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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 001-35379

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**LUCID, INC.**

(Exact name of registrant as specified in its charter)

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**New York**

(State or other jurisdiction of  
incorporation or organization)

**95 Methodist Hill Drive, Suite 500  
Rochester, NY**

(Address of principal executive offices)

**16-1406957**

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

**14623**  
(Zip Code)

**Registrant's telephone number, including area code (585) 239-9800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of November 2, 2012, 8,201,952 shares of Registrant's common stock were outstanding.

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**LUCID, INC.**  
**Quarterly Report on Form 10-Q**  
**For the Period Ended September 30, 2012**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**LUCID, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2012 AND DECEMBER 31, 2011**

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 1,672,059	\$ 4,896,141
Accounts receivable . . . . .	361,082	389,894
Inventories—net . . . . .	523,811	729,875
Prepaid expenses and other current assets . . . . .	58,030	82,832
Total current assets . . . . .	<u>2,614,982</u>	<u>6,098,742</u>
PROPERTY AND EQUIPMENT—Net . . . . .	165,740	115,337
DEFERRED FINANCING COSTS—Net . . . . .	6,472	62,046
OTHER ASSETS . . . . .	15,992	13,824
<b>TOTAL ASSETS . . . . .</b>	<b><u>\$ 2,803,186</u></b>	<b><u>\$ 6,289,949</u></b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt—net . . . . .	\$ 281,025	\$ 3,291,166
Current portion of long-term debt—related parties, net . . . . .	—	40,458
Accounts payable . . . . .	719,956	1,393,763
Accrued expenses and other current liabilities . . . . .	1,602,552	1,179,056
Current portion of deferred revenue . . . . .	10,010	8,433
Total current liabilities . . . . .	<u>2,613,543</u>	<u>5,912,876</u>
LONG-TERM DEBT . . . . .	153,103	353,206
WARRANT LIABILITY . . . . .	192,594	687,580
NOTES PAYABLE—RELATED PARTIES, net . . . . .	6,681,669	—
OTHER LONG-TERM LIABILITIES . . . . .	489,855	1,507
<b>TOTAL LIABILITIES . . . . .</b>	<b>10,130,764</b>	<b>6,955,169</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT:</b>		
Common Stock—par value \$.01 per share; 60,000,000 authorized; 8,163,488 and 7,840,477 issued and outstanding on September 30, 2012 and December 31, 2011, respectively . . . . .	81,635	78,405
Additional paid-in capital . . . . .	38,020,537	35,907,806
Accumulated deficit . . . . .	<u>(45,429,750)</u>	<u>(36,651,431)</u>
<b>TOTAL STOCKHOLDERS' DEFICIT . . . . .</b>	<b><u>(7,327,578)</u></b>	<b><u>(665,220)</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT . . . . .</b>	<b><u>\$ 2,803,186</u></b>	<b><u>\$ 6,289,949</u></b>

See notes to unaudited condensed consolidated financial statements.

**LUCID, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUE:				
Product sales . . . . .	\$ 413,509	\$ 777,961	\$ 1,303,067	\$ 2,213,635
Non-product revenue . . . . .	—	87,081	—	261,243
Total revenue . . . . .	413,509	865,042	1,303,067	2,474,878
OPERATING EXPENSES:				
Cost of revenue . . . . .	528,647	592,302	1,396,083	1,320,922
General and administrative . . . . .	1,195,404	1,519,826	4,183,483	4,131,725
Sales and marketing . . . . .	416,675	344,502	1,411,978	1,000,850
Engineering, research and development . . . . .	1,155,966	400,647	2,899,303	1,076,285
Total operating expenses . . . . .	3,296,692	2,857,277	9,890,847	7,529,782
LOSS FROM OPERATIONS . . . . .	(2,883,183)	(1,992,235)	(8,587,780)	(5,054,904)
OTHER INCOME (EXPENSE):				
Interest expense . . . . .	(135,197)	(624,449)	(251,802)	(1,613,023)
Loss on extinguishment of debt . . . . .	(56,151)	—	(422,435)	—
Fair value adjustment of warrants . . . . .	22,856	288,321	494,986	193,471
Other expense . . . . .	(7,462)	(1,056)	(11,288)	(632)
NET LOSS . . . . .	\$(3,059,137)	\$(2,329,419)	\$(8,778,319)	\$ (6,475,088)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS (Note 8) . . . . .	\$(3,059,137)	\$(2,329,419)	\$(8,778,319)	\$(13,381,654)
BASIC AND DILUTED NET LOSS PER COMMON SHARE . . . . .	\$ (0.38)	\$ (1.08)	\$ (1.12)	\$ (6.18)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING . . . . .	8,005,820	2,164,607	7,872,767	2,164,100

See notes to unaudited condensed consolidated financial statements.

