

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

FORM 10-Q

(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, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-11388

**VIVEVE MEDICAL, INC.**

(Exact name of registrant as specified in its charter)

**Yukon Territory, Canada**

(State or other jurisdiction of incorporation or organization)

**04-3153858**

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

**150 Commercial Street**

**Sunnyvale, California 94086**

(Address of principal executive offices)

(Zip Code)

**(408) 530-1900**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer," "large 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 11, 2014 the issuer had 18,016,662 shares of common stock, no par value, issued and outstanding.

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## TABLE OF CONTENTS

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	Condensed Consolidated Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013	1
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013	2
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013	3
	Notes to Condensed Consolidated Financial Statements	4
<b>Item 2.</b>	Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
<b>Item 3.</b>	Quantitative and Qualitative Disclosures About Market Risk	32
<b>Item 4.</b>	Controls and Procedures	32
<b>PART II</b>	<b>OTHER INFORMATION</b>	32
<b>Item 1.</b>	Legal Proceedings	32
<b>Item 1A.</b>	Risk Factors	32
<b>Item 2.</b>	Unregistered Sales of Equity Securities and Use of Proceeds	32
<b>Item 3.</b>	Defaults Upon Senior Securities	32
<b>Item 4.</b>	Mine Safety Disclosures	33
<b>Item 5.</b>	Other Information	33
<b>Item 6.</b>	Exhibits	34
<b>SIGNATURES</b>		35

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**VIVEVE MEDICAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2014	December 31, 2013
	<u>(unaudited)</u>	<u>(1)</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,976,980	\$ 430,107
Accounts receivable	3,750	-
Inventory	136,902	228,163
Prepays and other current assets	<u>188,006</u>	<u>308,183</u>
Total current assets	2,305,638	966,453
Property and equipment, net	191,663	127,524
Other assets	<u>652,045</u>	<u>43,783</u>
Total assets	<u>\$ 3,149,346</u>	<u>\$ 1,137,760</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 566,059	\$ 967,315
Accrued liabilities	387,538	516,152
Note payable	1,471,799	1,463,244
Related party convertible bridge notes	-	<u>4,875,000</u>
Total current liabilities	2,425,396	7,821,711
Preferred stock warrant liabilities	-	<u>623,672</u>
Total liabilities	<u>2,425,396</u>	<u>8,445,383</u>
Commitments and contingences (Note 7)		
Stockholders' equity (deficit):		
Series A convertible preferred stock, \$0.001 par value; 0 and 24,543,626 shares authorized as of September 30, 2014 and December 31, 2013; 0 and 23,863,302 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively (Liquidation value of \$14,556,614 as of December 31, 2013)	-	23,863
Series B convertible preferred stock, \$0.001 par value; 0 and 227,000,000 shares authorized as of September 30, 2014 and December 31, 2013; 0 and 171,199,348 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively (Liquidation value of \$8,559,967 as of December 31, 2013)	-	171,199
Preferred stock, no par value; unlimited shares authorized; 0 shares issued and outstanding as of September 30, 2014 and December 31, 2013	-	-
Common stock, \$0.001 par value; 612,000,000 shares authorized as of December 31, 2013; 0 and 6,555,305 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	-	6,556
Common stock and paid-in capital, no par value; unlimited shares authorized; 18,016,662 and 0 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	35,066,274	-
Additional paid-in capital	-	22,395,684
Accumulated deficit	<u>(34,342,324)</u>	<u>(29,904,925)</u>
Total stockholders' equity (deficit)	723,950	(7,307,623)
Total liabilities and stockholders' equity (deficit)	<u>\$ 3,149,346</u>	<u>\$ 1,137,760</u>

(1) The balance sheet as of December 31, 2013 has been derived from the audited financial statements as of that date.

**VIVEVE MEDICAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue	\$ 17,180	\$ 4,610	\$ 64,475	\$ 147,660
Cost of revenue	14,724	1,493	40,075	110,528
Gross profit	2,456	3,117	24,400	37,132
Operating expenses:				
Research and development	572,134	177,203	940,954	628,545
Selling, general and administrative	1,790,014	532,369	3,085,580	2,517,791
Total operating expenses	2,362,148	709,572	4,026,534	3,146,336
Loss from operations	(2,359,692)	(706,455)	(4,002,134)	(3,109,204)
Interest income	2	2	5	5
Interest expense	(152,296)	(156,727)	(486,582)	(334,380)
Other income (expense), net	7,827	(8,713)	51,312	11,230
Net loss	\$ (2,504,159)	\$ (871,893)	\$ (4,437,399)	\$ (3,432,349)
Net loss per share:				
Basic and diluted	\$ (0.52)	\$ (0.23)	\$ (1.08)	\$ (0.92)
Weighted average shares used in computing net loss per common share				
Basic and diluted	4,829,300	3,743,282	4,109,266	3,743,282

