock-based awards
June 28, 2011	$ 8.88	Grants of stock-based awards
August 10, 2011	$ 8.62	Grants of stock-based awards
December 30, 2011	$ 3.35	Issuance of common stock upon conversions in connection with the IPO
October 1, 2012	$ 2.00	Grants of stock-based awards
November 8, 2012	$ 2.00	Grants of stock-based awards
December 18, 2012	$ 1.40	Issuance of common stock in a private transaction
February 27, 2013	$ 1.41	Grants of stock-based awards

In 2012 and 2013, the Company estimated fair market value of our common stock based largely on recent trading history and volumes on the OTCQB. Because the trading in our stock has been thin and sporadic, exclusive use of the most recent trading price could, at times yield an amount which was not the best indication of fair value.

In 2011, prior to the Company's initial public offering, we relied in part on a valuation report retrospectively prepared by an independent valuation consultant based on data we provided. The valuation report provided us with guidelines in determining the fair value, but the determination was made by our management. We obtained a retrospective valuation by a third- party valuation specialist because, as an emerging company, we have not had the resources at our disposal to gather all of the necessary inputs, including information regarding comparable companies. We applied the income approach/ discounted cash flow analysis based on our projected cash flow using management's best estimate as of the valuation date. The determination of the fair value of our common stock required complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, complex features of our outstanding debt and equity instruments, the liquidity of our shares and our operating history and prospects at the time of valuation.

In determining the fair value of our common stock we made estimates in 2011 surrounding our weighted average cost of capital of 21.90% based on a number of inputs, including the risk-free rate, an equity risk premium based on forward looking equity risk premium studies multiplied by a Beta derived from Bloomberg of firms in a comparable line of business, a small stock premium from a Duff &Phelps study that reflects expectations of equity holders, a company-specific risk premium based on revenue projections relative to comparable firms, plus the Company's cost of debt. We used an option-pricing method to allocate enterprise

value to preferred and common shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation." The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock. We also used an option-pricing method which involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of our Company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our Board of Directors and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of our shares at 70% based on the historical volatilities of comparable public companies engaged in similar lines of business. Had we used different estimates of volatility, the allocations between preferred and ordinary shares may have been different.

Subsequent to the listing of our common units on the OTCQB on December 28, 2011 and prior to the splitting of our common units into their common stock and common warrant components, we used a binomial lattice model to allocate the fair market value of the common unit between the common stock and common warrant which comprise the unit.

Stock-Based Compensation. We measure compensation cost for stock-based compensation at fair value and recognize compensation over the service period for awards expected to vest. The fair value of each restricted stock award is based on management's estimate of the fair value of our common stock on the date of grant and is recognized as compensation expense using straight-line amortization over the requisite service period. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes pricing model and is recognized as compensation expense using straight-line amortization over the requisite service period.

Management has estimated the fair value of our stock option awards during the period from 2011 through June 30, 2013 as follows:

Date of Valuation	Type of Stock-Based Award Granted	Weighted Average Estimate of Fair Value	Valuation Method
April 1, 2011	Stock option	$ 4.28	Black-Scholes pricing model
April 8, 2011	Stock option	$ 4.26	Black-Scholes pricing model
June 28, 2011	Stock option	$ 4.64	Black-Scholes pricing model
August 10, 2011	Stock option	$ 5.38	Black-Scholes pricing model
October 1, 2012	Stock option	$ 1.23	Black-Scholes pricing model
November 8, 2012	Stock option	$ 0.87	Black-Scholes pricing model
February 27, 2013	Stock option	$ 0.60	Black-Scholes pricing model

The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. Key assumptions in the Black-Scholes pricing model include the fair value of common stock, the expected term, expected volatility of the common stock, the risk-free interest rate, and estimated forfeitures. We determined the fair value of our common stock using a variety of factors, discussed above. The expected term is estimated by using the actual contractual term of the awards and the length of time for the recipient to exercise the awards. Management based expected volatilities on a volatility factor computed based on the historical equity volatilities of the common stock of public comparable firms. The risk-free interest rate was based on the implied yield available at the time the options were granted on U.S. Treasury zero coupon issues with a remaining term equal to the expected term of the option. Estimated forfeitures are based on management's current expectations. The expected dividend yield is 0% for all periods presented, based upon our historical practice of not paying cash dividends on its common stock.

Warrant Liabilities. We account for warrants that are indexed to our own stock or separately traded, such as our warrants registered in our initial public offering, as a component of equity and record those amounts at estimated fair value computed at the date of grant. Certain other warrants, which were issued prior to our initial public offering, contain complex provisions which require estimates of fair value to appropriately record our potential liabilities. These warrants are treated as a liability and were initially recorded at estimated fair value computed at the date of grant and are adjusted to fair value at each reporting period. The fair value of warrants is derived using the Black-Scholes pricing model. The Company believes that the Black-Scholes pricing model results in a value that is not materially different from the value determined using a binomial pricing model. We review each warrant with complex provisions for triggering events at each reporting period and reclassify warrants from liabilities to stockholders' equity as needed.

Income Taxes. We recognize income taxes under the asset and liability method. As such, deferred taxes are based on temporary differences, if any, between the financial statement and tax bases of assets and liabilities that will result in future taxable or

deductible amounts. The deferred taxes are determined using the enacted tax rates that are expected to apply when the temporary differences reverse. Income tax expense is based on taxes payable for the period plus the change during the period in deferred income taxes. Valuation allowances are established when it is more likely than not that the deferred tax assets will not be realized and the deferred tax assets are reduced to the amount expected to be realized.

Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%) that the position would be sustained upon examination based solely on the technical merits of the position. Tax positions that meet the more likely than not threshold are measured using a probability- weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. We recognize accrued interest and penalties, if any, related to income tax liabilities as a component of income tax expense.

Revenue Recognition. We recognize revenue when evidence of an arrangement exists, title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectability is reasonable assured. When transactions include multiple deliverables, we apply the accounting guidance for multiple element arrangements to determine if those deliverables constitute separate units of accounting. Revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element. Each element's allocated revenue is recognized when the revenue recognition criteria for that element have been met. Multiple element arrangements have not been material through December 31, 2012. When allocating arrangement consideration, fair value is generally determined by objective evidence, which is based on the price charged when each element is sold separately. All costs related to product shipment are recognized at time of shipment and included in cost of revenue. We do not provide for rights of return to customers on product sales.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk - As of June 30, 2012 and through the date of this offering memorandum, we did not have significant exposure to foreign currency exchange rates as substantially all of our transactions are denominated in U.S. dollars.

MANAGEMENT

Directors and Executive Officers

The following tables set forth the names, ages as of September 30, 2013 and a brief account of the business experience of each person who is a current director, executive officer or other key personnel of our Company. Each director of our Company will hold office until the next annual meeting of shareholders of our Company or until his or her successor has been elected and qualified.

The directors of the Company are as follows:

Name	Age	Position
William J. Shea	65	Chairman of the Board
L. Michael Hone	63	Director and Chief Executive Officer
Brian Carty*(1),(2),(3)	64	Director
Kevin Cronin*(1)	52	Director
Ruben King-Shaw, Jr.*(1),(2),(3)....	51	Director
Rocco Maggiotto*(1),(2),(3)	62	Director
Paul S. Stuka*(3).....	58	Director

The Company's executive officers (in addition to those directors who also are executive officers as noted above) and other key personnel are as follows:

Name	Age	Position
Jay M. Eastman, Ph.D.	65	Founder, Director Emeritus and Chief Scientist
William J. Fox.....	47	Vice President of Technical Operations and Chief Technical Officer
Richard J. Pulsifer.....	55	Chief Financial Officer, Treasurer and Assistant Secretary
Richard N. Stathes.....	66	Vice President, Sales & Marketing
Karen A. Long	37	Controller

* Independent Director, as determined by the Board of Directors in accordance with Nasdaq marketplace rules.

(1) Member of Executive Compensation Committee.

(2) Member of Governance and Nominating Committee.

(3) Member of Audit Committee.

Directors, Executive Officers and Other Key Personnel

William J. Shea, Executive Chairman, Board of Directors. Mr. Shea was elected to the Board in 2001and served as our Acting Chief Financial Officer from February 1, 2010 through March 15, 2011. He has more than 35 years of experience in the financial services industry. Mr. Shea co-founded DLB Capital in October of 2006, a private equity firm, which he left in October of 2007. From 2005 to 2006, he served as Chairman of Royal & Sun Alliance, USA, and oversaw its divestiture from RSA, an insurance company headquartered in the United Kingdom which trades on the London Stock Exchange. From 2001 to 2004, he was Chief Executive Officer of Conseco, Inc. a public financial services firm which he guided through the bankruptcy and restructuring process, and which was subsequently relisted on the New York Stock Exchange. From 1997 to 2001, he oversaw the turnaround of Centennial Technologies, Inc., a public manufacturing company. Mr. Shea formerly served as vice chair and chief financial officer of BankBoston, a public financial services company, from 1993 to 1998, and he was the Vice Chairman of Coopers & Lybrand, a national public accounting firm which has since merged with another entity (Price Waterhouse Coopers, "PwC"), from 1990 to 1992. Overall, he spent 19 years with Coopers & Lybrand from 1974 to1992. Mr. Shea is currently on the boards of Nasdaq OMX BX, Inc., a securities exchange, AIG SunAmerica, a financial services company, Boston Private Financial Holdings, a public financial services holding company, and he serves on the Board of Demoulas Super Markets. Mr. Shea currently serves on the board as well as the audit committee for World Gold Trust Services, LLC, the sponsor of the SPDR Gold Trust, GLD. Mr. Shea also previously served on the boards of the Boston Children's Hospital and Northeastern University. Mr. Shea's significant experience in leadership roles with companies in the financial services industry and his extensive contacts in that industry make him well qualified to serve on our Board. In addition, Mr. Shea brings to our Board useful expertise and knowledge from his past and present service in leadership positions with publicly-held companies.

L. Michael Hone, Director and Chief Executive Officer. Mr. Hone was elected to the Board in 2002. He joined Lucid as Executive Vice President in 2011 and was charged with corporate strategic planning to support the adoption of Lucid's technology into private dermatology and dermatopathology practices. Effective December 7, 2011, he became our Chief Executive Officer. From June 2008 through August 2010, Mr. Hone served as President, Chief Executive Officer and as a director of American Aerogel. From 2006 through 2008, he was a consultant for Tempus Partners, a business consulting firm of which he was the sole owner. From 2001 to 2005, Mr. Hone served as President and Chief Operating Officer of Conseco, Inc. during which time he helped guide this financial services firm through the bankruptcy and restructuring process, resulting in its relisting on the New York Stock Exchange. He also served as President and CEO of Centennial Technologies, a manufacturer of digital memory that has since been acquired by another entity, and President, Chief Executive Officer, and Chairman of PSC, Inc., an Auto ID manufacturer of barcode equipment; both were public companies traded on Nasdaq. Mr. Hone is a named inventor or co-inventor on seven patents. Mr. Hone also serves as Chairman of the Board of Trustees at the Killington Mountain School, Killington, Vermont. Mr. Hone's qualifications to serve on our Board include his significant leadership experience with both private and publicly-held companies, his sales and marketing skills, and his technical background.

Brian Carty, Director. Mr. Carty was elected to the Board in 2008, and has served as the Chief Marketing Officer of Caritas Christi Health Care since 2008. From 2006 to 2008, he headed his marketing consulting firm, MLM Ventures. Mr. Carty has been President of three advertising agencies, including Wheelhouse in Boston and Hill Holiday in New York, positions that spanned the period from 1995 to 2006. During this period, he oversaw all global merger and post-merger marketing and communications activities for the combination of Price Waterhouse and Coopers & Lybrand which formed the world's largest professional services firm. Prior to that Mr. Carty served as partner and Chief of Staff to the Chairman of Coopers & Lybrand, and also served as head of world-wide marketing for the firm. We believe that Mr. Carty's substantial marketing experience enables him to make valuable contributions to our Board, particularly at this stage as we focus on expanding and developing the markets for our products.

Kevin Cronin, Director. Mr. Cronin was elected to the Board in February 2013. Mr. Cronin is a Principal and Senior Advisor at 510 Capital Management, an investment management company. From 2009 through 2011, he was a Principal at Ocean Gate Capital Management, an investment management company. From 1997 through 2008, Mr. Cronin served in a number of positions including Senior Vice President, Managing Director, Chief Investment Officer, and Senior Managing Director for Putnam Investments, an investment and financial services company. Mr. Cronin has a BA from Wesleyan University and an MA from Boston College. We believe that Mr. Cronin's years of experience in the financial services industry enable him to be a valuable contributor to our Board.

Ruben King-Shaw, Jr., Director. Mr. King-Shaw was elected to the Board in December 2010. Since 2004, he has served as the chief executive officer of Mansa Equity Partners, Inc., a private equity and investment advisory firm specializing in supporting the growth of healthcare companies. He recently served on the Obama administration's Medicare's Program Advisory and Oversight Commission, and he has been a member of the Executive Committee of the Board of Steward Health, LLC since November 2010, and the Lead Director of athenahealth, Inc., a public health services company, from 2004 to 2013. From 2001 to 2003, Mr. King-Shaw served as Chief Operating Officer and Deputy Administrator of the Centers for Medicare and Medicaid Service and prior to public service, had 20 years of operating and executive experience in various health care service organizations. Mr. King-Shaw's knowledge and experience in the healthcare field, specifically in navigating the reimbursement system, make him a significant asset to our Board.

Rocco Maggiotto, Director. Mr. Maggiotto was elected to the Board in February 2011. In December 2010, he retired as Executive Vice President and Global Head of Customer and Distribution Management for Zurich Financial's General Insurance Business, a position he held since 2006. Prior to joining Zurich, Mr. Maggiotto was a Senior Executive Advisor at Booz Allen Hamilton, Chairman of Client Development for the Parent Company of Marsh & McLennan Companies, Inc., a Senior Partner for PricewaterhouseCoopers and Vice Chairman for the former Coopers & Lybrand, a Managing Partner of their New York region, and Chairman of their worldwide financial services industry practice. He is on the Boards of the Ronald McDonald House of New York, The Weston Playhouse Theatre Company, Canisius College, and the Green Mountain Academy of Lifelong Learning. Mr. Maggiotto currently serves on the board as well as the audit committee for World Gold Trust Services, LLC, the sponsor of the SPDR Gold Trust, GLD. We believe that Mr. Maggiotto's years of experience in the financial services industry, including his experience in leading audit and consulting businesses serving publicly-traded companies, enable him to be a valuable contributor to our Board.

Paul S. Stuka, Director. Mr. Stuka was elected to the Board in June 2013. He has served as Managing Member of Osiris Partners, LLC, an investment adviser ("Osiris"), and is a 30 year investment industry veteran. Prior to founding Osiris in 2000, he served as a Managing Director of Longwood Partners LP, managing small cap institutional accounts. From 1995 until 1997, Mr. Stuka served as a Senior Vice President and portfolio manager of the Market Neutral Growth Fund and Mid Cap Growth Funds at State Street Research & Management Company. From 1986 to 1994, he served as General Partner of Stuka Associates, an investment

management firm. Mr. Stuka began his career in 1980 as an Analyst at Fidelity Management & Research Company, where he was an analyst for various industries including healthcare, energy, and transportation, and was an assistant portfolio manager on three mutual funds. In 1984, he became the original manager of the Fidelity OTC Fund. Since August 2011, Mr. Stuka has been an Independent & Non-Executive Director of InspireMD, Inc., also serving on their Nominating, Compensation and Audit Committees.