**LUCID, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss . . . . .	\$(8,778,319)	\$(6,475,088)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization . . . . .	32,257	231,057
Stock-based compensation . . . . .	1,464,089	1,581,634
Warrants issued for services . . . . .	—	45,801
Fair value adjustment of warrants . . . . .	(494,986)	(193,471)
Loss on extinguishment of debt . . . . .	422,435	—
Accretion of debt discount . . . . .	121,925	886,440
Change in:		
Accounts receivable . . . . .	28,812	(191,874)
Inventories . . . . .	206,064	(466,497)
Prepaid expenses and other current assets . . . . .	24,802	45,798
Other assets . . . . .	(2,168)	(1,625)
Accounts payable . . . . .	(673,807)	(129,391)
Accrued expenses and other current liabilities . . . . .	440,173	855,733
Other liabilities . . . . .	489,926	(255,221)
Net cash used in operating activities . . . . .	<u>(6,718,797)</u>	<u>(4,066,704)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—Purchases of property and equipment . . . . .</b>	<u>(74,564)</u>	<u>(81,853)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of line-of-credit . . . . .	—	(2,000,000)
Borrowings on debt . . . . .	—	5,620,000
Borrowings on note payable—related parties . . . . .	6,652,284	300,000
Repayments of debt . . . . .	(3,393,262)	(511,332)
Loan acquisition costs . . . . .	(64,748)	(252,150)
Issuance of common units . . . . .	20,257	—
Issuance of common stock . . . . .	354,748	2,150
Proceeds from warrant exercises . . . . .	—	739,218
Net cash provided by financing activities . . . . .	<u>3,569,279</u>	<u>3,897,886</u>
<b>NET DECREASE IN CASH . . . . .</b>	<u>(3,224,082)</u>	<u>(250,671)</u>
<b>CASH—Beginning of period . . . . .</b>	<u>4,896,141</u>	<u>839,075</u>
<b>CASH—End of period . . . . .</b>	<u>\$ 1,672,059</u>	<u>\$ 588,404</u>
<b>SUPPLEMENTAL CASH FLOW DATA—Cash paid for interest . . . . .</b>	<u>\$ 62,939</u>	<u>\$ 118,201</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Refinance of loan acquisition costs with note payable . . . . .	<u>\$ 26,162</u>	
Refinance of debt discount with note payable . . . . .	<u>\$ 36,633</u>	
Issuance of warrants in connection with debt issuance . . . . .		<u>\$ 1,390,244</u>
Issuance of warrants in connection with note payable—related parties . . . . .		<u>\$ 152,385</u>
Issuance of promissory note in exchange for accrued interest . . . . .		<u>\$ 49,533</u>
Issuance of promissory note in exchange for accounts payable . . . . .		<u>\$ 86,103</u>
Accrued loan acquisition costs . . . . .		<u>\$ 27,500</u>

See notes to unaudited condensed consolidated financial statements.

**LUCID, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

Lucid, Inc. operating as Caliber Imaging & Diagnostics, Inc., 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 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.

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, were quoted on the OTC Bulletin Board and 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 being quoted on the OTC Bulletin Board and the Company’s common stock and warrants commenced being quoted on the OTC Bulletin Board under the symbols “LCDX” and “LCDXW,” respectively.

The Company’s unaudited condensed consolidated 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, 2011. 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 nine months ended September 30, 2012 are not necessarily indicative of the results for any subsequent period or for the entire fiscal year ending December 31, 2012.

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 condensed consolidated statements of operations to conform to the current year presentation.

**2. LIQUIDITY AND CAPITAL RESOURCES**

The Company has incurred net losses of approximately \$8.8 million and \$6.5 million for the nine months ended September 30, 2012 and 2011, respectively. In addition, the Company had a stockholders’ deficit balance of approximately \$7.3 million at September 30, 2012 and \$0.7 million at December 31, 2011. Furthermore, the Company’s current forecast for fiscal 2012 projects a significant net loss, and projects a need for additional capital to fund its operations beyond 2012. 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.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**2. LIQUIDITY AND CAPITAL RESOURCES (Continued)**

There can be no assurance that the Company will be successful in its plans described above or in attracting additional 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**

There were no material changes to the summary of significant accounting policies disclosed in Note 2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**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 nine months ended September 30, 2012, the Company did not grant any warrants not indexed to the Company's own stock. During the nine months ended September 30, 2011, the Company granted 309,670 warrants at a weighted average exercise price of \$8.54. The following table presents the change in Level 3 liabilities:

	Nine Months Ended September 30,	
	2012	2011
Balance at January 1 . . . . .	\$ 687,580	\$1,674,170
Warrants issued . . . . .	—	1,552,707
Fair value adjustment . . . . .	<u>(494,986)</u>	<u>(193,471)</u>
Balance at September 30 . . . . .	\$ 192,594	\$3,033,406

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 the Company estimated to be \$2.00 and \$8.70 at September 30, 2012 and 2011, respectively; however, a 1% increase or decrease in this input would not result in a material change in estimate.