**VIVEVE MEDICAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

	Nine Months Ended	
	September 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,437,399)	\$ (3,432,349)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	42,220	35,871
Stock-based compensation expense	143,643	66,001
Revaluation of fair value of warrant liability	(50,762)	(11,230)
Noncash interest expense	369,677	227,911
Changes in assets and liabilities:		
Accounts receivable	(3,750)	849
Inventory	91,261	(574)
Prepaid and other current assets	120,177	(209,711)
Other noncurrent assets	13,908	13,908
Accounts payable	(401,256)	439,849
Accrued liabilities	61,293	(80,357)
Net cash used in operating activities	(4,050,988)	(2,949,832)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(106,359)	(4,214)
Net cash used in investing activities	(106,359)	(4,214)
<b>Cash flows from financing activities:</b>		
Net cash proceeds from issuance of common stock in connection with private placement offering	4,204,220	-
Proceeds from related party convertible bridge notes	1,500,000	3,000,000
Repayments of notes payable	-	(134,814)
Net cash provided by financing activities	5,704,220	2,865,186
Net increase (decrease) in cash and cash equivalents	1,546,873	(88,860)
Cash and cash equivalents - beginning of period	430,107	448,754
Cash and cash equivalents - end of period	\$ 1,976,980	\$ 359,894
<b>Supplemental disclosure:</b>		
Cash paid for interest	\$ 116,905	\$ 106,469
Cash paid for income taxes	\$ 800	\$ 800
<b>Supplemental disclosure of cash flow information as of end of period:</b>		
Conversion of certain bridge notes and related accrued interest in connection with private placement offering	\$ 1,545,678	\$ -
Extinguishment of convertible bridge notes and related accrued interest pursuant to Merger Agreement	\$ 5,397,278	\$ -
Extinguishment of warrant liabilities pursuant to Merger Agreement	\$ 572,910	\$ -
Issuance of warrants in connection with note payable	\$ 622,170	\$ -
Payable to non-accredited investors in connection with Merger Agreement	\$ 16,498	\$ -

**VIVEVE MEDICAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Company and Basis of Presentation**

On September 23, 2014, PLC Systems, Inc., a Yukon Territory corporation (“PLC”) completed an Agreement and Plan of Merger (“Merger Agreement” or “Merger”) with Viveve®, Inc., a Delaware corporation (“Viveve”). As of that date, Viveve operates as a wholly-owned subsidiary of PLC and PLC is known as Viveve Medical, Inc. (“Viveve Medical”, the “Company”, “we”, “our”, or “us”). Viveve Medical will compete in the women’s health market with a focus on the Viveve System™ to improve women’s overall sexual well-being and quality of life, will retain all its personnel and continue to be headquartered in Sunnyvale, California.

At the effective time of the Merger, PLC divested its ownership of its former operating subsidiaries, PLC Medical Systems, Inc. and PLC Systemas Medicos Internacionais, which will operate as independent entities going forward under new ownership.

In preparation for the stock exchange pursuant to the Merger, Viveve convertible bridge notes in the aggregate amount of \$4,875,000 and related accrued interest of approximately \$522,000 were extinguished.

Additionally, Viveve warrant liabilities of approximately \$573,000 were extinguished in preparation of the stock exchange pursuant to the Merger.

Pursuant to the Merger Agreement, all shares of capital stock (including common and preferred stock) of Viveve were converted into 3,743,282 shares of the Company’s common stock which represented approximately 62% of the issued and outstanding shares of common stock of the Company on a fully diluted basis. In addition, non-accredited investors were entitled to receive approximately \$16,500 upon closing. Upon the closing of the Merger, the Company issued an additional 943,596 shares of common stock upon the automatic conversion of a warrant issued in exchange for the cancellation of related party convertible bridge notes.

The acquisition was accounted for as a reverse merger and recapitalization effected by a share exchange. Viveve is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

Concurrent with the Merger, Viveve Medical completed a private placement for total gross proceeds of approximately \$6 million (including approximately \$1.5 million of convertible bridge note conversion). As a result, Viveve Medical issued 11,305,567 shares of common stock and 5-year warrants to purchase up to 940,189 shares of common stock at an exercise price of \$0.53 per share.