Jay M. Eastman, Ph.D., Founder, Director Emeritus and Chief Scientist. Dr. Eastman has been with Lucid since its founding in 1991. From the Company's founding through December 7, 2011, when Mr. Eastman became Chief Science Officer, he served as our Chief Executive Officer. Since 1993, Dr. Eastman has served on the board of Arotech Corp., a public company which manufactures defense and security products. Dr. Eastman has been a member of the board of Chapman Instruments, Inc., a manufacturer of precision surface metrology instruments, since 2009. From 1986 to 1997, Dr. Eastman was an executive vice president and senior vice president of strategic planning for PSC, Inc., a public barcode laser scanner manufacturer. Dr. Eastman served on PSC's board of directors from April 1996 through November 2002, during which time the company filed for bankruptcy protection. He holds, as inventor or co-inventor, 44 patents. Dr. Eastman has been a fellow of the Optical Society of America, or OSA, and the Society of Photo-Optical Instrumentation Engineers, or SPIE, as well as an honorary member of the Rochester Engineering Society. As our Chief Science Officer, Dr. Eastman is specially qualified to serve on the Board because of his detailed knowledge of our products, business strategy and operations. Our Board also benefits from Dr. Eastman's past and present experience serving on other boards of directors and his prior leadership position with a publicly-held company.

William J. Fox, Vice President of Technology Operations and Chief Technology Officer. Mr. Fox is responsible for Lucid's engineering and manufacturing operations. He joined our Company in 1999, serving as engineering manager until his promotion to his current position in 2005. Prior to joining our Company in 1999, Mr. Fox previously held product engineering positions at Mitsui-Pathtek, Burron Medical, and Fisher Price. He currently manages teams that specialize in technologies such as video-rate confocal scanning laser microscopy and design/development of optics and electronic instrumentation. He holds inventor or coinventor patents in confocal imaging head design and optical examination of tissue, plus instrumentation design and methodology.

Richard J. Pulsifer, Chief Financial Officer. Mr. Pulsifer became chief financial officer in July 2012 after joining the company in June 2012. Previously he was chief financial officer of American Aerogel Corporation, a manufacturer of materials used in temperature-sensitive shipping for pharmaceutical and biotech customers, from December 2009 to June 2012. From 2007 to 2009, Mr. Pulsifer was chief financial officer at HighRes Biosolutions, Inc, a manufacturer of robotic systems and laboratory devices used by pharmaceutical, biotech and academic research laboratories. He was chief financial officer at BioSense Corporation a start-up manufacturer of medical device equipment. Mr. Pulsifer served as vice president at Conseco, Inc. a large NYSE insurance company during its restructuring process. Mr. Pulsifer also served as chief financial officer of Centennial Technologies, Inc. a publicly held manufacturer of digital memory and Praxis International a manufacturer of data replication software through their acquisitions. Mr. Pulsifer started his career as an auditor and worked for Coopers & Lybrand.

Richard N. Stathes, Vice President, Sales & Marketing. Mr. Stathes is a seasoned sales executive with a proven track record of success throughout his sales career. He has extensive experience in developing distribution channels and has demonstrated his versatility through achieving success in large and relatively small companies with high growth potential. Prior to Caliber I.D. Mr. Stathes was VP of Sales & Marketing for American Aerogel Corp. in Rochester N.Y., EVP of Sales & Customer Service for Conseco Insurance, Indianapolis, IN; EVP of Worldwide Sales & Marketing for Centennial Technologies, Wilmington MA; VP of Sales & Marketing for PSC Inc., Rochester, NY, Director of Sales Program Development, Computer Products Inc., Pompano Beach, FL and held several field sales and marketing management positions during his 10 year tenure with the Hewlett Packard Company. Mr. Stathes is a veteran of the USAF and a graduate of the USAF School of Avionics. He also has BS degree in business from Utica College of Syracuse University.

Karen A. Long, Controller. Ms. Long joined Lucid as Controller in June 2010, and primarily is responsible for all accounting functions, including ensuring compliance with financial and future SEC reporting requirements. Prior to joining Lucid, Ms. Long served as the Accounting Manager for Harbinger Group, Inc. (formerly Zapata Corporation) a publicly traded financial holding company, a position she held since 2000. Prior to Harbinger Group, she served as a senior accountant at Arthur Andersen LLP. Ms. Long is a Certified Public Accountant. Ms. Long is a member of the Finance Committee of a local nonprofit organization and the American Institute of Certified Public Accountants.

Board of Directors' Role in Risk Oversight

Our Board of Directors, or the Board, is responsible for consideration and oversight of risks facing the Company, and is responsible for ensuring that material risks are identified and managed appropriately. The Audit Committee is charged with the

evaluation of risk assessment and the Company's risk management policies. In fulfilling this role, the Audit Committee receives reports directly from the Company's management. In addition, the Audit Committee reviews and approves the internal audit plan once a year and receives periodic reports from members of senior management and an internal audit on areas of material risk to the Company, including operational, financial, legal, regulatory and strategic risks.

Our other Board committees also have responsibility for the oversight of risk management. For example, the Executive Compensation Committee considers the risks associated with our compensation policies and practices. Further, the Governance and Nominating Committee oversees risks associated with our governance structure and processes and annually reviews our organizational documents and other policies. The committees primarily keep the Board informed of their risk oversight and related activities through reports of the committee chairmen to the full Board. The Board also considers specific risk topics in connection with strategic planning and other matters.

Board of Directors Composition

Our Board of Directors currently consists of seven members. At each annual meeting of stockholders, directors are elected to hold office until the next annual meeting. Directors are elected by a plurality of votes cast by stockholders.

Board Committees

Our Board of Directors has established three standing committees: the Audit Committee, the Governance and Nominating Committee, and the Executive Compensation Committee. The members of each committee have been nominated by the Chairman of the Board of Directors and approved by the full Board. The names of the members of each committee, together with a brief description of each committee's function, are set forth below.

Audit Committee. The members of our audit committee are Rocco Maggiotto (Chair), Brian Carty, Ruben King-Shaw and Paul Stuka. The audit committee's primary duties and responsibilities are to:

- oversee our accounting and financial reporting processes and the audit of our financial statements and to monitor the integrity our financial statements;
- monitor the independence and qualifications of our independent auditor;
- monitor the performance of our independent auditor; and
- provide an avenue of communication among our independent auditor, management and the Board of Directors.

The Board of Directors has determined that Rocco Maggioto, Brian Carty, Ruben King-Shaw and Paul Stuka each qualify as an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K. Each is currently an "independent director" as defined in the marketplace rules of the Nasdaq Stock Market, as well as applicable rules promulgated by the SEC related to the independence of audit committee members. The Board of Directors has adopted an Audit Committee Charter, which is available in the "Corporate Governance" section of the "Investor Relations" page included in our website at www.caliberid.com.

Executive Compensation Committee. The members of our Executive Compensation Committee are Brian Carty (Chair), Rocco Maggiotto, Ruben King-Shaw and Kevin Cronin. The primary function of the Executive Compensation Committee is to assist our Board of Directors in fulfilling its responsibilities in connection with the compensation of our directors, officers and employees. It performs this function by:

- establishing and overseeing compensation programs, including both long term and short term incentive compensation plans for our employees;
- recommending to the Board the compensation of directors who are not officers;
- administering our equity award plans, both those in existence at the time of adoption of the Charter and those created thereafter, including the granting of equity awards thereunder;
- approving any disclosures related to compensation included in our proxy statement; and

- performing such general oversight and investigation functions related to Company compensation inherent to the responsibilities designated herein or set forth in future resolutions of the Board.

The authority of the Executive Compensation Committee with respect to any future equity incentive plan may be limited by the provisions of such plans as adopted by the Board and/or approved by our stockholders. The committee may form and delegate authority to subcommittees when appropriate. The Board of Directors has determined that each of the members of the Executive Compensation Committee is an "independent director" as defined in the marketplace rules of the Nasdaq Stock Market. The Board of Directors has adopted an Executive Compensation Committee Charter, which is available in the "Corporate Governance" section of the "Investor Relations" page included in our website at www.caliberid.com.

Governance and Nominating Committee. The members of our governance and nominating committee are Ruben King-Shaw (chair), Brian Carty and Rocco Maggioto. The committee is appointed by the Board of Directors to oversee, review and make periodic recommendations concerning our corporate governance policies, and shall recommend candidates for election to our Board of Directors. To this end, the committee is responsible for:

- identifying and reviewing candidates for the Board and approving director nominations to be presented for stockholder approval at the annual meeting and to fill any vacancies. The committee will from time to time review the process for identifying and evaluating candidates for election to the Board. The committee may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees.

- reviewing from time to time the appropriate skills and characteristics required of Board members;

- periodically reviewing our corporate governance policies and recommending to the Board modifications to the policies as appropriate;

- having full access to our executives as necessary to carry out its responsibilities;

- performing any other activities consistent with its charter, our Bylaws and governing law as the committee or the Board deems necessary or appropriate;

- reviewing the committee charter from time to time for adequacy and recommending any changes to the Board; and

- reporting to the Board on the major items addressed at each committee meeting.

The Board of Directors has determined that each of the members of the committee is an "independent director" as defined in the marketplace rules of the Nasdaq Stock Market. The Board of Directors has adopted a Governance and Nominating Committee Charter, which is available in the "Corporate Governance" section of the "Investor Relations" page included in our website at www.caliberid.com.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees, which is available in the "Corporate Governance" section of the "Investor Relations" page included in our website at www.caliberid.com. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website, as well as via any other means then required by applicable laws and rules.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.
To our knowledge, based solely on a review of the copies of such reports furnished to us, during the fiscal year ended December 31, 2012, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with.

Election of Directors

The number of directors is determined from time to time by resolution of a majority of the entire board of directors then in office. At each annual meeting of shareholders, directors are elected to hold office until the next annual meeting. Directors are elected by a plurality of votes cast by shareholders.

COMPENSATION

Overview and Objectives

Our compensation programs for our executives have historically consisted primarily of a combination of a competitive base salary combined with long-term equity incentive awards. Our Executive Compensation Committee has retained a compensation consultant to assist it in evaluating our future executive compensation programs.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)[1]	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation	Total ($)
L. Michael Hone[2].....	2012	346,923	—	—	—	—	—	—	346,923
Chief Executive Officer	2011	200,000	—	—	—	—	—	—	200,000
Richard J. Pulsifer[3]	2012	100,000	—	—	—	—	—	—	100,000
Chief Financial Officer	2011	—	—	—	—	—	—	—	—
William J. Fox.....	2012	127,115	7,500	—	—	—	—	—	134,615
Chief Technology Officer	2011	125,000	—	—	—	—	—	—	125,000

(1) The amounts represent the aggregate grant date fair value of stock options granted. The valuation of stock options is based on the assumptions and methodology set forth in Note 13 to our audited financial statements included in this Report.

(2) Mr. Hone joined the Company as its Executive Vice President in November 2010 and was appointed Chief Executive Officer on December 7, 2012.

(3) The Company appointed Mr. Pulsifer as Chief Financial Officer on July 9, 2012.

Outstanding Equity Awards

The following table provides information regarding the current holdings of equity awards by our directors and named executive officers on September 30, 2013.

	Option Awards					Stock Awards			
Name and Principal Position	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
L. Michael Hone	—	900,000	—	1.00	9/13/2023	—	—	—	—
Chief Executive Officer									
Richard J. Pulsifer	—	270,000	—	1.00	9/13/2023	—	—	—	—
Chief Financial Officer									
Richard Stathes	20,000	—	—	2.00	9/30/2022	—	—	—	—
VP, Sales and Marketing	—	250,000	—	1.00	9/13/2023	—	—	—	—
William J. Fox[(1)]	10,000	—	—	4.00	10/31/2016	—	—	—	—
Chief Technology Officer	17,500	—	—	4.30	9/11/2017	—	—	—	—
	21,400	—	—	4.00	10/31/2016	—	—	—	—
	—	150,000	—	1.00	9/13/2023	—	—	—	—
William J. Shea	—	500,000	—	1.00	9/13/2023	—	—	—	—
Chairman of the Board									
Brian Carty	—	100,000	—	1.00	9/13/2023	—	—	—	—
Director									
Ruben King-Shaw	—	100,000	—	1.00	9/13/2023	—	—	—	—
Director									
Rocco Maggiotto	—	150,000	—	1.00	9/13/2023	—	—	—	—
Director									
Kevin Cronin	—	100,000	—	1.00	9/13/2023	—	—	—	—
Director									
Paul Stuka	—	100,000	—	1.00	9/13/2023	—	—	—	—
Director									

(1) Includes 71,400 shares underlying stock options (21,400 exercisable and 50,000 unexercisable) held by Mr. Fox's spouse who is an employee of the Company. Mr. Fox disclaims beneficial ownership of these shares and stock options.

Option Exercises and Stock Vested

No stock options were exercised by our named executive officers during the period from January 1, 2013 through September 30, 2013. The following table provides information regarding the stock option exercised by our named executive officers during the year ended December 31, 2012.

	Option Awards		Stock Awards	
Name and Principal Position	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
William J. Fox[(1)]	42,600	72,420	—	—
Chief Technology Officer				

(1) Includes 16,100 shares exercised with a realized value of $27,370 held by Mr. Fox's spouse who is an employee of the Company. Mr. Fox disclaims beneficial ownership of these shares.

Employment Agreements

The following descriptions of the Company's Employment Agreements do not purport to be complete and are qualified in their entirety by reference to the full text of the Employment Agreements, which are listed as exhibits to this Report. We do not believe that our compensation policies and practices, for either our executive officers or our non-executive employees, are reasonably likely to give rise to risks that would have a material adverse effect on us.

Mr. Hone. Mr. Hone's Employment Agreement has a three-year initial term commencing as of December 7, 2011, which will renew automatically for an additional one-year period unless either party intends not to renew. Mr. Hone serves as the Chief Executive Officer of the Company and receives an initial annual base salary of $350,000, which will be redetermined annually by the Executive Compensation Committee of the Board of Directors. Mr. Hone is entitled to receive cash incentive compensation as determined by the Executive Compensation Committee and to participate in or receive benefits under all of the Company's employee benefit plans.

In the event of termination of employment for any reason, Mr. Hone would be entitled to the following severance benefits: (i) any base salary earned through the date of termination, unpaid expense reimbursements and unused vacation; and (ii) any vested benefits Mr. Hone may have under any employee benefit plan of the Company through the date of termination.

In the event of termination of employment by the Company without cause or by Mr. Hone for good reason, Mr. Hone would be entitled to the following severance benefits: (i) any vested benefits Mr. Hone may have under any employee benefit plan of the Company through the date of termination; (ii) 2 times the sum of Mr. Hone's base salary and his average incentive compensation; and (iii) a monthly cash payment for 36 months equal to the amount of monthly employer contribution of the Company for health insurance, if applicable.

During the term of the Employment Agreement, if within 18 months after a change in control, Mr. Hone's employment is terminated by the Company without cause or by Mr. Hone for good reason, Mr. Hone would be entitled to the following severance benefits: (i) a lump sum in cash in an amount equal to 2 ½ times the sum of (A) Mr. Hone's base salary plus (B) his average incentive compensation; (ii) acceleration of vesting of all stock options and other stock-based awards; and (iii) a monthly cash payment for 36 months equal to the amount of monthly employer contribution of the Company for health insurance, if applicable.
Pursuant to the Employment Agreement, Mr. Hone is subject to non-compete and non-solicitation obligations both during, and after, his employment with the Company.

Mr. Pulsifer. Mr. Pulsifer's Employment Agreement has a three-year initial term commencing as of July 9, 2012, which will renew automatically for an additional one-year period unless either party intends not to renew. Mr. Pulsifer serves as the Chief Financial Officer of the Company and receives an initial annual base salary of $200,000, which will be redetermined annually by the Executive Compensation Committee. Mr. Pulsifer is entitled to receive cash incentive compensation as determined by the Executive Compensation Committee and to participate in or receive benefits under all of the Company's employee benefit plans.