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 estimates that its carrying value approximated fair value as of September 30, 2012. This estimate is based on acceptable valuation methodologies which use market data of similarly sized and situated debt issuers.

**Recently Issued Accounting Pronouncements**—In the normal course of business, the Company 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 condensed consolidated financial statements.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**4. INVENTORIES**

Inventories consisted of the following at:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Raw materials . . . . .	\$ 396,849	\$468,053
Finished goods . . . . .	180,449	100,566
Offsite demo equipment . . . . .	126,406	183,256
Less inventory reserve . . . . .	(179,893)	(22,000)
	<u>\$ 523,811</u>	<u>\$729,875</u>

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. Excess, obsolete or expired inventory are adjusted to net realizable value, through inventory reserve, based primarily on how long the inventory has been held as well as the Company's estimate of forecasted net sales of the product. The Inventory reserve at September 30, 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 during the three months ended September 30, 2012.

**5. NOTE PAYABLE—RELATED PARTIES**

At September 30, 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% and 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 6 - 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.

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 September 30, 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.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**6. DEBT**

Long-term debt consisted of the following at:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
2011 Credit Facility . . . . .	\$ —	\$ 2,583,333
2010/2011 Convertible Debt Offering . . . . .	—	600,000
Promissory Notes Payable . . . . .	434,128	600,309
Note payable in monthly installments of \$707, including interest through June 2012 . . . . .	—	3,290
	434,128	3,786,932
Less debt discount . . . . .	—	(142,560)
	434,128	3,644,372
Current portion of long-term debt . . . . .	(281,025)	(3,291,166)
Long-term debt—net of discount and current portion . . . . .	<u>\$ 153,103</u>	<u>\$ 353,206</u>

**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 5—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 to new investors during November 2010 totaling \$2.1 million and in January 2011 totaling \$1.8 million. In addition, holders of other Company debt exchanged their convertible debentures plus accrued interest, totaling \$1.8 million for 2010/2011 Convertible Debt Offering notes. The notes 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.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**6. DEBT (Continued)**

**Promissory Notes**—As of September 30, 2012 and December 31, 2011, the Company had \$0.4 million and \$0.6 million, respectively, outstanding under two promissory notes that do not accrue interest.

**7. 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 nine months ended September 30, 2012 and had approximately \$13,000 accrued at September 30, 2012 which will be paid by the end of the fourth quarter of 2012.

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 nine months ended September 30, 2012 which will be paid in installments through the first quarter of 2016. At September 30, 2012, approximately \$914,000 was accrued for this liability, of which approximately \$490,000 was long-term in nature and recorded as "Other Long-Term Liabilities" on the Company's condensed consolidated balance sheet.

**8. 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss . . . . .	\$(3,059,137)	\$(2,329,419)	\$(8,778,319)	\$ (6,475,088)
Loss on deemed Preferred Stock redemption . .	—	—	—	\$ (6,906,566)
Net loss attributable to common stockholders .	\$(3,059,137)	\$(2,329,419)	\$(8,778,319)	(13,381,654)
Denominator:				
Weighted-average common shares outstanding .	8,005,820	2,164,607	7,872,767	2,164,100
Basic and diluted net loss per common share . .	\$ (0.38)	\$ (1.08)	\$ (1.12)	\$ (6.18)

Until their exercise in August 2012, the weighted-average common shares outstanding above includes 100,000 shares underlying exercisable options nominally priced at \$0.02 per share. After their exercise, the weighted-average common shares outstanding includes the 100,000 shares of common stock issued.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**8. NET LOSS PER COMMON SHARE DATA (Continued)**

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

	Nine Months Ended September 30,	
	2012	2011
Options to purchase common stock . . . . .	913,333	2,101,774
Warrants . . . . .	2,215,680	736,249
Restricted stock . . . . .	122,667	191,167
Convertible preferred stock (as converted basis) . . . . .	—	1,448,314

**9. EQUITY**

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 (See Note 6). 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 93,500 shares of restricted stock, in aggregate.

As of July 5, 2012, the Board of Directors adopted, subject to stockholder approval at the next stockholder meeting, the 2012 Incentive 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 Incentive Plan. The 2012 Incentive 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 Incentive 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 Incentive Plan are added back to the shares of common stock available for issuance under the 2012 Incentive Plan.

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 38,000 shares of common stock (at a value of \$2.00 per share) in an equal exchange for approximately 184,000 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.

**LUCID, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

**9. EQUITY (Continued)**

During the nine months ended September 30, 2012, 100,000 stock options nominally priced at \$0.02 were exercised for common stock as well as 61,400 stock options at an exercise price of \$0.30.