***Interim Unaudited Financial Information***

The accompanying unaudited condensed consolidated financial statements of Viveve Medical have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the financial statements have been included.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the proxy statement which was filed with the Securities and Exchange Commission on August 11, 2014. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results for the year ending December 31, 2014 or any future interim period.

**2. Summary of Significant Accounting Policies**

***Financial Statement Presentation***

The condensed consolidated financial statements include the accounts of the Company and our wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with US GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In addition, any change in these estimates or their related assumptions could have an adverse effect on our operating results.

### ***Reclassifications***

Certain prior year financial statement amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on previously reported total assets, stockholders' deficit or net loss.

### ***Revenue Recognition***

The Company recognizes revenue from the sale of its product, the Viveve® System, and single-use treatment tips. Revenue is recognized upon delivery, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Sales of Viveve's products are subject to regulatory requirements that vary from country to country. The Company has regulatory clearance outside the U.S. and currently sells the Viveve System in Canada, Hong Kong and Japan.

The Company does not provide its customers with a contractual right of return.

### ***Recently Issued and Adopted Accounting Standards***

In May 2014, as part of its ongoing efforts to assist in the convergence of US GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual and interim periods beginning after December 15, 2016. We are currently evaluating the impact that this standard will have on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After a Requisite Service Period" ("ASU 2014-12"). Companies commonly issue share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. The performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 will be effective for the Company's fiscal years beginning fiscal 2016 and interim reporting periods within that year, using either the retrospective or prospective transition method. Early adoption is permitted. We are currently evaluating the effect of the adoption of this guidance on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in topic 810, Consolidation" ("ASU 2014-10"). ASU 2014-10 removes the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. ASU 2014-10 also eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. The amendments in ASU 2014-10 will be effective retrospectively except for the clarification to Topic 275, which shall be applied prospectively for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. We elected to early adopt the provisions of ASU 2014-10 in the second quarter of 2014.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 310-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Since ASU 2014-15 only impacts financial statement disclosure requirements regarding whether there is substantial doubt about an entity's ability to continue as a going concern, we do not expect its adoption to have an impact on our condensed consolidated financial statements.

#### ***Concentration of Credit Risk and Other Risks and Uncertainties***

To achieve profitable operations, the Company must successfully develop, manufacture, and market its products. There can be no assurance that any such products can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect upon the Company's financial results, financial position, and future cash flows.

The Company's future products may require approval from the U.S. Food and Drug Administration or other international regulatory agencies prior to commencing commercial sales. There can be no assurance that the Company's future products will receive any of these required approvals. If the Company was denied such approvals or such approvals were delayed, it would have a material adverse impact on the Company's financial results, financial position and future cash flows.

The Company is subject to risks common to companies in the medical device industry including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, product liability, and the need to obtain additional financing. The Company's ultimate success is dependent upon its ability to raise additional capital and to successfully develop and market its products.

During the nine months ended September 30, 2014, three customers accounted for 94% of the Company's revenue.  
During the nine months ended September 30, 2013, one customer accounted for 100% of the Company's revenue.  
During the three months ended September 30, 2014, two customers accounted for 79% of the Company's revenue.  
During the three months ended September 30, 2013, one customer accounted for 100% of the Company's revenue.



### ***Inventory***

Inventory is stated at the lower of cost or market, cost being determined on an actual cost basis on a first-in, first-out basis and market being determined as the lower of replacement cost or net realizable value.

### ***Product Warranty***

The Company's products are generally subject to a one year warranty, which provides for the repair, rework or replacement of products (at its option) that fail to perform within stated specification. The Company has assessed the historical claims and, to date, product warranty claims have not been significant. The Company will continue to assess if there should be a warranty accrual.

### ***Comprehensive Loss***

Comprehensive loss represents the changes in equity of an enterprise, except those resulting from stockholder transactions. Accordingly, comprehensive loss may include certain changes in equity that are excluded from net loss. For the three and nine months ended September 31, 2014 and 2013, the Company's comprehensive loss is the same as its net loss. There were no components of comprehensive loss for any of the periods presented.

### ***Net Loss per Share Attributable to Common Stockholders***

The Company's basic net loss per share attributable to common stockholders is calculated by dividing the net loss by the weighted average number of shares of common stock outstanding for the period. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options and warrants to purchase common stock are considered common stock equivalents. For periods in which the Company has reported net losses, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. Potential common shares will always be anti-dilutive for periods in which the Company has reported a net loss. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for the three and nine months ended September 30, 2014 and 2013.