In the event of termination of employment for any reason, Mr. Pulsifer would be entitled to the following severance benefits: (i) any base salary earned through the date of termination, unpaid expense reimbursements and unused vacation; and (ii) any vested benefits Mr. Pulsifer may have under any employee benefit plan of the Company through the date of termination.

In the event of termination of employment by the Company without cause or by Mr. Pulsifer for good reason, Mr. Pulsifer would be entitled to the following severance benefits: (i) any vested benefits Mr. Pulsifer may have under any employee benefit plan of the Company through the date of termination; (ii) the applicable severance rate (i.e., from 0 to 1.5) multiplied by the sum of Mr. Pulsifer's base salary and his average incentive compensation; and (iii) a monthly cash payment for 18 months equal to the amount of monthly employer contribution of the Company for health insurance, if applicable.

During the term of the Employment Agreement, if within 18 months after a change in control, Mr. Pulsifer's employment is terminated by the Company without cause or by Mr. Pulsifer for good reason, Mr. Pulsifer would be entitled to the following severance benefits: (i) a lump sum in cash in an amount equal to 2 times the sum of (A) Mr. Pulsifer's base salary plus (B) his average incentive compensation; (ii) acceleration of vesting of all stock options and other stock-based awards; and (iii) a monthly cash payment for 18 months equal to the amount of monthly employer contribution of the Company for health insurance, if applicable.
Pursuant to the Employment Agreement, Mr. Pulsifer is subject to non-compete and non-solicitation obligations both during, and after, his employment with the Company.

Mr. Fox. Mr. Fox's employment agreement expires on January 1, 2016, and is automatically renewable in one-year increments thereafter. Mr. Fox serves as the Chief Technology Officer of the Company and receives an annual base salary of $130,000. Mr. Fox is entitled to receive cash incentive compensation as determined by the Executive Compensation Committee and to participate in or receive benefits under all of the Company's employee benefit plans. Pursuant to the terms of the agreement, Mr. Fox agreed not to compete with us, nor solicit our customers or employees, for a period of one year following the termination of his employment. In addition to base salary, Mr. Fox is also eligible to receive equity grants under our 2010 Long-Term Equity Incentive Plan, which plan is administered by the Executive Compensation Committee of our Board of Directors. The Committee may approve grants under the 2010 Long-Term Equity Incentive Plan from time to time.

In the event the employment agreement is terminated (i) by us without "just cause," or (ii) by the executive with "good reason," each as defined in the employment agreement, then Mr. Fox is entitled to an immediate cash payment equal to two times his base salary plus bonus for the applicable year or, in the case of the bonus, for the immediately prior year, and all restrictions remaining on any shares of restricted stock will lapse and any options earned under the 2010 Long-Term Equity Incentive Plan will fully vest. In the event the agreement is terminated following a change-in-control, then the executive is entitled to an immediate cash payment equal to two and one half times his or her base salary plus bonus for the applicable year or, in the case of the bonus, for the immediately prior year, and all restrictions remaining on any shares of restricted stock will lapse and any options earned under the 2010 Long-Term Equity Incentive Plan will fully vest.

Director Compensation

In September 2013 we issued common stock option grants to members of the Board of Directors. We granted 500,000 common stock options to Mr. Shea, 150,000 common stock options to Mr. Maggiotto and 100,000 stock common stock options to each of Mr. Carty, Mr. King-Shaw, Mr. Cronin and Mr. Stuka. These options have a ten year life and one-third of the options vest on each anniversary of the grant date.

Prior to 2013 we made one-time grants of restricted stock to certain directors in connection with their election to the Board of Directors. In February 2011, we granted to each of Ms. Catarisano and Mr. Maggiotto 6,000 shares of restricted stock. Each of these restricted stock awards cliff vests on the third anniversary of the grant date; however, Ms. Catarisano's shares were forfeited in connection with her resignation from our Board of Directors in February 2012.

Non-Employee Director Compensation Table for Year Ended December 31, 2012

The following table provides information for 2012 regarding all compensation awarded to, earned by or paid to each person who served as a director for some portion or all of 2012. Other than as set forth in the table, to date we have not paid any fees to or, except for reasonable expenses for attending Board and committee meetings, reimbursed any expenses of our directors, made any equity or non-equity awards to directors, or paid any other compensation to directors.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
William J. Shea	—	—	—	—	—	—	—
Brian Carty	—	—	—	—	—	—	—
Ruben King-Shaw, Jr.	—	—	—	—	—	—	—
Rocco Maggiotto	—	—	—	—	—	—	—
Nancy Catarisano[3]	—	—	—	—	—	—	—
Matthew S. Cox[3]	—	—	—	—	—	—	—
David A. Lovenheim[3]	—	—	—	—	—	—	—
Ramey W. Tomson[3]	—	—	—	—	—	—	—

(1) The following awards of restricted stock were outstanding, but not vested, as of December 31, 2012: Mr. Shea—62,500; Mr. Carty—37,500; Mr. King-Shaw—12,500; and Mr. Maggiotto – 6,000. The restricted stock held by Mr. Cox and Ms. Catarisano was forfeited in connection with their resignation from our Board in February 2012.

(3) In February 2012, Ms. Catarisano, Mr. Cox, Ms. Tomson and Mr. Lovenheim resigned from our Board as part of a restructuring of the Board.

RELATED PARTY TRANSACTIONS

Our Board of Directors has adopted a written policy regarding the review and approval of transactions between our Company and related parties, which includes our senior officers, directors, holders of 5% or more of our capital stock, or any entity owned or controlled by any such person or in which any such person has a substantial ownership interest (our "Affiliates"). For purposes of this policy, any proposed transaction between our Company and any related party, other than transactions available to all of our employees generally or involving less than $10,000 when aggregated with all similar transactions, must be submitted to the Audit Committee of our Board of Directors for prior review and approval.

Certain Affiliates, namely: Mr. Eastman, our Founder, Director Emeritus and Chief Scientist and Mr. Maggiotto, a member of our Board of Directors, hold warrants on the same terms as those issued to investors in our 2010/2011 Convertible Debt Offering which became exercisable upon the completion of the IPO at an exercise price of $8.22 per share; further, pursuant to an agreement that was made with all warrant holders in that offering, we have agreed to register the shares of our common stock that will be issued upon exercise of such warrants.

We issued convertible notes and warrants, under our July 2011 Convertible Debt Offering, to Northeast LCD Capital, LLC, an affiliate, and to Mr. Shea and his spouse. The principal (plus accrued interest) of those convertible notes automatically converted into shares of our common stock at a 30% discount to the price paid by investors in the IPO. In addition, the associated warrants have an exercise price of $9.22 per share, and became exercisable upon the completion of the IPO; further, pursuant to an agreement that was made with all warrant holders in the July 2011 Convertible Debt offering, we have agreed to register the shares of our common stock that will be issued upon exercise of such warrants.

In July 2010, we entered into a revolving line of credit facility with an institutional lender (the "2010 Credit Facility"), which has since been replaced by the 2011 Credit Facility with a different lender. Our obligations under the 2010 Credit Facility were secured by, among other things, (i) a cash collateral pledge of $2.0 million by Northeast LCD Capital, LLC, which holds greater than 10% of our common stock, and (ii) the personal guarantees of Messrs. Eastman and Shea. In consideration for the pledge from Northeast LCD Capital, we agreed to pay this entity $100,000 in fees per quarter, which fees converted into shares of our common stock at a 30% discount to the price paid by investors in the IPO.

In July 2011, we received a term loan in the amount of $3.0 million with an institutional lender (the "2011 Credit Facility"). We used a portion of these loan proceeds to repay all of our outstanding obligations under the 2010 Credit Facility, and the $2.0 million cash collateral pledge was returned to Northeast LCD Capital. Following this payoff, Northeast LCD Capital pledged $500,000 to support our obligations under the 2011 Credit Facility, and Messrs. Eastman and Shea again provided personal guarantees. In consideration for its pledge of cash collateral, Northeast LCD Capital, LLC is entitled to fees at an annual rate of 10%. Messrs. Eastman and Shea, each of whom is a holder of our debt securities, executed subordination agreements in favor of Square 1 Bank in connection with our 2011 Credit Facility.

At December 31, 2011, $40,000 was outstanding under a promissory note with the Company's Founder, Director Emeritus and Chief Scientist which bore interest at 6% which matured and was paid in January 2012.

In May 2012, the Company entered into a Loan and Security Agreement (the "2012 Interim Loan"), under which the Company borrowed approximately $2.3 million from an affiliate of the Company. See Note 8 – 2011 Credit Facility for additional information.

In July 2012, the Company borrowed $7.0 million from the same affiliate pursuant to a Loan and Security Agreement (the "2012 Term Loan"). The 2012 Term Loan refinanced the 2012 Interim Loan and matures in July 2017. In connection with the repayment of the 2012 Interim Loan, the Company wrote off the remaining balance of the loan acquisition costs, resulting in the recognition of a loss on extinguishment of approximately $56,000 in the third quarter of 2012. The Company may prepay the 2012 Term Loan at any time, subject to certain notice requirements. The 2012 Term Loan bears interest at a rate of 7% per annum, payable quarterly commencing in July 2014. The 2012 Term Loan is secured by all of the Company's assets. In connection with the closing of the 2012 Term Loan, the Company issued 167,164 shares of the Company's common stock to the affiliate.

In December 2012, the Company's Executive Chairman and his spouse purchased 214,286 shares of common stock in a private transaction with the Company at a price of $1.40 per share.

In May 2013, the Company borrowed an additional $5.0 million from the same affiliate of the Company under a Subsequent Term Note (the "2013 Term Loan"). The 2013 Term Loan matures in November 2014 and may be prepaid at any time. The 2013 Term Loan bears interest at a rate of 7% per annum, payable upon maturity and is secured by all of the Company's assets. The Company

had recorded accrued interest of approximately $39,000 at June 30, 2013 in connection with the 2013 Term Loan. The 2013 Term Loan includes cross default provisions with the existing 2012 Term Loan. Contingent on raising $6.0 million in this offering, the outstanding principal and interest on $5.0 million of the Company's debt will be converted into common stock on the same terms as the shares sold to other investors in this offering. In addition, the maturity date of $7.0 million of the Company's debt will be extended to July 3, 2020, with interest of 7% payable only on maturity. In exchange for this recapitalization, upon closing, the Company will issue to the holder warrants to purchase 150,000 shares of the Company's common stock at an exercise price equal to the higher of $1.00 per share or the price paid by the other investors in this offering.

As a result of anti-dilution provisions in certain of our preexisting warrant agreements, upon the closing of this offering, Rocco Maggiotto and Northeast LCD Capital, LLC will have rights to an additional approximately 300 and 1,000 warrants to purchase shares of common stock, respectively. In addition, their warrants will be entitled to a decrease in the warrant exercise price based on the price of the shares sold in this offering.

Director Independence

Our Board of Directors consults with our counsel to ensure that the Board's determinations of director independence are consistent with all relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in applicable marketplace rules of the Nasdaq Stock Market, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions and relationships between each director, or any of his or her family members, and us, our senior management and our independent registered public accounting firm, our Board of Directors has affirmatively determined that all of our directors are independent directors within the meaning of the applicable marketplace rules of the Nasdaq Stock Market, except for L. Michael Hone, our Chief Executive Officer and William J. Shea, our Executive Chairman of the Board. In making its independence determinations, the Board reviewed transactions and relationships between the director, or any member of his or her immediate family, us or one of our subsidiaries or affiliates, and our independent registered public accounting firm based on information provided by the director, our records and publicly available information. Specifically, the Board considered the following types of relationships and transactions: (i) principal employment of and other public company directorships held by each non-employee director; (ii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our subsidiaries or affiliates and any entity for which the non-employee director, or his or her immediate family member, is an executive officer or greater-than-10% stockholder; and (iii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our subsidiaries or affiliates and any other public company for which the non-employee director serves as a director.

Our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. All of the committees of our Board of Directors are comprised entirely of directors determined by the Board to be independent within the meaning of applicable marketplace rules of the Nasdaq Stock Market.

PRINCIPAL STOCKHOLDERS

The following table presents information as to the beneficial ownership of our common stock as of September 30, 2013:

- each stockholder known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors and named executive officers; and
- all executive officers and directors as a group.

The percentage of shares beneficially owned is based on 8,507,374 shares of common stock outstanding as of September 30, 2013. Beneficial ownership is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Unless indicated below, the persons and entities named below have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Unless otherwise indicated, the address for each listed stockholder is c/o Lucid, Inc., 95 Methodist Hill Drive, Suite 500, Rochester, NY 14623.

Name of Beneficial Owner	Number of Common Shares	Percentage Ownership[1]
Named Executive Officers and Directors:		
L. Michael Hone[2]	104,744	1.2%
William J. Shea[3]	365,087	4.3%
Brian Carty[4]	37,500	*
Kevin Cronin	107,259	1.3%
William J. Fox[5]	125,133	1.5%
Ruben J. King-Shaw, Jr.[6]	12,500	*
Rocco Maggiotto[7]	28,690	*
Richard Stathes[8]	20,000	*
Paul Stuka[9]	405,442	4.8%
All Directors and Executive Officers as a Group (9 persons)	1,206,355	14.1%
5% Stockholders:		
Northeast LCD Capital[10]	2,234,035	24.0%
Mavig GmbH[11]	952,380	10.6%
H.C. Wainwright & Co., LLC[12]	708,333	7.7%
NYSTAR[13]	596,989	6.9%
Verition Multi Strategy Master Fund LTD[14]	494,783	5.8%

* Represents beneficial ownership of less than one percent.

(1) Percentages have been computed based upon 8,507,374 shares of common stock outstanding at September 30, 2013, plus, for each person (except where indicated otherwise) and the group, shares that such person or the group has the right to acquire pursuant to restricted common stock and common stock warrants or options, each to the extent exercisable at their option within 60 days after September 30, 2013.

(2) Includes 37,500 shares of restricted stock.

(3) Includes 62,500 shares of restricted stock. Also includes 300,000 shares held in trust for a minor child. Mr. Shea disclaims beneficial ownership of the shares held in trust.

(4) Includes 37,500 shares of restricted stock.

(5) Includes 27,500 shares issuable upon exercise of stock options. Also includes 16,150 shares of common stock and 21,400 shares issuable upon exercise of stock options held by Mr. Fox's spouse who is an employee of the Company. Mr. Fox disclaims beneficial ownership of these shares and stock options.

(6) Includes 12,500 shares of restricted stock.

(7) Includes 6,000 shares of restricted stock. Also includes 4,167 shares of common stock issuable upon exercise of warrants and an estimated 200 additional shares issuable upon exercise of previously issued warrants as a result of anti-dilution adjustments triggered by the issuances of shares of common stock or warrants.

(8) Includes 20,000 shares issuable upon exercise of stock options.

(9) Includes 405,442 shares held by an investment fund for which Mr. Stuka serves as a managing member of the general partner. In such capacity, Mr. Stuka may be deemed to beneficially own the reported securities except to the extent of his pecuniary interest therein, and the inclusion of such securities in this report shall not be deemed an admission of beneficial ownership for purposes of the Section 16 or for any other purpose.

(10) Includes 786,900 shares of common stock issuable upon exercise of warrants. Excludes 150,000 shares of common stock issuable upon exercise of the warrant to be issued to Northeast LCD Capital in connection with the pending recapitalization described elsewhere in this offering memorandum and also excludes an estimated 1,000 additional shares issuable upon exercise of previously issued warrants as a result of anti-dilution adjustments triggered by the issuances of shares of common stock or warrants. The address of Northeast LCD Capital is c/o Wesley Crowell, Bergen & Parkinson, LLC, 62 Portland Rd, Kennebunk Maine 04043. Mr. Crowell is the Managing Director of Northeast LCD Capital and, as such, has sole voting and dispositive power over these shares.