**10. SEGMENT INFORMATION**

The Company operates in one reportable segment—the research, development and sale of medical devices to diagnose 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 September 30,				Nine months Ended September 30,			
	2012		2011		2012		2011	
	Product Sales (in thousands)	%	Product Sales (in thousands)	%	Product Sales (in thousands)	%	Product Sales (in thousands)	%
North America . . . . .	\$ 64	16%	\$ 42	6%	\$ 297	23%	\$ 282	13%
Europe . . . . .	20	5%	515	66%	344	26%	1,197	54%
Asia . . . . .	287	69%	220	28%	465	36%	426	19%
Latin America . . . . .	41	10%	—	—	196	15%	219	10%
Australia . . . . .	1	—	1	—	1	—	90	4%
Total . . . . .	<u>\$413</u>	<u>100%</u>	<u>\$778</u>	<u>100%</u>	<u>\$1,303</u>	<u>100%</u>	<u>\$2,214</u>	<u>100%</u>

**11. RELATED PARTIES**

Notes payable due to related parties are discussed in Note 5 and the fee entitlement due to an affiliate in relation to the 2011 Credit Facility is discussed under “2011 Credit Facility” in Note 6.

At September 30, 2012 and December 31, 2011, respectively, the Company had a total of approximately \$0 and \$46,000 included in accounts payable due to related parties for professional services. At September 30, 2012 and December 31, 2011, respectively, the Company had a total of approximately \$21,000 and \$191,000 included in accrued expenses due to related parties for professional services.

**12. 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.

In October 2012, the Company issued approximately 38,000 shares of common stock (at a value of \$2.00 per share) in an equal exchange for approximately 184,000 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.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties including information with respect to our plans and strategy for our business and related financing, thereof, contain forward-looking statements that involve risks, uncertainties and assumptions. All statements that express expectations, estimates, forecasts or projections are forward-looking statements. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “projects”, “forecasts”, “may”, “should”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements include but are not limited to statements under the captions “Business”, “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as other sections in this Quarterly Report on Form 10-Q. You should be aware that the occurrence of any of the events discussed under the heading “Item 1A. Risk Factors” and elsewhere in this report could substantially harm our business, results of operations and financial condition and that if any of these events occurs, the trading price of our securities could decline and you could lose all or a part of the value of your shares of our securities. The cautionary statements made in this report are intended to be applicable to all related forward-looking statements wherever they may appear in this Quarterly Report on Form 10-Q. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we assume no obligation to update our forward-looking statements, even if new information becomes available in the future.

Unless the context otherwise indicates, references in this report to the terms “Lucid”, “the Company”, “we,” “our” and “us” refer to Lucid, Inc. operating as Caliber Imaging & Diagnostics, Inc., or Caliber I.D., and its subsidiaries.

### **Item 2. 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 related notes. In addition to historical information, some of the information in this discussion and analysis contains forward-looking statements reflecting our current expectations and involves risk and uncertainties. For example, statements regarding our expectations as to our plans and strategy for our business, future financial performance, expense levels and liquidity sources are forward-looking statements. Our actual results and the timing of events could differ materially from those discussed in our forward-looking statements as a result of many factors, including those set forth under “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2011, as updated in Part II, Item 1A, of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012 and in this Quarterly Report on Form 10-Q.*

#### **Overview**

We are a medical device company that designs, manufactures and sells non-invasive cellular imaging devices enabling physicians to image and diagnose skin disease in real time without a biopsy. Devices using our Rapid Cell ID technology allow physicians to detect and diagnose skin disease, including basal cell carcinoma, melanoma, and inflammatory and pigmentary disorders. Rapid Cell ID technology offers physicians the option to non-invasively diagnose, monitor and follow-up the non-invasive treatment of basal cell carcinoma, and includes the capacity to visualize the margins of the disease prior to surgery, improving patient outcomes. We have developed an integrated platform of tools, including the VivaScope® 1500 and VivaScope® 3000 Rapid Cell ID Imagers along with our telepathology service that can be used by doctors, surgeons, and research laboratories. Our tools are already in use by doctors and researchers in major academic hospitals as well at pharmaceutical and large cosmetic companies.

Our telepathology server, when connected to a physician's VivaScope imager, transfers images from a physician's office or operating room to another physician, pathologist or other diagnostic reader for near real-time diagnosis and reporting. In addition, the telepathology server stores images and pathology reports as a part of a patient's HIPAA compliant permanent, electronic, medical record increasing efficiency and reducing costs for medical institutions compared to current histology record retention processes.

We have devoted substantially all of our resources to the development of our Rapid Cell ID technology and telepathology service, which expenses have included research and development, conducting clinical investigation for our product candidates, protecting our intellectual property and the general and administrative support of these operations. While we have generated revenue through product sales, we have funded our operations largely through multiple rounds of private debt and equity financings. We believe that our existing cash and cash equivalents will allow us to fund our operating plan into the first quarter of 2013. We have never been profitable and we reported net losses of approximately \$8.8 million and \$6.5 million for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, we had an accumulated deficit of approximately \$7.3 million. We expect to incur operating losses for the foreseeable future as we invest substantial resources to promote the commercialization, and attempt to achieve widespread adoption, of our products. We will require additional financing to support these and other operating activities. Adequate additional funding may not be available to us on acceptable terms, or at all. We expect that research and development expenses and sales and marketing expenses will increase along with general and administrative costs, as we grow and operate as a public company. We will need to generate significant revenues to achieve profitability and we may never do so.