For the three and nine months ended September 30, 2014 and 2013, the following weighted average common stock equivalent shares were excluded from the calculation of net loss per share because the inclusion would be anti-dilutive.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Stock options to purchase common stock	476,671	409,488	445,804	491,609
Warrants to purchase common stock	72,322	-	24,107	-
	<u>548,993</u>	<u>409,488</u>	<u>469,911</u>	<u>491,609</u>

### 3. Fair Value Measurements

The Company recognizes and discloses the fair value of its assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

- |         |   |
|---------|---|
| Level 1 | Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date. Therefore, determining fair value for Level 1 investments generally does not require significant judgment, and the estimation is not difficult.   |
| Level 2 | Pricing is provided by third party sources of market information obtained through investment advisors. The Company does not adjust for or apply any additional assumptions or estimates to the pricing information received from its advisors.  |
| Level 3 | Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The determination of fair value for Level 3 instruments involves the most management judgment and subjectivity. |

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

The Company's Level 1 financial asset is a money market fund with a fair value that is based on quoted market prices. The money market fund is included in cash and cash equivalents on the Company's condensed consolidated balance sheet. The Company's Level 3 liability consists of convertible preferred stock warrant liabilities. The valuation of the warrant liabilities is discussed in Note 8.

For the period ended September 30, 2014, the Company did not have any transfers between Level 1, Level 2 and Level 3.

The following tables set forth the Company's financial instruments that were measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 by level within the fair value hierarchy:

**Assets and Liabilities at Fair Value as of September 30, 2014**

	<i>Quoted prices in active markets for identical assets</i> Level 1	<i>Significant other observable inputs</i> Level 2	<i>Significant unobservable inputs</i> Level 3	Total
<b>Assets</b>				
Money market fund	\$ 190	\$ -	\$ -	\$ 190
Total assets	<u>\$ 190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 190</u>
<b>Liabilities</b>				
Preferred stock warrant liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Assets and Liabilities at Fair Value as of December 31, 2013**

	<i>Quoted prices in active markets for identical assets</i> Level 1	<i>Significant other observable inputs</i> Level 2	<i>Significant unobservable inputs</i> Level 3	Total
<b>Assets</b>				
Money market fund	\$ 324	\$ -	\$ -	\$ 324
Total assets	<u>\$ 324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 324</u>
<b>Liabilities</b>				
Preferred stock warrant liabilities	\$ -	\$ -	\$ 623,672	\$ 623,672
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,672</u>	<u>\$ 623,672</u>

The change in the fair value of the preferred stock warrant liabilities is summarized below:

Fair value as of December 31, 2013	\$ 623,672
Change in fair value recorded in other income (expense), net	(21,484)
Fair value as of March 31, 2014	602,188
Change in fair value recorded in other income (expense), net	(22,001)
Fair value as of June 30, 2014	580,187
Change in fair value recorded in other income (expense), net, as of September 23, 2014, date of the Merger Agreement	(7,277)
Extinguishment of warrant liabilities pursuant to the Merger Agreement (reclassified to equity)	(572,910)
Fair value as of September 30, 2014	<u>\$ -</u>

All assets and liabilities carried at fair value have been valued using a market approach, except for Level 3. The following table describes the valuation techniques used to calculate fair value for Level 3 liabilities. For Level 3 liabilities, the Company determines the fair value measurement valuation policies and procedures. Annually, the Board of Directors assess and approve the fair value measurement policies and procedures. At least annually, the Company determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

	Fair Value as of December 31, 2013	Valuation Techniques	Unobservable Input	Range (Weighted- Average)
Preferred stock warrant liabilities	\$ 623,672	Black-Scholes option pricing model	Preferred series prices Volatility	\$0.04-\$0.44 (\$0.06) 70.62%- 84.23% (76%)

There were no changes in valuation technique from prior periods.