(11) Includes 476,190 shares of common stock issuable upon exercise of warrants. The address of Mavig GmbH is c/o Christian Stoian, PO Box 82 03 62, 81803, Munich, Germany. Christian Stoian is the Chief Executive Officer of Mavig GmbH and, as such, has sole voting and dispositive power over these shares.

(12) Includes 708,333 shares of common stock issuable upon exercise of warrants. The address of H.C. Wainwright & Co., LLC is 430 Park Avenue, New York, New York 10022. Information based solely upon the last correspondence with this stockholder. Pursuant to the terms of the warrant, H.C. Wainwright & Co., LLC may not own more than a number of shares of the Company's common stock that, in the aggregate, would exceed 4.99% of the total number of shares of the Company's common stock then issued or outstanding.

(13) Includes 130,179 shares of common stock issuable upon exercise of warrants. The address of NYSTAR is c/o Clayton Besch, 30 S. Pearl Street, 11th Floor, Albany, NY 12207. Information based solely upon the last correspondence with this stockholder.

(14) Includes 91,667 shares of common stock issuable upon exercise of warrants. The address of Verition Multi Strategy Master Fund LTD is 1 American Lane, Greenwich, CT 05831. Information based solely upon the last correspondence with this stockholder.

Equity Compensation Plan Information

The following table sets forth information as of September 30, 2013 with respect to compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuances:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders[1]	1,641,500	$ 1.81	600,000
Equity compensation plans not approved by security holders[2]	1,770,500	1.05	259,721
Total	3,412,000	$ 1.40	859,721

(1) Includes the Lucid, Inc. Year 2000 Stock Option Plan, the Lucid, Inc. 2007 Long-Term Incentive Plan, and the Lucid, Inc. 2010 Long-Term Equity Incentive Plan. No further awards may be made under the Year 2000 Stock Option Plan or the 2007 Long-Term Incentive Plan.

(2) Includes the Lucid, Inc. 2012 Stock Option and Incentive Plan adopted by the Board of Directors in July 2012 and subject to stockholder approval at the next stockholder meeting.

DESCRIPTION OF CAPITAL STOCK

We have authorized capital of 70,000,000 shares, of which 60,000,000 shares are common stock, par value $0.01 per share, and 10,000,000 shares are preferred stock, par value $0.05 per share as of September 30, 2013. The shares of preferred stock are undesignated, and may be issued from time to time in series with such rights, preferences, and privileges and restrictions as may be designated by our board of directors. As of September 30, 2013, we had 8,507,374 shares of common stock outstanding and approximately 150 holders of record. Upon completion of the offering, assuming that all shares offered hereunder are sold, and that $5.0 million of long-term debt converts into common stock upon the closing of the offering, there will be ● shares of our common stock outstanding following the offering.

Common Stock

The holders of our common stock are entitled to one vote for each share standing in the holder's name on our transfer books, and holders vote together as a single class on all matters requiring the vote of the stockholders. Common stock holders have no preemptive, subscription or redemption rights. Subject to law and the provisions of our Certificate of Incorporation, our Board of Directors may declare dividends on our stock, payable upon such dates as the Board of Directors may designate. No dividend may be paid on common stock unless all declared but unpaid dividends, if any, on the Preferred Stock have been paid. Under Section 510 of the New York Business Corporation Law ("NYBCL"), the net assets of the corporation upon declaration or distribution of a dividend must remain at least equal to the amount of the corporation's stated capital.

The following tables set forth the range of high and low per share sales prices for our common stock, as reported by the OTCQB marketplace from the date on which our common stock began trading through the period ended September 30, 2013. These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and do not represent actual transactions:

Period	High ($)	Low ($)
Quarter ended December 31, 2011	--	--
Quarter ended March 31, 2012	--	--
Quarter ended June 30, 2012	$2.00	$0.51
Quarter ended September 30, 2012	$2.25	$0.45
Quarter ended December 31, 2012	$2.00	$0.25
Quarter ended March 31, 2013	$1.50	$1.00
Quarter ended June 30, 2013	$1.30	$0.25
Period from July 1, 2013 through September 30, 2013	$1.30	$0.70

Vacancies on the Board of Directors and Removal of Directors. Vacancies in our Board of Directors (including any resulting from an increase in the number of directors) created for any reason except the removal by the shareholders of a director or directors without cause, may be filled by vote of the Board of Directors. A director elected to fill a vacancy will hold office until the next annual meeting. Under Section 705 of the NYBCL, vacancies occurring on the board of directors by reason of the removal of directors without cause may be filled only by a vote of the stockholders unless the certificate of incorporation or bylaws provide otherwise. Section 706 of the NYBCL, subject to certain conditions, provides that any or all of the directors may be removed for cause by vote of the stockholders, and, if the certificate of incorporation or the specific provisions of a bylaw adopted by the stockholders so provides, directors may be removed by action of the board of directors.

Amendments to the Certificate of Incorporation. Under Section 803 of the NYBCL, subject to limited exceptions, amendments to the certificate of incorporation must be approved by vote of a majority of all outstanding shares entitled to vote on the proposed amendment, except that certificate of incorporation provisions requiring a greater or class vote may only be amended by such greater or class vote. In addition, Section 804 of the NYBCL provides that an amendment that negatively affects in certain ways holders of shares of a class or series requires authorization by a majority of the votes of all outstanding shares of the affected class or series

Amendments to Bylaws. The Company's bylaws provide that the bylaws may be amended, repealed or adopted by a majority of the votes of the shareholders. The bylaws may also be amended, repealed or adopted by the board of directors, but any bylaw adopted by the board of directors may be amended or repealed by the stockholders at any stockholder meeting.

Ability to Call Special Meeting of Stockholders. Special meetings of the Company's shareholders may be held at any time in the interval between annual meetings. Special meetings may be called by the President of the company, or by request of a majority of the Board of Directors.

Limitation of Personal Liability of Directors and Officers. The Company's certificate of incorporation provides that no officer or director shall be personally liable to the corporation or its shareholders for damages for any breach of duty in such capacity except where a judgment or other final adjudication adverse to said officer or director establishes: that the officer or director's acts or omissions were in bad faith or involved intentional misconduct or a knowing violation of law; that the officer or director personally gained a financial profit or other advantage to which he was not entitled.

Section 402 of the NYBCL permits corporations to eliminate or limit the personal liability of directors to the corporation or its stockholders for damages for any breach of duty in such capacity except liability of a director: (i) whose acts or omissions were in bad faith, involved intentional misconduct or a knowing violation of law; (ii) who personally gained a financial profit or other advantage to which he or she was not legally entitled; or (iii) whose acts violated certain provisions of New York law

Indemnification of Directors and Officers. The Company's bylaws provide that the Company shall indemnify (a) any person made or threated to be made a party to any action or preceeding by reason of the fact that he, his testator or intestate, is or was a director or officer of the corporation, and (b) any director or officer of the Corporation who served any other company in any capacity at the request of the Corporation, in the manner and to the maximum extent permitted by the NYBCL; and the corporation may, in the discretion of the Board of Directors, indemnify all other corporate personnel to the extent permitted by law.

Under Section 722 of the NYBCL, a corporation may indemnify its directors and officers made, or threatened to be made, a party

to any action or proceeding, except for stockholder derivative suits, if the director or officer acted in good faith, for a purpose that he or she reasonably believed to be in or, in the case of service to another corporation or enterprise, not opposed to the best interests of the corporation, and, in addition, in criminal proceedings had no reasonable cause to believe his or her conduct was unlawful. In the case of stockholder derivative suits, the corporation may indemnify a director or officer if he or she acted in good faith for a purpose that he or she reasonably believed to be in or, in the case of service to another corporation or enterprise, not opposed to the best interests of the corporation, except that no indemnification may be made in respect of (i) a threatened action, or a pending action that is settled or otherwise disposed of, or (ii) any claim, issue or matter as to which such individual has been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action was brought, or, if no action was brought, any court of competent jurisdiction, determines, upon application, that, in view of all the circumstances of the case, the individual is fairly and reasonably entitled to indemnity for the portion of the settlement amount and expenses as the court deems proper.

Any individual who has been successful on the merits or otherwise in the defense of a civil or criminal action or proceeding will be entitled to indemnification. Except as provided in the preceding sentence, unless ordered by a court pursuant to Section 724 of the NYBCL, any indemnification under the NYBCL as described in the immediately preceding paragraph may be made only if, pursuant to Section 723 of the NYBCL, indemnification is authorized in the specific case and after a finding that the director or officer met the requisite standard of conduct by the disinterested directors if a quorum is available, or, if the quorum so directs or is unavailable, (i) the board of directors upon the written opinion of independent legal counsel or (ii) the stockholders.

State Anti-Takeover Statutes. Section 912 of the NYBCL generally provides that a New York corporation may not engage in a business combination with an interested stockholder for a period of five years following the interested stockholder's becoming such. Such a business combination would be permitted where it is approved by the board of directors before the interested stockholder's becoming such, or within 30 days thereafter, if a good faith proposal regarding a business combination is made in writing.

Covered business combinations include certain mergers and consolidations, dispositions of assets or stock, plans for liquidation or dissolution, reclassifications of securities, recapitalizations and similar transactions. An interested stockholder is generally a stockholder owning at least 20% of a corporation's outstanding voting stock.

In addition, New York corporations may not engage at any time with any interested stockholder in a business combination other than: (i) a business combination approved by the board of directors before the stock acquisition, or where the acquisition of the stock had been approved by the board of directors before the stock acquisition; (ii) a business combination approved by the affirmative vote of the holders of a majority of the outstanding voting stock not beneficially owned by the interested stockholder at a meeting for that purpose no earlier than five years after the stock acquisition; or (iii) a business combination in which the interested stockholder pays a formula price designed to ensure that all other stockholders receive at least the highest price per share that is paid by the interested stockholder and that meets certain other requirements.

Mergers, Consolidations or Certain Dispositions. If we consolidate or merge with or into another company, or any other corporate reorganization in which we are not the surviving company, or if more than 50% of our voting power is transferred, our Preferred Stockholders are entitled to receive (i) cash or equity consideration in an amount equal to the original purchase price for the Company's preferred shares, plus any declared but unpaid dividends, plus (ii) their pro-rata share (as divided ratably among the common stockholders and the Preferred Stockholders) of the remaining merger consideration. The Preferred Stockholders are also entitled to a class vote with respect to any of the aforementioned merger/reorganization transactions.

Under Section 903 of the NYBCL, the consummation by a corporation of a merger or consolidation requires the approval of the board of directors and (i) a majority of the votes of all outstanding shares entitled to vote thereon for corporations in existence on September 1, 1963 where the certificate of incorporation expressly provides therefor, or corporations incorporated after September 1, 1963, and (ii) two-thirds of the votes of all outstanding shares entitled to vote thereon, for all other corporations.

Warrants

As of September 30, 2013, warrants to purchase an estimated 4,130,470 shares of our common stock at a weighted average exercise price of $3.10 were outstanding. Each warrant contains provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event of certain stock dividends, stock splits, reorganizations, reclassifications and consolidations. Certain of the holders of the shares issuable upon exercise of our warrants are entitled to registration rights with respect to such shares.

Transfer Agent and Register

The transfer agent and registrar for our securities is American Stock Transfer and Trust Company.

Listing

Our common stock and warrants are traded over-the-counter on the OTCQB marketplace, which is a FINRA sponsored entity and operated inter dealer automated quotation system for equity securities not included in a national exchange. Quotation of our securities on the OTCQB limits the liquidity and price of our securities more than if our securities were quoted or listed on the NYSE Amex or the Nasdaq Capital Market, which are national securities exchanges. Lack of liquidity will limit the price at which you may be able to sell our securities or your ability to sell our securities at all.

PLAN OF DISTRIBUTION

We are offering our shares of common stock on a "best efforts" basis through the Placement Agent. There is a $● minimum amount of shares that must be sold in the Offering in order for the Offering to close. Pursuant to the engagement letter with the Placement Agent, we issued to the Placement Agent or its assignee warrants to purchase up to 2,125,000 shares of our common stock. The warrants are subject to vesting conditions and are exercisable at a price of $1.00 per share. In addition, the Placement Agent will receive the following compensation for its services in the Offering: (i) a cash payment equal to 3% of the total dollar amount of the shares of common stock sold in the Offering; (ii) fees as mutually agreed by the Company and the Placement Agent of any sub-placement agents may be used in the Offering, if any; and (iii) reimbursement of actual out-of-pocket expenses. The Placement Agent will also receive a tail fee equal to 3% of the total dollar amount of securities of the Company sold within one (1) year from the termination of the engagement letter to any investors introduced to the Company by the Placement Agent.

Individual investors will complete a subscription agreement provided to them by the Placement Agent.

The Offering will terminate on ●, 2013 unless: (i) the Offering termination date is extended by mutual agreement of the Company and the Placement Agent for one additional period not to exceed thirty (30) days; (ii) all of the shares of common stock offered hereby are sold prior to ●, 2013; or (iii) at any time by mutual agreement of the Company and the Placement Agent.

We intend to offer and sell the shares of common stock so that the Offering complies with the exemptions from the registration requirements of the Securities Act provided by Section 4(a)(2) of the Securities Act and the provisions of Rule 506 of Regulation D, including Rule 506(c) permitting general solicitation of prospective investors, and similar exemptions under state securities laws. Subject to certain conditions, we will indemnify the Placement Agent against certain civil liabilities, including liabilities arising under the Securities Act.

The Placement Agent has established a non-interest bearing escrow account with ● for the subscriptions during the Offering. Funds received by the Placement Agent from subscribers in connection with the Offering will be placed in the escrow account until such time as the Company and the Placement Agent have received subscriptions for at least the minimum offering.

Prior to the Closing, the Placement Agent will furnish to the Company the name and address of each person subscribing in the Offering and an executed copy of the applicable Subscription Agreement. The Company has the right, in its sole discretion, to reject any subscription amount. In the event a subscription is not accepted by the Company (in whole or in part), the rejected subscription amount (without interest and without deduction) will be returned to the subscriber. Subscribers will not have the use of, nor earn interest on, their funds, pending acceptance of their subscription.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

For further information with respect to the Company and the common stock offered by this offering memorandum, we refer you to our website at http://www.caliberid.com, and to the reports that we file with the Securities and Exchange Commission which are available for free on the SEC's website at http://www.sec.gov. You can read our SEC filings on the Internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. The information contained in, or that can be accessed through, our website is not part of this offering memorandum.

Statements contained in this offering memorandum as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit with the SEC. Each of these statements is qualified in all respects by this reference.

LUCID, INC.

FINANCIAL STATEMENT INDEX

LUCID, INC.
UNAUDITED CONDENSED BALANCE SHEETS
AS OF JUNE 30, 2013 AND DECEMBER 31, 2012

	June 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,922,421	$ 926,447
Accounts receivable	57,129	559,336
Inventories - net	625,222	926,236
Prepaid expenses and other current assets	143,158	49,155
Total current assets	4,747,930	2,461,174
PROPERTY AND EQUIPMENT – net	95,786	107,409
DEFERRED FINANCING COSTS – net	5,439	6,128
OTHER ASSETS	15,892	15,991
TOTAL ASSETS	$ 4,865,047	$ 2,590,702
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of long-term debt– net	$ 54,833	$ 379,311
Accounts payable	553,271	955,514
Accrued expenses and other current liabilities	2,304,339	1,515,334
Current portion of deferred revenue	25,000	244,081
Total current liabilities	2,937,443	3,094,240
WARRANT LIABILITY	26,377	61,808
NOTES PAYABLE – RELATED PARTIES - net	11,731,818	6,698,386
OTHER LONG-TERM LIABILITIES	77,967	443,623
TOTAL LIABILITIES	14,773,605	10,298,057
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock — par value $.01 per share; 60,000,000 authorized; 8,507,374 issued and outstanding on June 30, 2013 and December 31, 2012	85,074	85,074
Additional paid-in capital	38,803,246	38,679,627
Accumulated deficit	(48,796,878)	(46,472,056)
TOTAL STOCKHOLDERS' DEFICIT	(9,908,558)	(7,707,355)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 4,865,047	$ 2,590,702

See accompanying notes to unaudited condensed financial statements.