Our revenues consist of product revenue and non-product revenue. Product revenues consist of revenues derived from the sale of our products and services, primarily VivaScopes, as well as an immaterial amount of revenue from maintenance and support services. We recognize product revenue when evidence of an agreement exists, title has passed (generally upon shipment) or services have been rendered. 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. Non-product revenue, which to date has been in the form of a payment from a European distributor for certain rights including a license to use certain technology in defined geographic areas, is recognized as earned.

Our Rapid Cell ID technology platform includes:

- *In-Vivo Confocal Imagers.* The VivaScope 1500 and the VivaScope 3000 handheld confocal imagers are cleared with a FDA 510(k) 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. We designed our VivaScope System to support the capture of: (i) clinical images of the patient; (ii) images of the patient's lesions; and (iii) confocal images of the patient's lesions that can be evaluated at the point of care or transmitted over our HIPAA compliant telepathology network to a pathologist.
- *Ex-Vivo Confocal Imagers.* The VivaScope 2500 produces electro-optically enlarged images of unstained and unsectioned excised surgical tissue for medical purposes. The VivaScope 2500 is exempt from FDA 510K. We are developing the VivaScope 2500 confocal imager for the rapid imaging of tissue that has been surgically excised from the body. We expect these devices, which are intended to require little or no tissue preparation to render images similar to those obtained

using traditional histology techniques will streamline the practice of conventional laboratory pathology for excised tissue analysis.

- *Telepathology.* Our telepathology server is a DICOM compliant medical grade server that stores, retrieves and transfers images between physicians, and diagnostic readers, typically pathologists. It is registered with the FDA as a Class I medical image storage device, which categorizes it as a radiology diagnostic device.

During the first quarter of 2012, we began a program to enhance the functionality of our existing In-Vivo Confocal Imagers (the “2012 Enhancement Program”) which was substantially completed by September 30, 2012. During the 2012 Enhancement Program we redesigned many optical and electrical components to our in-vivo confocal imagers to increase speed and functionality. Our redesigned products generate images of the highest level of optical quality with greater reliability and repeatability. We have also improved the user interface with a touch-screen monitor and an ergonomic redesign of the handheld device. During the 2012 Enhancement Program, sales of our existing products slowed, as our customers waited to place orders for the redesigned products.

We are an “emerging growth company”, or “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. We expect to take advantage these exemptions. If we do take advantage of any of these exemptions, we do not know if some investors 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.

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.

### ***Reimbursement***

We have retained the services of a medical reimbursement firm, Scott Taylor & Associates (STA), which has commenced discussions with the medical directors of third-party private payers in an effort to verify positive coverage decisions and routine reimbursement. We have also started formulating a public-payer strategy for the coverage of procedures that we expect, at some date in the future, will be approved for reimbursement by The Centers of Medicare and Medicaid Services.

A skin biopsy is typically performed by a dermatologist. We believe confocal imaging procedures can be performed by physician extenders (physician assistants, nurses and medical technicians) who

already work in the physician's office. We have designed our VivaScope and telepathology system to facilitate the detection of skin disease which we believe may over time make medical practices more productive by shifting physician procedures from surgical biopsies that confirm malignancy to the direct surgical excision of lesions known to be cancerous as determined by confocal imaged optical biopsies. There is also the possibility that our technology will reduce the number of unnecessary biopsies, infections, and additional physician visits leading to a significant cost reduction to the health plan.

The technical component for preparation of a pathology slide in a laboratory, CPT (Current Procedural Terminology) code 88305-TC, covers reimbursement for the cost of material, labor and overhead for placing the tissue on the slides and subsequently storing the slides and any remaining tissue as components of the patient's medical record. The storage time for these slides and tissue varies from state to state but is often in the range of 7 to 20 years. We believe Lucid may receive a "per image", or license fee for the technical component as a direct payment from an insurance company. However, as we have recently initiated the reimbursement contracting process, we have not yet received any such reimbursement under existing CPT codes.

A pathologist also receives a professional fee reimbursement under CPT code 88305-26 for the diagnosis of the slides associated with a single lesion. We believe that a pathologist may receive a comparable reimbursement fee for the review of "optical biopsy" slides from Lucid's technology platform. We believe that a pathologist over time may find that the use of Lucid's confocal imaging products as compared to traditional glass slides provides a compelling value proposition to pathologists because the system gives pathologists much greater flexibility, since a traditional laboratory setting is not necessarily required and overhead expenses can be substantially reduced. Since the system is available at all times, moreover, and not geographically dependent, the services can be rendered from such places and at such times as the pathologist may select.