#### 4. Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Accrued interest	\$ 13,792	\$ 235,603
Accrued professional fees	125,671	15,000
Accrued loan balloon payment	85,000	76,472
Accrued vacation	73,809	81,499
Accrued loan restructuring fees	47,500	27,288
Accrued severance pay	-	58,846
Other accruals	41,766	21,444
Total accrued liabilities	<u>\$ 387,538</u>	<u>\$ 516,152</u>

#### 5. Note Payable

In April 2012, the Company entered into a loan and security agreement for up to \$2,135,159 in term loans that were used to pay off the existing loan with a financial institution. The full amount was drawn down in April 2012. In connection with the agreement, the Company issued a warrant to the lender to purchase a total of 73,770 shares of the Company's Series A convertible preferred stock at \$0.61 per share (Note 9). The borrowings were repayable in interest only payments until May 1, 2012 and then 30 equal installments of principal and interest at a rate of 9.5% per annum. An additional 4% of the principal or approximately \$85,000 will be due as the final payment at the end of the loan term. The Company recorded \$8,528 and \$28,785 as additional interest expense during the nine months ended September 30, 2014 and 2013, respectively, related to the \$85,000 payment. The Company will continue to accrue the balance of the \$85,000 cash payment over the remaining term of the loan using the effective interest rate method. As of September 30, 2014 and December 31, 2013, \$85,000 and \$76,472 was recorded in accrued liabilities on the condensed consolidated balance sheets relating to this payment. All borrowings under the agreement are collateralized by substantially all of the Company's assets, including intellectual property. As of September 30, 2014 and December 31, 2013, the note payable had an outstanding balance of \$1,471,799 and \$1,462,244, respectively. The term loan has a maturity date of October 1, 2014 and was repaid on that date as discussed in Note 13.

In February 2013, the Company and lender amended the loan and security agreement to defer up to 3 months of principal payments contingent upon the receipt of bridge loan proceeds in increments of \$500,000, up to \$1,500,000 on or before April 30, 2013, beginning March 1, 2013. This amendment also included a \$15,000 restructuring fee that would be due upon the maturity date of the loan.

In May 2013, the Company and lender amended the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more, on or before September 30, 2013. The principal payments were to be deferred and payable on August 1, 2013. This amendment also included a \$10,000 restructuring fee that would be due upon the maturity date of the loan.

In July 2013, the Company and lender agreed to further amend the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more, on or before August 28, 2013, and an additional month deferral provided a 2013 equity event was completed resulting in net cash proceeds of not less than \$10 million from the sale of the Company's equity securities consummated by September 27, 2013. Principal payments would be deferred and payable on October 1, 2013, provided both of these conditions were met. This amendment also included a \$10,000 restructuring fee that would be due upon the maturity date of the loan.

In September 2013, the Company and lender agreed to further amend the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more on or before August 28, 2013 and another \$500,000 or more on or before October 28, 2013. Principal payments would be deferred until December 1, 2013. This amendment also included a \$10,000 restructuring fee that would be due upon the maturity date of the loan.

In November 2013, the Company and lender agreed to further amend the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more on or before December 27, 2013 and upon the consummation of a 2014 equity event requiring the receipt of not less than \$7 million in net cash proceeds by no later than January 24, 2014. Principal payments would be deferred until February 1, 2014. This amendment also included a \$10,000 restructuring fee that would be due upon the maturity date of the loan.

In January 2014, the Company and lender agreed to further amend the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more on or before February 25, 2014 and consummation of an equity event by April 25, 2014. This amendment included an additional \$5,000 restructuring fee for each month principal payments are deferred beginning February 1, 2014 through April 1, 2014, provided restructuring fees in this amendment shall not exceed \$15,000 in total that would also be due upon the maturity date of the loan.

In February 2014, the Company and lender agreed to further amend the loan and security agreement to defer an additional 2 months of principal payments contingent upon the receipt of bridge loan proceeds of \$500,000 or more on or before April 25, 2014 and consummation of an equity event by June 27, 2014. This amendment included an additional \$5,000 restructuring fee for each month principal payments are deferred beginning March 1, 2014 through June 1, 2014, provided restructuring fees in this amendment shall not exceed \$20,000. This amendment also amended the January 2014 restructuring fee such that the January 2014 restructuring fee shall not exceed \$5,000 in total that would also be due upon the maturity date of the loan.

In June 2014, the Company and lender agreed to further amend the loan and security agreement such that the remaining 3 months of principal payments would be deferred until the maturity date of the term loan when all unpaid principal and interest will be immediately due. This amendment also includes an additional \$5,000 restructuring fee for each month principal payments are deferred beginning July 1, 2014 through September 1, 2014, provided restructuring fees in this amendment do not exceed \$15,000 in total that would also be due upon the maturity date of the loan.

In September 2014, the lender agreed to reduce the total restructuring fees to \$47,500. The Company recorded \$20,212, net of the reduction in fees, and \$45,000 as additional interest expense during the nine months ended September 30, 2014 and 2013, respectively, related to these restructuring fees. The Company has been accruing the balance of the cash restructuring payment over the term of the loan using the effective interest rate method. As of September 30, 2014 and December 31, 2013, \$47,500 and \$27,288 was recorded as an accrued liability on the condensed consolidated balance sheets relating to this restructuring payment.