LUCID, INC.
UNAUDITED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
REVENUES	$ 515,814	$ 571,749	$ 1,574,424	$ 889,558
OPERATING EXPENSES:				
Cost of revenue	583,544	611,649	1,331,941	1,106,946
General and administrative	430,773	1,176,185	880,961	2,564,586
Sales and marketing	345,713	332,097	684,502	1,042,034
Engineering, research and development	340,023	1,103,691	794,848	1,880,589
Total operating expenses	1,700,053	3,223,622	3,692,252	6,594,155
LOSS FROM OPERATIONS	(1,184,239)	(2,651,873)	(2,117,828)	(5,704,597)
OTHER EXPENSES:				
Interest expense	(178,319)	(51,294)	(316,131)	(116,605)
Gain (loss) on extinguishment of debt	80,706	(59,506)	80,706	(366,284)
Fair value adjustment of warrants	11,425	424,871	35,431	472,129
Other	(1,600)	(736)	(7,000)	(3,825)
NET LOSS	$ (1,272,027)	$ (2,338,538)	$ (2,324,822)	$ (5,719,182)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.15)	$ (0.30)	$ (0.28)	$ (0.73)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	8,384,708	7,821,058	8,384,708	7,806,241

See accompanying notes to unaudited condensed financial statements.

LUCID, INC.
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,324,822)	$ (5,719,182)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,469	23,141
Stock-based compensation	123,719	1,023,488
Fair value adjustment of warrants	(35,431)	(472,130)
(Gain) loss on extinguishment of debt	(80,706)	366,284
Accretion of debt discount	33,433	105,927
Change in:		
Accounts receivable	502,207	85,233
Inventories	301,014	388,362
Prepaid expenses and other current assets	(94,003)	(33,127)
Other assets	--	(3,163)
Accounts payable	(402,243)	192,633
Accrued expenses and other current liabilities	789,005	117,204
Other liabilities and deferred revenue	(584,737)	295,322
Net cash used in operating activities	(1,755,095)	(3,630,008)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,158)	(75,775)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on note payable – related parties	5,000,000	2,340,793
Repayments of debt	(243,773)	(3,346,279)
Loan acquisition costs	--	(62,034)
Issuance of common units	--	20,257
Issuance of common stock	--	2,640
Net cash provided by (used in) financing activities	4,756,227	(1,044,623)
NET INCREASE (DECREASE) IN CASH	2,995,974	(4,750,406)
CASH – Beginning of period	926,447	4,896,141
CASH – End of period	$ 3,922,421	$ 145,735
SUPPLEMENTAL CASH FLOW DATA – Cash paid for interest	$ --	$ 62,939

See accompanying notes to unaudited condensed financial statements.

LUCID, INC.
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Lucid, Inc., operating as Caliber Imaging & Diagnostics or Caliber I.D., (the "Company" or "Lucid"), is a medical device company that designs, manufactures and sells non-invasive cellular imaging devices that assist physicians in the early detection of disease. The Company sells its products in the United States and numerous foreign countries and is headquartered in Rochester, New York.

The Company's unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. This unaudited interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ materially from these estimates. The year-end balance sheet data was derived and condensed from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results for any subsequent period or for the entire fiscal year ending December 31, 2013.

Certain immaterial reclassification adjustments have been made to the prior year financial statements to reclassify certain operating costs from General and administrative to Cost of revenue, Sales and marketing, and Engineering, research and development in the accompanying condensed statements of operations to conform to the current year presentation.

As a cost-saving measure, in January 2013, the Company dissolved its wholly-owned subsidiary Lucid International, Inc. The dissolution of Lucid International, Inc. did not have a significant impact on the Company's financial position or results of operations. All information regarding the Unaudited Condensed Financial Statements prior to January 2013 were presented on a consolidated basis.

2. LIQUIDITY AND CAPITAL RESOURCES

The Company has incurred net losses of approximately $2.3 million and $5.7 million for the six months ended June 30, 2013 and 2012, respectively. In addition, the Company had a stockholders' deficit balance of approximately $9.9 million at June 30, 2013 and $7.7 million at December 31, 2012. Furthermore, the Company's current forecast for fiscal 2013 projects a significant net loss and projects a need to raise additional capital to fund operations beyond 2013. The Company continues to explore strategic alternatives to finance its business plan, including but not limited to, private equity or debt financings or other sources, such as strategic partnerships. The Company is also focusing on increasing sales of its products to generate cash flows to fund its operations.

In May 2013, the Company borrowed $5.0 million from an affiliate of the Company under a Subsequent Term Note. See Note 6 – Note Payable – Related Parties for additional information. Proceeds from this note will be used for working capital requirements and for repaying other long-term liabilities.

The Company will need to raise additional capital in the fourth quarter of 2013 and beyond, and such capital may not be available at that time or on favorable terms, if at all. The Company may seek to raise these funds through public or private equity offerings, debt financings, credit facilities, or partnering or other corporate collaborations and licensing arrangements. If adequate funds are not available or are not available on acceptable terms, the

Company's ability to fund its operations, take advantage of opportunities, develop products and technologies, and otherwise respond to competitive pressures could be significantly delayed or limited, and operations may need to be downsized or halted.

There can be no assurance that the Company will be successful in its plans described above or in attracting alternative debt or equity financing. These conditions have raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There were no material changes to the summary of significant accounting policies disclosed in Note 3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Fair Value Measurements — The Company considers warrants that are not indexed to the Company's own stock to be classified as Level 3 in the fair value hierarchy. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. During the three and six months ended June 30, 2013 and 2012, the Company did not grant any warrants not indexed to the Company's own stock. The following table presents the change in Level 3 liabilities:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$ 37,802	$ 640,322	$ 61,808	$ 687,580
Fair value adjustment	(11,425)	(424,871)	(35,431)	(472,129)
Balance at end of period	$ 26,377	$ 215,451	$ 26,377	$ 215,451

The fair value of these warrants was derived using the Black-Scholes pricing model. The most significant input to the model is the Company's stock price, which was $1.20 and $1.99 at June 30, 2013 and 2012, respectively.

The Company's financial instruments consist principally of accounts receivable, accounts payable and debt. The Company classifies its outstanding debt as Level 2 in the fair value hierarchy and estimated that its carrying value approximated fair value as of June 30, 2013. This estimate is based on acceptable valuation methodologies which use market data of similarly sized and situated debt issuers.

Recently Issued Accounting Standards—In the normal course of business, the Company evaluates all new accounting standards issued by the Financial Accounting Standards Board, Securities and Exchange Commission, Emerging Issues Task Force, American Institute of Certified Public Accountants and other authoritative accounting bodies to determine the potential impact they may have on the Company's financial statements. Based upon this review, management does not expect any of the recently issued accounting standards to have a material impact on the Company's financial statements.

4. INVENTORIES - NET

The components of inventories are as follows at:

	June 30, 2013	December 31, 2012
Raw materials	$ 506,174	$ 659,149
Finished goods	217,030	334,026
Offsite demo equipment	96,566	96,566
Less inventory reserve	(194,548)	(163,505)
	$ 625,222	$ 926,236

Offsite demo equipment represents the cost of products physically located at customer locations, during an orientation period for which the Company retains title. As such, no depreciation expense has been recorded on these units. The inventory reserve at June 30, 2013 includes amounts necessary to adjust the Company's inventory and offsite demo equipment to net realizable value following the Company's release of newly redesigned products in 2012.

5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following at:

	June 30, 2013	December 31, 2012
Compensation and benefits	$ 885,931	$ 635,039
Interest	548,020	265,719
Product warranty liability	384,126	263,000
Customer deposits	125,539	79,384
Rent	42,565	39,674
Professional fees	34,000	21,388
Insurance	32,322	--
Other	251,836	211,130
	$ 2,304,339	$ 1,515,334

In 2012, the Company and certain officers of the Company mutually agreed to terminate their employment relationships (See Note 8 - Reduction in Force). At June 30, 2013, $0.7 million was included in "Compensation and benefits" in the table above for the current portion of these liabilities.

Customer deposits represent advances paid to the Company by customers for the purchase of equipment.

6. NOTE PAYABLE—RELATED PARTIES

In July 2012, the Company borrowed $7.0 million from an affiliate of the Company pursuant to a Loan and Security Agreement (the "2012 Term Loan"). The 2012 Term Loan refinanced a previous loan and matures in July 2017. The Company may prepay the 2012 Term Loan at any time, subject to certain notice requirements. The 2012 Term Loan bears interest at a rate of 7% per annum, payable quarterly commencing in July 2014, and is secured by all of the Company's assets. The Company had recorded accrued interest of $0.5 million and $0.3 million at June 30, 2013 and December 31, 2012, respectively, in connection with the 2012 Term Loan. In connection with the closing of the 2012 Term Loan, the Company issued 167,164 shares of the Company's common stock to the affiliate. The Company allocated the debt proceeds between the debt and common stock based on the relative fair value of each financial instrument, resulting in a debt discount of $0.3 million which is being amortized to interest expense over the term of 2012 Term Loan.

The 2012 Term Loan contains customary affirmative and negative covenants, including covenants restricting the incurrence of debt, imposition of liens, the payment of dividends, and entering into affiliate transactions. At June 30, 2013 the Company was in compliance with all covenants. The 2012 Term Loan also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with covenants. If an event of default occurs and is continuing under the 2012 Term Loan, the entire outstanding balance may become immediately due and payable.

In May 2013, the Company borrowed an additional $5.0 million from the same affiliate of the Company under a Subsequent Term Note (the "2013 Term Loan"). The 2013 Term Loan matures in November 2014 and may be prepaid at any time. The 2013 Term Loan bears interest at a rate of 7% per annum, payable upon maturity and is secured by all of the Company's assets. The Company had recorded accrued interest of approximately $39,000 at June 30, 2013 in connection with the 2013 Term Loan. The 2013 Term Loan includes cross default provisions with the existing 2012 Term Loan.

7. DEBT

As of December 31, 2012, promissory notes outstanding totaled $0.4 million on two notes which do not accrue interest. In May 2013, the outstanding balance of one of the promissory notes was settled in full, resulting in a gain on extinguishment of debt of $0.1 million for the six months ended June 30, 2013.

As of June 30, 2013 the remaining promissory note totaled $0.1 million and was classified as a current liability as of June 30, 2013 on the accompanying condensed balance sheets.

8. REDUCTION IN FORCE

In 2012, the Company implemented restructuring plans resulting in force reductions to streamline the Company's infrastructure and lower overall operating expenses. In addition, in January, June, and September 2012, the Company and certain officers of the Company mutually agreed to terminate their employment relationships. As a result of these reductions in force, the Company recognized expenses of approximately $0.6 million during the six months ended June 30, 2012. No such charges were incurred during the six months ended June 30, 2013. At June 30, 2013, approximately $0.8 million was accrued for these liabilities which were recognized in 2012, of which approximately $0.1 million was long-term in nature to be paid in installments through the first quarter of 2016 and was recorded as "Other Long-Term Liabilities" on the Company's accompanying condensed balance sheets.

9. NET LOSS PER COMMON SHARE DATA

The following table sets forth the computation of basic and diluted net loss attributable to common stockholders per common share, as well as a reconciliation of the numerator and denominator used in the computation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	$ (1,272,027)	$ (2,338,538)	$ (2,324,822)	$ (5,719,182)
Denominator:				
Weighted-average common shares outstanding	8,384,708	7,821,058	8,384,708	7,806,241
Basic and diluted net loss per common share	$ (0.15)	$ (0.30)	$ (0.28)	$ (0.73)

The following equivalent shares were excluded from the calculation of diluted loss per share as their impact would have been anti-dilutive:

	Six months ended June 30,	
	2013	2012
Options to purchase common stock	685,000	1,811,941
Warrants	1,981,661	2,215,680
Restricted stock	122,667	122,167

10. SEGMENT INFORMATION

The Company operates in one reportable segment— as a medical device company that designs, manufactures and sells non-invasive cellular imaging devices that assist physicians in the early detection of disease. The Company's chief operating decision maker reviews financial information for the Company as a whole for purposes of allocating resources and evaluating financial performance. Substantially all long-lived assets of the Company are in the United States. Sales for each significant geographical area are as follows:

	Three months Ended June 30,				Six months Ended June 30,			
	2013		2012		2013		2012	
	Product Sales *(in millions)*	%	Product Sales *(in millions)*	%	Product Sales *(in millions)*	%	Product Sales *(in millions)*	%
North America	$0.1	27%	$0.1	14%	$0.5	28%	$0.2	26%
Europe	0.3	50%	0.1	23%	0.6	41%	0.3	37%
Asia	0.1	23%	0.2	36%	0.4	24%	0.2	20%
Latin America	-	0%	0.2	27%	0.1	7%	0.2	17%
Total	$0.5	100%	$0.6	100%	$1.6	100%	$0.9	100%

11. SUBSEQUENT EVENTS

The Company has evaluated subsequent events after the balance sheet date through the date of filing of the Company's financial statements with the Securities and Exchange Commission for appropriate accounting and disclosure and concluded that there were no subsequent events requiring adjustment or disclosure in the Company's financial statements, other than those discussed below.

At June 30, 2013, we had 685,000 stock options outstanding at a weighted average exercise price of $3.15. In September 2013, the Board of Directors granted to its employees, officers, directors, and a consultant of the Company a total of 2,759,500 stock options at an exercise price of $1.00 under the Company's 2010 Long Term Equity Incentive Plan and our 2012 Stock Option and Incentive Plan, reducing the total number of shares available for issuance upon the grant or exercise of awards to 859,721. In August 2013, the Company granted to a financial advisor a warrant to purchase up to 2,125,000 shares of the Company's common stock, at an exercise price of $1.00 per share.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Lucid, Inc. and Subsidiary
Rochester, New York

We have audited the accompanying consolidated balance sheets of Lucid, Inc. (the "Company") as of December 31, 2012 and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lucid, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations, deficit in equity, and projected need to raise additional capital to fund operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

Boston, Massachusetts

March 29, 2013

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Lucid, Inc. and Subsidiary
Rochester, New York

We have audited the accompanying consolidated balance sheet of Lucid, Inc. and subsidiary (the "Company") as of December 31, 2011, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lucid, Inc. and subsidiary at December 31, 2011, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations, deficit in equity, and projected need to raise additional capital to fund operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte & Touche LLP

Rochester, New York
March 30, 2012

LUCID, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 926,447	$ 4,896,141
Accounts receivable	559,336	389,894
Inventories - net	926,236	729,875
Prepaid expenses and other current assets	49,155	82,832
Total current assets	2,461,174	6,098,742
PROPERTY AND EQUIPMENT – net	107,409	115,337
DEFERRED FINANCING COSTS – net	6,128	62,046
OTHER ASSETS	15,991	13,824
TOTAL ASSETS	$ 2,590,702	$ 6,289,949
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of long-term debt– net	$ 379,311	$ 3,291,166
Current portion of long-term debt- related parties, net	--	40,458
Accounts payable	955,514	1,393,763
Accrued expenses and other current liabilities	1,515,334	1,179,056
Current portion of deferred revenue	244,081	8,433
Total current liabilities	3,094,240	5,912,876
LONG-TERM DEBT	--	353,206
WARRANT LIABILITY	61,808	687,580
NOTES PAYABLE – RELATED PARTIES - net	6,698,386	--
OTHER LONG-TERM LIABILITIES	443,623	1,507
TOTAL LIABILITIES	10,298,057	6,955,169
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Preferred Stock — par value $.05 per share; 10,000,000 authorized; none issued or outstanding	--	--
Common stock — par value $.01 per share; 60,000,000 authorized; 8,507,374 and 7,840,477 issued and outstanding on December 31, 2012 and 2011, respectively	85,074	78,405
Additional paid-in capital	38,679,627	35,907,806
Accumulated deficit	(46,472,056)	(36,651,431)
TOTAL STOCKHOLDERS' DEFICIT	(7,707,355)	(665,220)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 2,590,702	$ 6,289,949

See accompanying notes to consolidated financial statements.