Scott Taylor & Associates has advised the Company that it has made submissions on behalf of the Company with third-party private payers covering approximately 148 million lives and that the Company can reasonably expect to begin contracting with such third-party private payers in six to twelve months.

### ***Results of Operations***

#### ***Three and Nine Month Periods Ended September 30, 2012 and 2011***

We reported a consolidated net loss of \$3.1 million or \$0.38 per share and \$2.3 million or \$1.08 per share for the three month periods ended September 30, 2012 and 2011, respectively. Additional net losses for the three months ended September 30, 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 three months ended September 30, 2011.

We reported a consolidated net loss of \$8.8 million or \$1.12 per share and \$6.5 million or \$6.18 per share for the nine month periods ended September 30, 2012 and 2011, respectively. The increased net losses for the nine months ended September 30, 2012 as compared with the same period in 2011 resulted from increased operating costs primarily related to employee related termination costs as well as substantial increases in warranty expenses. Additional operating costs were incurred related to the 2012 Enhancement Program combined with the significant decrease in sales over the comparable period.

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

*Product sales.* For the three months ended September 30, 2012 and 2011, we recorded sales of our products of \$0.4 million and \$0.8 million, respectively. The decrease in sales in 2012 was primarily attributed to decreases in sales of \$0.5 million in Europe offset by increases in Asia and Latin America. During the nine months ended September 30, 2012 and 2011, we recorded sales of our products of

\$1.3 million and \$2.2 million, respectively. During the nine months ended September 30, 2012, we began a significant enhancement program to increase the speed and functionality of our VivaScope confocal imagers. We believe sales of our existing products have been negatively impacted during 2012 primarily because we informed our key distributors at the end of 2011 about the 2012 Enhancement Program. We have substantially completed our 2012 Enhancement Program and have purchase orders for new products which we expect to generate in excess of \$1.0 million of revenues in the fourth quarter of 2012. Percentages of total product sales by geographic region are as follows:

	Three months Ended September 30,				Nine months Ended September 30,			
	2012		2011		2012		2011	
	Product Sales (in thousands)	%	Product Sales (in thousands)	%	Product Sales (in thousands)	%	Product Sales (in thousands)	%
North America . . . . .	\$ 64	16%	\$ 42	6%	\$ 297	23%	\$ 282	13%
Europe . . . . .	20	5%	515	66%	344	26%	1,197	54%
Asia . . . . .	287	69%	220	28%	465	36%	426	19%
Latin America . . . . .	41	10%	—	—	196	15%	219	10%
Australia . . . . .	1	—	1	—	1	—	90	4%
Total . . . . .	<u>\$413</u>	<u>100%</u>	<u>\$778</u>	<u>100%</u>	<u>\$1,303</u>	<u>100%</u>	<u>\$2,214</u>	<u>100%</u>

*Cost of revenue.* For the three months ended September 30, 2012 and 2011, our cost of revenue was \$0.5 million and \$0.6 million, respectively. For the nine months ended September 30, 2012 and 2011, our cost of revenue was \$1.4 million and \$1.3 million, respectively. The decrease in cost of sales for the three month period reflects a significant decrease in sales over the same three months of the prior year. The increase in cost of sales for the nine month periods reflects an increase in warranty related costs 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, occupancy costs for our facilities, insurance costs and general corporate expenses. For the three months ended September 30, 2012, general and administrative expenses totaled \$1.2 million, a decrease of \$0.3 million from the same period last year. The decrease resulted primarily from decreases of \$0.3 million in professional fees after completion of our initial public offering in 2011. For the nine months ended September 30, 2012, general and administrative expenses totaled \$4.2 million, staying fairly consistent with the nine months ended September 30, 2011.

*Sales and marketing expenses.* The Company primarily sells its products through a direct sales force in North America and through distributors outside of North America. Sales and marketing expenses consist primarily of salaries and benefits and general marketing expenses. For the three months ended September 30, 2012, sales and marketing expenses totaled \$0.4 million, an increase of \$0.1 million as compared to the same period of prior year resulting from the increased number of trade shows attended during the period. For the nine months ended September 30, 2012, sales and marketing expenses totaled \$1.4 million, an increase of \$0.4 million from the comparable period of the prior year. This increase resulted from an increase of \$0.4 million in expenses related to physician education, reimbursement consulting and marketing support.

*Engineering, research and development expenses.* Engineering, research and development expenses consist primarily of salaries and benefits, engineering consulting expenses and material costs used in the development of new products and product improvements. For the three months ended September 30, 2012, engineering, research and development expenses totaled \$1.2 million, an increase of \$0.8 million from the same period in the prior year resulting from the 2012 Enhancement Program as well as \$0.4 million relating to employee termination costs. For the nine months ended September 30, 2012, engineering, research and development expenses totaled \$2.9 million, an increase of \$1.8 million from

the same period in the prior year. This increase primarily resulted from \$0.8 million of additional expenses resulting from the 2012 Enhancement Program, increased stock-based compensation charges of \$0.3 million and increases of \$0.5 million of severance benefits and wages.

*Interest expense.* Interest expense decreased \$0.5 million from \$0.6 million for the three months ended September 30, 2011 to \$0.1 for the three months ended September 30, 2012. Interest expense decreased \$1.4 million from \$1.6 million for the nine months ended September 30, 2011 to \$0.3 million for the nine months ended September 30, 2012. The decrease in interest expense for the three and nine months ended September 30, 2012 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 was \$56,000 and \$0.4 million for the three and nine months ended September 30, 2012, respectively, as compared to no such charges for the comparable periods of 2011. Losses recognized during 2012 related to the third quarter loss of \$56,000 for the 2012 Demand Note, the second quarter loss of approximately \$60,000 for the 2011 Credit Facility, and the first quarter loss of \$0.3 million resulting from the final consideration made for the conversion of the 2009 Convertible Debt Offering which occurred at the completion of the IPO in the fourth quarter of 2011.

*Fair value adjustment of warrants expense.* For the three months ended September 30, 2012 and 2011, we recognized income of \$23,000 and \$0.3 million, respectively, to record changes in the fair value of certain of our outstanding warrants not indexed to our own stock. For the nine months ended September 30, 2012 and 2011, we recognized income of \$0.5 million and \$0.2 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 September 30, 2012, we had \$2.6 million in current assets and \$2.6 million in current liabilities. As of December 31, 2011, we had \$6.1 million in current assets and \$5.9 million in current liabilities, respectively, resulting in working capital of \$0.2 million. Our working capital decreased during the nine months ended September 30, 2012 primarily as a result of operating losses, partially offset by a reclassification of short-term debt into long-term debt. Our current assets consist of cash, accounts receivable, inventories, prepaid expenses and other. 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 the next year as we develop and expand our product offerings, conduct clinical trials and work to establish reimbursement for services performed with our products, seek to commercialize our products and expand our corporate infrastructure. We project a need for additional capital to fund our operations beyond 2012.

We require significant amounts of additional capital, and such capital may not be available as we need it, or on terms that we find favorable, if at all. We are currently seeking to raise these funds through debt financing and/or private equity offerings, although we may seek to raise 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 acceptable to us.

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, conducting clinical trials and establishing reimbursement;
- the timing of, and the costs involved in, obtaining regulatory approvals for our 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*

	<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Operating activities . . . . .	\$(6,718,797)	\$(4,066,704)
Investing activities . . . . .	(74,564)	(81,853)
Financing activities . . . . .	3,569,279	3,897,886
Net (decrease) in cash and cash equivalents . . . . .	(3,224,082)	(250,671)

*Net cash used in operating activities.* Cash used in operating activities was \$6.8 million and \$4.1 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in cash used in operating activities resulted from additional net losses of \$2.3 million combined with \$1.0 million of increased payments to reduce accounts payable and accrued liabilities, partially offset by decreased inventory spending during the nine months ended September 30, 2012.

*Net cash used in investing activities.* Cash used in investing activities was \$0.1 million and \$0.1 million for the nine months ended September 30, 2012 and 2011, respectively, and represents the purchases of fixed assets during these periods.

*Net cash provided by financing activities.* Cash provided by financing activities was \$3.6 million for the nine months ended September 30, 2012 primarily due to payments of \$2.6 million on the Company's 2011 Credit Facility, \$0.2 million on unsecured debt, and \$0.6 million of principal payments to certain holders of the 2010/2011 Convertible Debt Offering that did not convert to equity at the close of our IPO. These outflows were offset by the proceeds from the 2012 Interim Loan and the 2012 Term Loan of \$7.0 million. These debt instruments are described in more detail below. For the nine months ended September 30, 2011, cash provided by financing activities was \$3.9 million resulting from proceeds from the 2010/2011 Convertible Debt Offering.

*Credit Facilities.* In July 2011, we entered into a Loan and Security Agreement with an institutional lender (the “2011 Credit Facility”), under which we borrowed \$3.0 million in term loans for general working capital purposes and to refinance our preexisting line of credit. In March and April 2012, we entered into forbearance agreements with the lender and in May 2012 we repaid the 2011 Credit Facility in full with proceeds from an approximate \$2.3 million term loan (the “2012 Interim Loan”) with an affiliate.

In July 2012, we borrowed \$7.0 million from the same affiliate pursuant to a Loan and Security Agreement (the “2012 Term Loan”), which refinanced the 2012 Interim Loan and matures in July 2017. We 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.

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.

*Promissory Notes.* As of September 30, 2012 and December 31, 2011, we had \$0.4 and \$0.6 million, respectively, outstanding under two promissory notes that do not accrue interest.