LUCID, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUE:		
Product sales	$ 2,434,585	$ 3,228,558
Non-product revenue	--	348,327
Total revenue	2,434,585	3,576,885
OPERATING EXPENSES:		
Cost of revenue	2,401,729	1,890,381
General and administrative	4,025,245	5,437,835
Sales and marketing	1,809,434	1,360,183
Engineering, research and development	3,764,816	1,456,890
Total operating expenses	12,001,224	10,145,289
LOSS FROM OPERATIONS	(9,566,639)	(6,568,404)
OTHER (EXPENSE) INCOME:		
Interest expense	(362,069)	(2,273,355)
Loss on extinguishment of debt	(422,435)	(2,749,533)
Fair value adjustment of warrants	594,949	2,539,296
Loss on Impairment of long-lived assets	(50,285)	--
Other	(14,146)	(1,768)
NET LOSS	$ (9,820,625)	$ (9,053,764)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS (Note 13)	$ (9,820,625)	$ (15,960,330)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (1.23)	$ (7.37)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	7,998,662	2,164,232

See accompanying notes to consolidated financial statements.

LUCID, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Common Stock		Preferred Stock Class A		Preferred Stock Class B					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Accumulated Deficit	Total
BALANCE—Jan. 1, 2011	2,254,120	$22,541	2,258,745	$112,937	637,921	$31,896	$19,747,890	$(739,218)	$(27,597,667)	$ (8,421,621)
Stock-based compensation	--	--	--	--	--	--	2,154,546	--	--	2,154,546
Stock option net exercises	2,154	22	--	--	--	--	(1,400)	--	--	(1,378)
Issuance of restricted stock	12,000	120	--	--	--	--	(120)	--	--	--
Forfeiture of restricted stock	(12,500)	(125)	--	--	--	--	125	--	--	--
Deemed preferred stock redemption	--	--	(2,258,745)	(112,937)	(637,921)	(31,896)	(6,761,733)	--	--	(6,906,566)
Deemed preferred stock re-issuance	--	--	2,258,745	112,937	637,921	31,896	13,668,299	--	--	13,813,132
Loss on re-issuance of preferred stock	--	--	--	--	--	--	(6,906,566)	--	--	(6,906,566)
Issuance of warrants	--	--	--	--	--	--	192,274	--	--	192,274
Settlement of subscription receivable	--	--	--	--	--	--		739,218	--	739,218
Reverse stock split	(16)	--	--	--	--	--	(143)	--	--	(143)
Issuance of common stock upon conversion of debt and accrued interest	2,448,228	24,482	--	--	--	--	7,795,972	--	--	7,820,454
Issuance of common stock upon conversion of debt and accrued interest, related party	159,687	1,597	--	--	--	--	533,355	--	--	534,952
Issuance of common stock upon conversion of accrued fee	140,490	1,405	--	--	--	--	469,237	--	--	470,642
Capitalization of IPO costs			--	--	--	--	(930,000)	--	--	(930,000)
Issuance of common units	1,388,000	13,880	--	--	--	--	5,815,720	--	--	5,829,600
Conversion of preferred stock to common stock	1,448,314	14,483	(2,258,745)	(112,937)	(637,921)	(31,896)	130,350	--	--	--
Net loss	--	--	--	--	--	--	--	--	(9,053,764)	(9,053,764)
BALANCE—Dec. 31, 2011	7,840,477	78,405	--	--	--	--	35,907,806	--	(36,651,431)	(665,220)
Stock-based compensation	--	--	--	--	--	--	1,795,794	--	--	1,795,794
Stock option exercises	161,400	1,614	--	--	--	--	18,806	--	--	20,420
Issuance of common units	5,300	53	--	--	--	--	20,204	--	--	20,257
Issuance of common shares	296,933	2,969	--	--	--	--	573,899	--	--	576,868
Forfeiture of restricted stock	(18,500)	(185)	--	--	--	--	185	--	--	--
Reclassification of warrants to equity	54,600	546	--	--	--	--	30,277	--	--	30,823
Issuance of common stock upon placement of long-term debt, related party	167,164	1,672	--	--	--	--	332,656	--	--	334,328
Net loss			--	--	--	--	--	--	(9,820,625)	(9,820,625)
BALANCE—Dec. 31, 2012	8,507,374	$85,074	--	--	--	--	$38,679,627	--	$(46,472,056)	$(7,707,355)

See accompanying notes to consolidated financial statements.

LUCID, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,820,625)	$ (9,053,764)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	41,687	312,629
Loss on disposal of fixed assets	3,890	--
Loss on impairment of long-lived assets	50,285	--
Stock-based compensation	1,795,794	2,154,546
Warrants issued for services	--	188,159
Fair value adjustment of warrants	(594,949)	(2,539,296)
Loss on extinguishment of debt	422,435	2,749,533
Accretion of debt discount	138,640	1,265,996
Change in:		
Accounts receivable	(169,442)	(62,143)
Inventories	(196,361)	(372,944)
Prepaid expenses and other current assets	33,677	93,078
Other assets	(2,167)	(1,625)
Accounts payable	(438,249)	358,620
Accrued expenses and other current liabilities	352,955	747,842
Other liabilities and deferred revenue	677,765	(341,391)
Net cash used in operating activities	(7,704,665)	(4,500,760)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(79,493)	(123,684)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of line-of-credit	--	(2,000,000)
Borrowings on note payable – related parties	--	300,000
Borrowings on debt	6,652,284	5,620,000
Repayments of debt	(3,448,078)	(763,168)
Loan acquisition costs	(64,747)	(252,150)
Issuance of common units	20,257	5,829,600
Initial public offering costs	--	(794,140)
Issuance of common stock	654,748	2,150
Proceeds from warrant exercises	--	739,218
Net cash provided by financing activities	3,814,464	8,681,510
NET (DECREASE) INCREASE IN CASH	(3,969,694)	4,057,066
CASH – Beginning of period	4,896,141	839,075
CASH – End of period	$ 926,447	$ 4,896,141
SUPPLEMENTAL CASH FLOW DATA – Cash paid for interest	$ 62,939	$ 168,615
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Refinance of loan acquisition costs with note payable	$ 26,162	$ --
Refinance of debt discount with note payable	$ 36,633	$ --
Issuance of warrants in connection with debt issuance	$ --	$ 1,390,244
Issuance of warrants in connection with note payable – related parties	$ --	$ 152,385
Issuance of promissory note in exchange for accrued interest	$ --	$ 49,533
Issuance of promissory note in exchange for accounts payable	$ --	$ 86,103
Accrued loan acquisition costs	$ --	$ 27,500
Accrued IPO costs	$ --	$ 135,860
Issuance of common stock upon conversion of debt and accrued interest	$ --	$ 7,820,454
Issuance of common stock upon conversion of debt and accrued interest – related parties	$ --	$ 534,952
Issuance of common stock upon conversion of accrued fee – related party	$ --	$ 470,642

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Lucid, Inc. operating as Caliber Imaging & Diagnostics or Caliber I.D., and its wholly-owned subsidiary, Lucid International Ltd. (LIL) (collectively, the "Company" or "Lucid"), is a medical device company that designs, manufactures and sells non-invasive cellular imaging systems that assist physicians in the early detection of disease. The Company sells its products worldwide and is headquartered in Rochester, New York.

On December 30, 2011, the Company closed on an initial public offering ("IPO") of its common units. The units, each consisting of one share of common stock and one warrant traded on the OTC Bulletin Board were maintained by the Financial Industry Regulatory Authority under the symbol "LCDCU" from December 28, 2011 to February 24, 2012. Upon a mandatory separation of the units on February 27, 2012, the units ceased trading on the OTC Bulletin Board and the Company's common stock and warrants began trading on the OTC Bulletin Board under the symbols "LCDX" and "LCDXW," respectively.

2. LIQUIDITY, CAPITAL RESOURCES AND MANAGEMENT PLANS

The Company has incurred net losses of approximately $9.8 million and $9.1 million in 2012 and 2011, respectively. In addition, the Company had a deficit in equity of approximately $7.7 million at December 31, 2012. Furthermore, the Company's current forecast for fiscal 2013 projects a significant net loss, and projects a need to raise additional capital to fund its operations in 2013 and beyond. The Company continues to explore strategic alternatives to finance its business plan, including but not limited to, private equity or debt financings or other sources, such as strategic partnerships. The Company is also focusing on increasing sales of its products to generate cash flows to fund its operations.

The Company will need to raise additional capital now and in the future, and such capital may not be available at that time or on favorable terms, if at all. The Company may seek to raise these funds through public or private equity offerings, debt financings, credit facilities, or partnering or other corporate collaborations and licensing arrangements. If adequate funds are not available or are not available on acceptable terms, the Company's ability to fund its operations, take advantage of opportunities, develop products and technologies, and otherwise respond to competitive pressures could be significantly delayed or limited, and operations may need to downsized or halted.

There can be no assurance that the Company will be successful in its plans described above or in attracting alternative debt or equity financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of Lucid and LIL. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts, inventories, impairment of long-lived assets, accrued expenses, income taxes including the valuation allowance for deferred tax assets, valuation of warrants, and stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Due to the inherent uncertainty

involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition—The Company recognizes revenue when evidence of an arrangement exists, title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectability is reasonable assured. When transactions include multiple deliverables, the Company applies the accounting guidance for multiple element arrangements to determine if those deliverables constitute separate units of accounting. Revenue on arrangements that include multiple elements is allocated to each element based on the relative fair value of each element. Each element's allocated revenue is recognized when the revenue recognition criteria for that element have been met. Multiple element arrangements have not been material through December 31, 2012. When allocating arrangement consideration, fair value is generally determined by objective evidence, which is based on the price charged when each element is sold separately. All costs related to product shipment are recognized at time of shipment and included in cost of revenue. The Company does not provide for rights of return to customers on product sales.

When product sales do not include installation or training, such as for all distributor sales and many direct sales, revenue is recognized upon shipment. Certain direct sales contracts require installation at the customer's location prior to acceptance. As such, revenue recognition on these contracts is delayed until all aspects of delivery, including installation, are complete. In addition, should the contract include training, revenue recognition is delayed until training is complete.

Grant revenue is recognized as it is earned, as determined by the terms of the grant, and is presented net of expenses directly related to the project being funded by the grant.

Maintenance and service support contract revenues are recognized ratably over the term of the service contracts.

Licensing fees related to the sale of a perpetual license to use certain technology in certain geographic areas are being recognized as earned.

Product Warranty—Medical devices sold are covered by a warranty, ranging from one year to two years, for which estimated contractual warranty obligations are recorded as an expense at the time of shipment.

Concentrations of Credit Risk—Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company maintains its cash in demand deposit and money market accounts at financial institutions. The cash balances are insured by the FDIC up to $250,000 per depositor with unlimited insurance for funds in noninterest-bearing transaction accounts through December 31, 2012. At times, the amounts in these accounts may exceed the federally insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

The Company provides credit in the normal course of business to the majority of its customers. Accounts for which no payments have been received for several months are considered delinquent and customary collection efforts are initiated. After all collection efforts are exhausted the account is written-off. Allowance for doubtful accounts is based on estimates of probable losses related to accounts receivable balances. At December 31, 2012 and 2011, management has determined that no allowance is required.

For the year ended December 31, 2012, the Company had sales of approximately $1.0 million and $0.4 million to two distributors, respectively. These two distributors accounted for 49% and 13%, respectively, of the Company's accounts receivable balance at December 31, 2012.

Cash and Cash Equivalents—The Company defines cash and cash equivalents as money market funds and other highly liquid investments with original maturities of 90 days or less. Cash and cash equivalents are stated at cost, which approximates fair value. Cash equivalents are subject to credit risk and are primarily maintained in a money market fund.

Inventories—Inventories are stated at the lower of cost, determined on a first-in, first-out (FIFO) method, or market. Excess, obsolete or expired inventory are adjusted to net realizable value, based primarily on how long the inventory has been held as well as the Company's estimate of forecasted net sales of that product. A significant

change in the timing or level of demand for our products may result in recording additional adjustments to the net realizable value of excess, obsolete or expired inventory in the future.

Property and Equipment—Property and equipment is stated at cost, less accumulated depreciation. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Computer hardware and software	2 - 3 years
Furniture and fixtures	5 years
Machinery and equipment	2 - 5 years
Office equipment	5 years
Vehicles	5 years

Impairment of Long-Lived Assets—The Company assesses the impairment of definite lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that are considered in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

Recoverability potential is measured by comparing the carrying amount of the asset group to the asset group's related total future undiscounted cash flows. If an asset group's carrying value is not recoverable through its related cash flows, the asset group is considered to be impaired. Impairment is measured by comparing the asset group's carrying amount to its fair value.

When it is determined that useful lives of assets are shorter than originally estimated, and there are sufficient cash flows to support the carrying value of the assets, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives. The Company recognized an impairment loss on long-lived assets of approximately $50,000 in 2012 and no impairment losses in 2011.

Deferred Financing Costs, Net—Deferred financing costs, net, represent amounts incurred in connection with the Company's 2012 Term Loan, and previously, the Company’s 2010/2011 Convertible Debt Offering and 2009 Convertible Debt Offering. These amounts are amortized over the period from the date of issuance to the contractual maturity date or conversion date if earlier. The Company expensed deferred fees of approximately $8,000 and $0.3 million for the years ended December 31, 2012 and December 31, 2011, respectively, which are included in depreciation and amortization in the consolidated statement of cash flows, and as interest expense within the consolidated statement of operations. In December 2011, the Company recorded $0.2 million of deferred financing costs, net to loss on extinguishment of debt. These costs related to debt that converted to equity upon completion of the initial public offering.

Fair Value Measurements—Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the assets or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all

significant inputs are observable in the market.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy.

In such cases, for disclosure purposes the appropriate level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The Company's cash equivalents are classified as Level I because they are valued using quoted market prices.

The Company considers warrants that are not indexed to the Company's own stock to be classified as Level 3. The following table presents the change in Level 3 liabilities:

	2012	2011
Balance at January 1	$ 687,580	$ 1,674,170
Warrants issued	--	1,552,706
Reclassification to equity	(30,823)	--
Fair value adjustment	(594,949)	(2,539,296)
Balance at December 31	$ 61,808	$ 687,580

The fair value of these warrants is derived using the Black-Scholes pricing model using the same assumptions and methodology utilized in the valuation of common stock options described below. (See Note 13-Equity for assumptions used to value warrants.)

The Company's financial instruments consist principally of accounts receivable, accounts payable and debt. The Company believes the recorded values for accounts receivable and accounts payable approximate current values as of December 31, 2012 because of their nature and respective durations. Management estimates the carrying value of its debt instruments approximates fair value as of December 31, 2012. This estimate is based on acceptable valuation methodologies which use market data of similarly sized and situated debt issuers.

Engineering, Research and Development Costs—Engineering, research and development costs are expensed as incurred.