*Trade Payables and Receivables.* As of September 30, 2012 and December 31, 2011, we had approximately \$0.2 million and \$0.4 million, respectively, of accounts payable which were aged over 180 days. Management has reached understandings with many of these vendors to pay overdue amounts over time, although, there can be no assurance that these favorable understanding will continue. 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 our orders.

As of September 30, 2012 and December 31, 2011, we had accounts receivable of approximately \$0.4 million and \$0.4 million, respectively. We generally request 50% prepayment from all direct sales customers, with the balance due 30 days after shipment, although in certain circumstances we require the full balance prior to shipment of devices. Amounts collected prior to the recognition of revenue are recognized as customer deposits and are included in “accrued expenses and other current liabilities.” We characterize our relationships with our distributors as excellent and we generally require full payment within 30 days of shipment to our distributors.

*Warrants.* At September 30, 2012, we had 2,215,680 warrants outstanding at a weighted average exercise price of \$5.86. These warrants were issued primarily in connection with post convertible debt offerings, as well as in the common units sold in our recent initial public offering. In October 2012, we issued approximately 38,000 shares of common stock (at a value of \$2.00 per share) in an equal exchange for approximately 184,000 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

*Stock Options.* At September 30, 2012, we had 913,333 stock options outstanding at a weighted average exercise price of \$5.58.

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

We had no off-balance sheet arrangements as of September 30, 2012 and as of the date of this report.

### ***Recently Issued Accounting Pronouncements***

In the normal course of business, management evaluates all new accounting pronouncements 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 consolidated financial statements. Based upon this review, we do not expect any of the recently issued accounting pronouncements to have a material impact on our consolidated financial statements.

### ***Critical Accounting Policies and Estimates***

During the quarter ended September 30, 2012, there were no significant changes in our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for a more complete discussion of our estimates and critical accounting policies.

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

Not applicable.

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

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

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of September 30, 2012. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of September 30, 2012 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosures. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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

During the quarter ended September 30, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

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

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

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

There were no material changes to the risk factors disclosed in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011, other than as set forth in Part II, Item 1A. Risk Factors in our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2012 and June 30, 2012 (except to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations)).

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

#### **Recent Sales of Unregistered Securities**

In July 2012, the Company issued 167,164 shares of the Company's common stock to an affiliate in connection with the closing of a loan to the Company of \$7.0 million pursuant to a Loan and Security Agreement (the "2012 Term Loan"). The 2012 Term Loan refinanced the Company's 2012 interim loan with the affiliate and matures in July 2017.

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

Not Applicable

### **Item 4. Mine Safety Disclosures**

Not Applicable

### **Item 5. Other Information**

On November 8, 2012, the Board of Directors approved a Resignation Agreement by and between the Company and Jay Eastman (the "Resignation Agreement"). Per the terms of the agreement, effective September 30, 2012, Mr. Eastman will receive a cash payment of \$400,000 in installments payable over a period of forty months, subject to acceleration, and payment of an amount equal to the Company's contribution to Mr. Eastman's health insurance for a period of three years. The foregoing description of the terms of the Resignation Agreement is qualified in its entirety by reference to the full text of the agreement, which is attached to this Quarterly Report on Form 10-Q as Exhibit 10.3 and is incorporated herein by reference. Mr. Eastman has agreed to continue with the Company as Founder, Director Emeritus and Chief Scientist through 2015.

## Item 6. Exhibits

- 10.1 Loan and Security Agreement, by and between the Company and Northeast LCD Capital, LLC dated July 5, 2012 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 11, 2012)
- †10.2 Separation Agreement by and between the Company and Martin Joyce, dated July 9, 2011 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 13, 2012)
- \*†10.3 Resignation Agreement by and between the Company and Jay Eastman, effective September 30, 2011
- \*31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*\*32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*\*32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- ††101 The following material from Lucid Inc.'s Quarterly Report on Form 10-Q, for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets; (ii) the Unaudited Condensed Consolidated Statements of Operations; (iii) the Unaudited Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Unaudited Condensed Consolidated Financial Statements.

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\* Filed herewith.

\*\* Furnished herewith.

† Management contract or compensatory plan or arrangement.

†† *XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.*

## SIGNATURES

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

### LUCID, INC.

By: /s/ RICHARD J. PULSIFER

**Name: Richard J. Pulsifer**

**Title: Chief Financial Officer**

Date: November 9, 2012

**CERTIFICATION PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, L. Michael Hone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lucid, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ L. MICHAEL HONE

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**L. Michael Hone**  
**Chief Executive Officer**

**CERTIFICATION PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Richard J. Pulsifer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lucid, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

/s/ RICHARD J. PULSIFER

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**Richard J. Pulsifer**  
**Chief Financial Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Lucid, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, L. Michael Hone, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 9, 2012

/s/ L. MICHAEL HONE

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**L. Michael Hone**  
**Chief Executive Officer**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Lucid, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard J. Pulsifer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 9, 2012

/s/ RICHARD J. PULSIFER

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**Richard J. Pulsifer**  
**Chief Financial Officer**