Stock-Based Compensation Plans—The Company measures compensation cost for stock awards at fair value and recognizes compensation over the service period for awards expected to vest. The fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model and straight-line amortization of compensation expense over the requisite service period of the grant. The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. Key assumptions in the Black-Scholes pricing model include the fair value of common stock, the expected term, expected volatility of the common stock, the risk-free interest rate, and estimated forfeitures. Management determined the fair value of the Company's common stock largely on recent trading history and volumes on the OTCQB. The expected term is estimated by using the actual contractual term of the awards and the length of time for the recipient to exercise the awards. Management based

expected volatilities on a volatility factor computed based on the historical equity volatilities of the common stock of public comparable firms. The risk-free interest rate was based on the implied yield available at the time the options were granted on U.S. Treasury zero coupon issues with a remaining term equal to the expected term of the option. Estimated forfeitures are based on management's current expectations. The expected dividend yield is 0% for all periods presented, based upon the Company's historical practice of not paying cash dividends on its common stock.

Warrants—The Company accounts for warrants issued that are indexed to the Company's own stock as a component of equity and records the warrants at estimated fair value computed at the date of grant. Warrants issued that are not indexed to the Company's own stock are treated as a liability and are initially recorded at estimated fair value computed at the date of grant. This liability is adjusted to fair value at each period presented. The fair value of warrants is derived using the Black-Scholes pricing model. The Company believes that the Black-Scholes pricing model results in a value that is not materially different from the value determined using a binomial pricing model.

Debt—The Company has historically had certain debt instruments that contain a conversion feature. When the debt agreement allows for conversion at a stated price that is lower than the fair value of the underlying common stock at the date the agreement is consummated, the difference between the common stock price and the conversion price multiplied by the number of convertible shares is recorded as a discount on the debt. When the debt agreement allows for conversion at a value that is contingent upon the occurrence of future events, the difference between the common stock price and the conversion price multiplied by the number of convertible shares is recorded as a discount on the debt at the time the contingency no longer exists.

The Company also examines each of the conversion features as a potential embedded derivative. The Company has determined that none of the conversion features represent embedded derivatives. The Company continues this assessment at each reporting period.

Certain of the Company's convertible debt have been issued with detachable warrants. In these instances, the value of the warrants is recorded as a debt discount, which is accreted to interest expense over the life of the debt.

In instances that common stock is issued in connection with debt, the Company allocates the debt proceeds between the debt and common stock based on the relative fair value of each financial instrument, resulting in a debt discount to be amortized to interest expense over the term of the debt.

Income Taxes—Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the financial statement and tax basis of assets and liabilities and operating loss and tax credit carryforwards measured by the enacted tax rates that are anticipated to be in effect in the respective jurisdiction when those differences reverse. The deferred tax provision generally represents the net change in the deferred tax assets and liabilities. A valuation allowance is established when it is necessary to reduce deferred tax assets to amounts that more likely than not will be realized.

Tax positions are recognized only when it is more likely than not (likelihood of greater than 50%) that the position would be sustained upon examination based solely on the technical merits of the position. Tax positions that meet the more likely than not threshold are measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes accrued interest and penalties related to income tax liabilities as a component of income tax expense.

Net Loss Per Common Share—Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the reporting period. Diluted net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted-average number of dilutive common shares outstanding during the period. Dilutive common shares outstanding are calculated by adding to the weighted average number of common shares outstanding any potential (unissued) shares of common stock assuming conversion, exercise or issuance from the Company's outstanding warrants, stock options and restricted stock. Since the Company reported a net loss attributable to common stockholders in the years ended December 31, 2012 and 2011, all potential common stock are excluded from the calculation because they would have an anti-dilutive effect, meaning the loss per common share would be reduced. Therefore, in periods when a loss is reported, the calculation of basic and dilutive loss per common share results in

the same value. The Company's nonvested restricted stockholders have the right to participate with common stockholders in dividends and unallocated earnings. Net losses are not allocated to the nonvested restricted stockholders. Therefore, when applicable, basic and diluted earnings per share are computed using the two-class method, under which the Company's undistributed earnings are allocated to the common and vested restricted stockholders.

Recently Issued Accounting Pronouncements—In the normal course of business, Management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board, Securities and Exchange Commission, Emerging Issues Task Force, American Institute of Certified Public Accountants and other authoritative accounting bodies to determine the potential impact they may have on the Company's Consolidated Financial Statements. Based upon this review, Management does not expect any of the recently issued accounting pronouncements to have a material impact on the Company's consolidated financial statements.

Reclassifications—Certain immaterial reclassification adjustments have been made to the prior year financial statements to reclassify certain operating costs from General and administrative and Sales and marketing to Engineering, research and development in the accompanying consolidated statements of operations to conform to the current year presentation.

Beginning in 2012, the Company began allocating certain employee benefits and overhead costs from General and administrative to Sales and marketing, Engineering, research and development and Cost of revenue in the accompanying consolidated statements of operations.

4. INVENTORIES

The components of inventories are as follows at December 31:

	2012	2011
Raw materials	$ 659,149	$ 468,053
Finished goods	334,026	100,566
Offsite demo equipment	96,566	183,256
Less inventory reserve	(163,505)	(22,000)
	$ 926,236	$ 729,875

Offsite demo equipment represents the cost of products physically located at customer locations, during an orientation period for which the Company retains title. As such, no depreciation expense has been recorded on these units. The Inventory reserve at December 31, 2012 includes amounts necessary to adjust the Company’s inventory and offsite demo equipment to net realizable value following the Company’s release of newly redesigned products in 2012.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2012	2011
Computer hardware and software	$ 89,971	$ 120,835
Furniture and fixtures	29,484	24,484
Machinery and equipment	407,039	497,983
Office equipment	3,869	3,869
Leasehold improvements	46,891	--
Vehicle	18,680	18,680
	595,934	665,851
Less accumulated depreciation and amortization	(488,525)	(550,514)
	$ 107,409	$ 115,337

Depreciation expense totaled approximately $33,000 and $26,000 for the years ended December 31, 2012 and 2011, respectively.

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following at December 31:

	2012	2011
Accrued compensation and benefits	$ 635,039	$ 296,425
Accrued interest	265,719	103,917
Accrued product warranty liability	263,000	140,000
Other accrued expenses	211,130	365,131
Customer deposits	79,384	181,423
Accrued rent	39,674	--
Accrued professional fees	21,388	92,160
	$ 1,515,334	$ 1,179,056

In 2012, the Company and certain officers of the Company mutually agreed to terminate their employment relationships (See Note 9 - Reduction in Force). At December 31, 2012, $0.4 million was included in "Accrued compensation and benefits" in the table above for the current portion of these liabilities.

Customer deposits represent advances paid to the Company by customers for the purchase of equipment.

7. NOTE PAYABLE—RELATED PARTIES

At December 31, 2012 and December 31, 2011, $0 and approximately $40,000, respectively, was outstanding under a promissory note with the Company's Founder, Director Emeritus and Chief Scientist which bore interest at 6%. This note was paid in full in January 2012.

In May 2012, the Company entered into a Loan and Security Agreement (the "2012 Interim Loan"), under which the Company borrowed approximately $2.3 million from an affiliate of the Company.

In July 2012, the Company borrowed $7.0 million from the same affiliate pursuant to a Loan and Security Agreement (the "2012 Term Loan"). The 2012 Term Loan refinanced the 2012 Interim Loan and matures in July 2017. In connection with the repayment of the 2012 Interim Loan, the Company wrote off the remaining balance of the loan acquisition costs, resulting in the recognition of a loss on extinguishment of approximately $56,000 in the third quarter of 2012. The Company may prepay the 2012 Term Loan at any time, subject to certain notice requirements. The 2012 Term Loan bears interest at a rate of 7% per annum, payable quarterly commencing in July 2014. The 2012 Term Loan is secured by all of the Company's assets. In connection with the closing of the 2012 Term Loan, the Company issued 167,164 shares of the Company's common stock to the affiliate. The Company allocated the debt proceeds between the debt and common stock based on the relative fair value of each financial instrument, resulting in a debt discount of $0.3 million which was amortized to interest expense over the term of 2012 Term Loan.

The 2012 Term Loan contains customary affirmative and negative covenants, including covenants restricting the incurrence of debt, imposition of liens, the payment of dividends, and entering into affiliate transactions. At December 31, 2012 the Company was in compliance with all covenants. The 2012 Term Loan also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with covenants. If an event of default occurs and is continuing under the 2012 Term Loan, the entire outstanding balance may become immediately due and payable.

8. DEBT

Long-term debt consisted of the following at December 31:

	2012	2011
2011 Credit Facility	$ --	$ 2,583,333
2010/2011 Convertible Debt Offering	--	600,000
Promissory Notes Payable	379,311	600,309
Note payable in monthly installments of $707, including interest through June 2012.	--	3,290
	379,311	3,786,932
Less debt discount	--	(142,560)
	379,311	3,644,372
Current portion of long-term debt	(379,311)	(3,291,166)
Long-term debt—net of discount and current portion	$ --	$ 353,206

2011 Credit Facility—In July 2011, the Company entered into a Loan and Security Agreement with an institutional lender (the "2011 Credit Facility"), under which the Company borrowed $3.0 million in term loans for general working capital purposes and to refinance the Company's preexisting line of credit. These term loans had an interest rate of 7.25%, and were due in monthly payments of principal and accrued interest over thirty-six months.

On March 30, 2012, the Company entered into a forbearance agreement with the lender, and on April 30, 2012, the Company entered into an amended forbearance agreement to extend the forbearance period and to establish a new loan maturity date of May 7, 2012. On May 7, 2012, the Company repaid in full the 2011 Credit Facility with the proceeds from an approximate $2.3 million term loan made pursuant to the Secured Demand Promissory Note dated as of May 7, 2012. The 2012 Interim Loan bore interest at the rate of 7% per annum. In July 2012, the 2012 Interim Loan was paid in full with the proceeds of the 2012 Term Loan. See Note 7 – Note Payable – Related Parties for additional information.

In connection with the repayment of the 2011 Credit Facility, the Company wrote off the remaining balance of the loan acquisition costs and debt discount, resulting in the recognition of a loss on extinguishment of approximately $60,000 in the second quarter of 2012.

Convertible Promissory Notes ("2010/2011 Convertible Debt Offering")—The Company issued convertible promissory notes in 2010 and 2011 which bore interest at 8% and converted into common stock on December 30, 2011 at the closing of the Company's IPO. Three holders totaling $0.6 million in principal waived their registration rights under the agreement and, in January 2012, were paid an amount equal to the value of the common stock that would have been issued to them had their principal and accrued interest converted into common stock according to the terms of the agreement.

Promissory Notes— As of December 31, 2012 and December 31, 2011, promissory notes outstanding totaled $0.4 million and $0.6 million, respectively, on two notes which do not accrue interest. As of December 31, 2012, the principal of the first note of $0.2 million was classified as a current liability because it matures in 2013, and the principal of the second note of $0.2 million was classified as current because in January 2013 the Company did not make a mandatory payment and, therefore classified the note as a current liability on the consolidated balance sheet.

9. REDUCTION IN FORCE

In January and June 2012, the Company implemented restructuring plans resulting in force reductions. The Company took these steps to streamline the Company's infrastructure and lower overall operating expenses. In connection with these restructurings, the Company recognized expenses of approximately $119,000 during the year ended December 31, 2012 and all such amounts were paid during the year.

In January, June and September 2012, the Company and certain officers of the Company mutually agreed to terminate their employment relationships. The Company recognized expenses of approximately $1.1 million during the year ended December 31, 2012 which will be paid in installments through the first quarter of 2016. At December 31, 2012, approximately $879,000 was accrued for this liability, of which approximately $444,000 was long-term in nature and recorded as "Other Long-Term Liabilities" on the Company's accompanying consolidated balance sheet.

10. INCOME TAXES

Because the Company has incurred net losses, and has provided a full valuation allowance against deferred tax assets, its tax provision is zero for the years ended December 31, 2012 and 2011.

The differences between income taxes computed using the statutory U.S. federal income tax rate and the provision (benefit) for income taxes were as follows:

	2012	2011
Pre-tax net loss	$ (9,820,625)	$ (9,053,764)
Amount computed using the Statutory U.S. federal rate	$ (3,339,012)	$ (3,078,280)
Increase (reduction) in taxes resulting from valuation allowance	3,186,987	1,788,545
Loss on extinguishment of debt	--	934,842
Fair value adjustment of warrants	(202,283)	(863,361)
Interest on debt treated as equity	13,284	614,065
Stock-based compensation—ISO	131,221	180,025
Stock offering costs	--	316,478
Other	209,803	107,686
Provision (benefit) for income taxes	$ --	$ --

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	2012	2011
Current deferred tax asset:		
Compensation Reserves	$ 302,196	41,911
Deferred revenue	--	$ 3,069
Prepaid fees	56,523	113,341
Warranty reserve	89,420	47,600
Other	55,613	10,770
	503,752	216,691
Valuation allowance	(503,752)	(216,691)
Net current deferred tax asset	$ --	$ --
Noncurrent deferred tax asset:		
Stock based compensation	1,613,248	1,207,010
Net operating loss	8,580,265	6,086,051
Other	1,143	(2,309)
	10,194,656	7,290,752
Valuation allowance	(10,194,656)	(7,290,752)
Net noncurrent deferred tax asset	$ --	$ --
Total	$ --	$ --

The Company has performed the required assessment of positive and negative evidence regarding the realization of deferred tax assets. This assessment included the evaluation of scheduled reversals of deferred income tax assets and liabilities, estimates of projected future taxable income and tax planning strategies.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the Company's historical net losses, management does not believe that it is more likely than not that the Company will realize the benefits of these deferred tax assets and, accordingly, a full valuation allowance has been recorded against the deferred tax assets as of December 31, 2012 and 2011.

As a result of certain realization requirements of Accounting Standards Codification (ASC) Topic 718, *Compensation—Stock Compensation*, the Company's deferred tax assets at December 31, 2012 do not include approximately $531,000 of excess tax benefits from the exercise of nonqualified options that are a component of the Company's NOL carryovers. Equity will be increased by approximately $181,000 if and when such deferred tax assets are ultimately realized for federal income tax purposes. The Company uses ordering pursuant to ASC Topic 740, *Income Taxes*, for purposes of determining when excess tax benefits have been realized.

The Company has federal and state net operating loss carryforwards of approximately $25.5 million to offset future taxable income which expire between 2012 and 2031. The Company has undergone several equity transactions which may have resulted in an ownership change or changes as defined by Internal Revenue Code Sec. 382. If an ownership change occurred, the use of the Company's net operating losses (NOLs) may be limited. Because of the Company's current tax loss position, the Company's NOLs are not being utilized at this time. The Company will determine whether or not an ownership change has occurred under IRC Sec. 382 before utilizing its NOLs in the future. Also, any future equity raise by the Company may result in an ownership change which would also need to be analyzed under IRC Sec. 382.

The Company did not record interest and penalties related to unrecognized tax benefits in 2012 or 2011.

The following table sets forth a rollforward of the Company's total uncertain tax positions:

	Years Ended December 31,	
	2012	2011
Balance at January 1	$ 406,545	$ 406,545
Additions based on tax positions related to the current year	--	--
Additions for tax positions of prior years	--	--
	$ 406,545	$ 406,545

The Company does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months.

The Company files a U.S. federal income tax return for which the statute of limitations remains open for the 2009 tax year and beyond. U.S. state jurisdictions have statutes of limitations ranging from 3 to 6 years. Currently, we do not have any returns under examination.

11. NET LOSS PER COMMON SHARE DATA

The following table sets forth the computation of basic and diluted net loss attributable to common stockholders per common share, as well as a reconciliation of the numerator and denominator used in the computation:

	Year Ended December 31,	
	2012	2011
Net loss	$ (9,820,625)	$ (9,053,764)
Deemed preferred stock redemption	--	(6,906,566)
Net loss attributable to common stockholders	$ (9,820,625)	$ (15,960,330)
Denominator:		
Weighted-average common shares outstanding	7,998,662	2,164,232
Basic and diluted net loss per common share	$ (1.23)	$ (7.37)

The following equivalent shares were excluded from the calculation of diluted loss per share as their impact would have been anti-dilutive:

	Year Ended December 31,	
	2012	2011
Options to purchase common stock	625,000	2,101,774
Warrants	1,981,661	2,219,546
Restricted stock	122,666	191,166

12. COMMITMENTS AND CONTINGENCIES

The Company leases its operating facility through February 2018. Rent expense was approximately $0.3 million and $0.2 million for the years ended December 31, 2012 and 2011, respectively, under the terms of this and previous lease agreements.

Minimum future lease payments are as follows at December 31, 2012:

2013	$ 209,751
2014	177,410
2015	180,872
2016	184,403
2017	188,005
2018	15,692
Thereafter	--
	$ 956,133

Changes in the product warranty accrual for the year ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31,	
	2012	2011
Product warranty liability at beginning of period	$ 140,000	25,000
Additions to warranty accrual (including changes in estimates)	385,625	251,885
Warranty expenses during the period	(262,625)	(136,885)
Product warranty liability at end of period	$ 263,000	140,000

The Company is not currently subject to any material legal proceedings, nor, to its knowledge, is any material legal proceeding threatened against it. From time to time, the Company may be a party to certain legal proceedings, incidental to the normal course of business. While the outcome of these legal proceedings cannot be predicted with certainty, the Company does not expect that these proceedings will have a material effect upon its financial condition or results of operations.

13. EQUITY

Preferred and Common Shares—In December 2011, all of the Company's then outstanding preferred stock converted into common stock at the close of the IPO. Prior to the IPO, in May 2011, the Company's stockholders approved a proposal to amend Lucid's Certificate of Incorporation to: (a) provide for the automatic conversion of Series A Preferred Stock and Series B Preferred Stock immediately prior to the closing of an underwritten public offering; (b) provide that registration rights related to the shares of Common Stock issuable upon conversion of the Series A and Series B Preferred Stock will terminate when such shares can be sold without restriction under the securities laws; and (c) provide for an equitable adjustment to the conversion ratio of Series A Preferred Stock and Series B Preferred Stock in connection with specified recapitalizations of the Company.

As discussed above, the amendment to the Certificate of Incorporation modified the rights and features of the Company's then outstanding preferred stock. The Company evaluated the facts surrounding the modification and concluded that the modifications constituted a significant change to the rights and features of the preferred stock and followed redemption accounting. Therefore, the transaction was accounted for as if the Company had issued new preferred shares in exchange for the original preferred shares outstanding at the time of the amendment. The Company removed the carrying value (i.e., liquidation value) of the original preferred shares at fair value of approximately $13.2 million. This resulted in a loss on the deemed redemption of approximately $6.9 million recorded as a non-cash charge to equity with no net effects on the Company's balance sheet, stockholder's deficit, or cash flows.

In December 2011, the Company issued 379,406 shares of common stock in consideration for the conversion of principal and accrued interest related to convertible notes that were issued pursuant to its 2009 Convertible Debt Offering. In February 2012, the Company recorded a loss on extinguishment of debt of approximately $0.3 million relating to the issuance of an additional 82,647 shares of the Company's common stock in final consideration for this conversion. In the aggregate, these shares were issued at a conversion price of approximately $1.93.

As part of a restructuring of the board of directors of the Company, five members resigned in February 2012. As a result, the individuals forfeited 18,500 shares of unvested restricted stock, in aggregate.

On September 30, 2012, certain employees and directors of the Company voluntarily forfeited an aggregate of 625,000 stock options with a weighted average exercise price of $7.48. In October 2012, the Company issued approximately 55,000 shares of common stock (at a value of $2.00 per share) in an equal exchange for approximately 234,000 common stock warrants. The value of the exchanged warrants was determined using the Black-Scholes pricing model, with an assumed common stock value of $2.00 per share.

In December 2012, the Company's Chairman and his spouse purchased 214,286 shares of common stock in a private transaction with the Company at a price of $1.40 per share.

Stock-Based Awards—In July 2012, the Board of Directors adopted, subject to stockholder approval at the next stockholder meeting, the 2012 Stock Option and Incentive Plan ("the 2012 Plan"). If approved by the stockholders, 1,775,000 shares of common stock will be available for issuance upon the grant or exercise of awards under the 2012 Plan. The 2012 Plan has a ten-year term and provides flexibility to the Executive Compensation Committee to use various equity-based incentive awards, including stock options (both incentive and non-qualified options), stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, performance shares, dividend equivalent rights and cash-based awards, as compensation tools to motivate the Company's workforce. The maximum number of shares of common stock to be issued under the 2012 Plan is 1,775,000, plus on January 1, 2013 and each January 1 thereafter, a number of shares of common stock equal to 3 percent of the number of shares of common stock outstanding on the prior December 31. The shares of common stock underlying any awards that are forfeited, canceled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by the Company prior to vesting, satisfied without any issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2012 Plan are added back to the shares of common stock available for issuance under the 2012 Incentive Plan. As of December 31, 2012, there were options for the purchase of up to 20,000 shares outstanding under the 2012 Plan.

In June of 2010, the Company's stockholders approved a Stock Option Plan (the 2010 Plan), pursuant to which options including incentive and nonqualified options for its common stock and shares of restricted stock may be granted to employees, directors and consultants of the Company. The 2010 Plan also allows for stock awards to be granted a right to receive shares of stock in the future. The Company reserved 2,000,000 common shares for the 2010 Plan and at December 31, 2012, there were 1,661,500 shares reserved for future grants and 320,000 stock options outstanding. Under the terms of the awards, stock-based awards generally have 10-year contractual terms, equity grants for employees generally vest based on three years of continuous service and equity grants for directors and consultants vest over their respective remaining term as of the date of grant. The Company does not capitalize any expense related to the stock option awards.

The Company also has options and restricted stock outstanding under a Stock Option Plan approved by stockholders during 2007 (the 2007 Plan) and options to purchase common shares outstanding under a Stock Option Plan approved by stockholders during 2000 (the 2000 Plan). Under the terms of the awards under these two plans, equity grants for employees generally vest based on three years of continuous service and equity grants for directors and consultants vest over their respective remaining term as of the date of grant. As of December 31, 2012, options to purchase common shares of 102,500 and 182,500 were outstanding under the 2007 Plan and the 2000 Plan, respectively, with an additional 137,500 shares of restricted stock outstanding under the 2007 Plan. As of December 31, 2012, no shares were reserved for future grants under the 2007 Plan or the 2000 Plan.

The Company recognizes the expense related to stock option awards on a straight-line basis over the service period. Stock-based compensation expense recognized in the statement of operations is as follows:

	Year Ended December 31,	
	2012	2011
Cost of revenue	$ 13,698	$ 12,186
General and administrative	979,547	1,479,356
Sales and marketing	88,282	368,904
Engineering, research and development	714,267	294,100
	$ 1,795,794	$ 2,154,546

A summary of option activity under the Plans and changes during the periods ended are presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	2,045,524	$ 5.52		
Granted	185,000	8.72		
Exercised	(4,250)	4.04		
Forfeited or expired	(24,500)	5.93		
Outstanding at December 31, 2011	2,201,774	$ 5.78		
Granted	317,500	2.00		
Exercised	(161,400)	0.13		
Forfeited or expired	(1,732,874)	6.51		
Outstanding at December 31, 2012	625,000	3.32	5.1 years	$ --
Vested or expected to vest at December 31, 2012	612,500	3.32	5.1 years	$ --
Exercisable at December 31, 2012	464,167	3.43	4.6 years	$ --

The total intrinsic value of stock options exercised during the year ended December 31, 2012 and 2011 was approximately $0.2 million and $18,000, respectively. The 2011 stock option exercises were "net exercises," pursuant to which the optionee received shares of common stock equal to the intrinsic value of the options (fair market value of common stock on date of exercise less exercise price) reduced by any applicable withholding taxes.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

	Options Outstanding			Options Exercisable		
Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
2.00 - 2.50	330,000	5.4 years	2.02	197,500	4.9 years	2.03
4.00 - 4.30	232,500	3.9 years	4.08	232,500	3.9 years	4.08
6.58	40,000	7.5 years	6.58	26,667	7.5 years	6.58
8.60 - 8.88	22,500	8.5 years	8.65	7,500	8.5 years	8.65
	625,000			464,167		

The weighted-average grant date fair value of options granted during the year ended December 31, 2012 and 2011 was $2.00 and $5.67, respectively. The following assumptions were used to estimate the grant date fair value of options granted using the Black-Scholes option pricing model.

	2012	2011
Risk free interest rate	0.31% - 0.94%	1.23% - 2.82%
Expected dividend yield	0%	0%
Expected term (in years)	2.5 – 6.5	6.0 – 6.5
Expected volatility	70%	70%
Pre-vesting forfeiture rate	2%	2%

As of December 31, 2012 there was $0.6 million of total unrecognized compensation cost related to stock option arrangements granted under the Company's plans. As of December 31, 2012, the unrecognized cost is expected to be recognized over a weighted average period of 7.6 years.

The Company determines fair value of its restricted stock based on the common stock value on the date of grant. The following table summarizes the Company's restricted stock activity:

	Number of Shares	Weighted-Average Fair Value
Nonvested at January 1, 2011	191,666	$ 8.02
Granted	12,000	$ 8.60
Vested		
Forfeited	(12,500)	$ 6.42
Nonvested at December 31, 2011	191,166	$ 8.16
Granted	--	
Vested	(50,000)	$ 7.62
Forfeited	(18,500)	$ 8.41
Nonvested at December 31, 2012	122,666	$ 8.34

The total intrinsic value of nonvested restricted stock as of December 31, 2012 and 2011 was $0 and approximately $0.6 million, respectively. At December 31, 2012 there was approximately $0.1 million of total unrecognized compensation cost related to restricted stock granted under the Plan. As of December 31, 2012, the unrecognized cost is expected to be recognized over a weighted average period of 0.9 years.

Stock Warrants—Under the terms of various agreements, the Company has issued warrants for the purchase of common shares. Warrants are exercisable at the grant date and generally expire 5 to 10 years from the date of the grant.

Changes in the status of outstanding warrants are summarized as follows:

	Common Shares	Common Shares Weighted-Average Exercise Price	Preferred Shares	Preferred Shares Weighted-Average Exercise Price
Outstanding at January 1, 2011	370,064	$ 7.16	100,000	$ 2.00
Issued	1,825,762	$ 5.66		
Exercised	--			
Expired	(4,524)	$ 6.30		
Reclassification of preferred warrant	50,000	$ 4.00	(100,000)	$ 2.00
Other	(21,756)	$ 8.26		
Outstanding at December 31, 2011	2,219,546	$ 5.84		
Outstanding at January 1, 2012	2,219,546	$ 5.84		
Issued	5,300	$ 5.04		
Exercised	--			
Expired	(9,166)	$ 6.30		
Conversion to Common Stock	(234,019)	$ 6.77		
Outstanding at December 31, 2012	1,981,661	$ 5.75		

At the measurement date, the Company estimated the fair value of each warrant using the Black-Scholes option pricing model. The following assumptions were used:

	2012	2011
Risk free interest rate	0.25% - 0.36%	0.01% - 0.60%
Expected dividend yield	0%	0%
Expected term (in years)	2.0 – 3.0	0.0 - 4.0
Expected volatility	70%	70%

14. NON-PRODUCT REVENUE

The Company entered into distribution and supply agreements with a European distributor in 2006, under which the Company granted an exclusive, irrevocable, fully paid up and royalty-free license to use the Company's dermatologic imaging systems and software, including telemedic software used in the dermatologic and other medical fields, in defined geographic areas for a fee of $1,750,000. A supply agreement with a five year term was entered into at the same time as the license agreement. As such, the license amount was recognized on a straight-line basis over a period of five years. At December 31, 2012 and 2011, no amounts remained on the Company's consolidated balance sheet.

15. RETIREMENT PLAN

The Company sponsors a defined contribution plan. All contributions are at the discretion of the Company. No Company contributions were made during the years ended 2012 and 2011.

16. SEGMENT INFORMATION

The Company operates in one reportable segment—the research, development and sale of medical devices to diagnose skin cancer. The Company's chief operating decision maker reviews financial information for the Company as a whole for purposes of allocating resources and evaluating financial performance. Substantially all long-lived assets of the Company are in the United States. Sales for each significant geographical area are as follows:

	Year Ended December 31,			
	2012		2011	
	Product Sales *(in millions)*	Percent	Product Sales *(in millions)*	Percent
North America	$ 0.5	23%	$ 0.6	16%
Europe	1.0	39%	1.3	41%
Asia	0.6	25%	1.0	32%
Latin America	0.2	8%	0.2	7%
Australia	0.1	5%	0.1	4%
Total	$ 2.4	100%	$ 3.2	100%

17. RELATED PARTIES

Notes payable due to related parties are discussed in Note 7- Note Payable – Related Parties and fee entitlements due to an affiliate are discussed under "2011 Credit Facility" in Note 8 - Debt.

In 2011, former members of the Board of Directors through their business provided to the Company legal/consulting services in the amount of approximately $136,000 and consulting/outsourced services in the amount of approximately $66,000.

At December 31, 2012 and December 31, 2011, respectively, the Company had a total of approximately $1,000 and $46,000 included in accounts payable due to related parties for professional services. At December 31, 2012 and December 31, 2011, respectively, the Company had a total of approximately $21,000 and $22,000 included in accrued expenses due to related parties for professional services.

18. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of selected quarterly financial information is as follows:

	Quarter Ended			
	March 31, 2012	**June 30, 2012**	**September 30, 2012**	**December 31, 2012**
Revenue	317,809	571,749	413,509	1,131,518
Cost of revenue [(1)]	495,297	611,649	644,619	1,124,568
General and administrative [(1)]	1,388,400	1,176,185	1,001,123	(350,691)
Sales and marketing [(1)]	709,937	332,097	439,808	417,239
Engineering, research and development [(1)]	776,897	1,103,691	1,211,142	919,262
Loss from Operations	(3,052,722)	(2,651,873)	(2,883,183)	(978,861)
Net Loss	(3,380,644)	(2,338,538)	(3,059,137)	(1,042,306)
Net loss per common share	(0.43)	(0.30)	(0.38)	(0.13)

	Quarter Ended			
	March 31, 2011	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**
Revenue	735,366	874,469	865,042	1,102,008
Cost of revenue	298,390	430,230	592,302	569,459
General and administrative	1,118,632	1,493,265	1,519,826	1,306,112
Sales and marketing	344,082	312,267	344,502	359,332
Engineering, research and development	333,282	342,356	400,647	380,605
Loss from Operations	(1,359,020)	(1,703,649)	(1,992,235)	(1,513,500)
Net Loss	(1,935,330)	(2,210,339)	(2,329,419)	(2,578,676)
Net loss per common share	(0.89)	(4.21)	(1.08)	(1.19)

(1) Beginning in 2012, the Company began allocating certain employee benefits and overhead costs from General and administrative to Sales and marketing, Engineering, research and development and Cost of revenue in the accompanying consolidated statements of operations. Reclassifications have been made to the quarterly 2012 information to conform to the current presentation.

19. SUBSEQUENT EVENTS

We have evaluated subsequent events after the balance sheet date through the date of filing of these consolidated financial statements with the Securities and Exchange Commission for appropriate accounting and disclosure and concluded that there were no subsequent events requiring adjustment or disclosure in these consolidated financial statements, other than those discussed below.

As a cost-saving measure, in January 2013, the Company dissolved its wholly-owned subsidiary Lucid International, Inc. The dissolution of LIL is not expected to have any significant impacts on the Company's financial position.