The loan and security agreement contains a material adverse change clause, as defined in the agreement, which would result in an event of default if the lender deems a material adverse change to have occurred to the Company's business. The continuing liquidity issues the Company faces could be construed by the note holder as a material adverse change which could trigger an acceleration of all of the outstanding debt. As such, the Company has classified all of its outstanding debt balance as a current liability as of September 30, 2014 and December 31, 2013.

As of September 30, 2014, future minimum payments under the note payable are as follows:

<u>Year Ending December 31, 2014</u>	<u>\$ 1,618,091</u>
	1,618,091
Less: Amount representing interest	<u>(146,292)</u>
Present value of obligations	1,471,799
Less: Unamortized debt discount	<u>-</u>
	1,471,799
Less: Notes payable, current portion	<u>1,471,799</u>
Notes payable, noncurrent portion	<u>\$ -</u>

On September 30, 2014, the Company entered into a Loan and Security Agreement pursuant to which we received a term loan in the amount of \$5 million, which will be funded in three tranches. The first tranche of \$2.5 million was provided to the Company on October 1, 2014. The proceeds from the first tranche were used to repay the existing loan (including interest and restructuring fees) with a financial institution which totaled \$1,630,925. Before the second and third tranches of the term loan will be funded, we must meet certain enrollment milestones and achieve certain positive results relating to our OUS Clinical Trials, among other things. In connection with the loan agreement, the Company issued a 10-year warrant to the lender for the purchase of 471,698 shares of the Company's common stock at \$0.53 per share (Note 8).

## 6. Related Party Convertible Bridge Notes

In November 2012, the Company issued \$1,000,000 in convertible promissory notes to related parties. The notes accrue interest at 8% per annum and mature at the earlier of i) the date upon which the majority note holders demand repayment after May 15, 2013 or ii) the date of the closing of a qualified financing in which the Company issues common or preferred stock for gross proceeds of not less than \$5,000,000. As of September 30, 2014 and December 31, 2013, the outstanding principal balance was \$0 and \$1,000,000. Because the holders had the ability to demand repayment after May 15, 2013, the Company classified all of the outstanding debt balance and related accrued interest of \$88,986 as a current liability as of December 31, 2013. In connection with the Merger, these convertible promissory notes were extinguished.

On February 13, 2013, the Company entered into a note purchase agreement (“2013 Note Purchase Agreement”) with related parties to which it was authorized to issue and sell convertible promissory notes up to \$1,500,000 in the aggregate, of which \$1,000,000 was issued. These notes were intended as bridge financing to a planned alternative public offering in the second quarter of 2013. The notes accrue interest at 8% per annum and mature at the earlier of the date upon which the majority note holders demand repayment after August 13, 2013 or the date of the closing of a qualified financing in which the Company issues common or preferred stock for gross proceeds of not less than \$5,000,000 excluding the conversion of these notes and the November 2012 notes. The notes convert into the number of shares equal to the principal and unpaid accrued interest divided by the conversion price, which is defined as 80% of the purchase price in the qualified financing. If the Company does not execute a qualified financing, the holders may elect conversion of the notes prior to the maturity date of August 13, 2013. Under the elective conversion, the notes convert into the number of the next equity financing shares or shares of Series B convertible preferred stock that are equal to the principal and the unpaid accrued interest divided by the conversion price. The conversion price is defined as 80% of the price paid by the investors in the next equity financing series or \$0.05, if the notes are converted into the Series B convertible preferred stock. In April 2013, the Company completed another closing of the 2013 Note Purchase Agreement for \$500,000. On June 3, 2013, the Company entered into an amendment to the 2013 Note Purchase Agreement to increase the total amount of the convertible promissory notes up to \$2,000,000 in the aggregate if issued before June 30, 2013. In June 2013, the Company completed another closing of the 2013 Note Purchase Agreement for \$500,000. On August 7, 2013, the Company entered into an amendment to the 2013 Note Purchase Agreement to increase the total amount of the convertible promissory notes up to \$2,500,000 in the aggregate if issued before August 28, 2013. In August 2013, the Company completed another closing of the 2013 Note Purchase Agreement for \$500,000. As of September 30, 2014 and December 31, 2013, the outstanding principal balance was \$0 and \$2,500,000. Because the holders had the ability to demand repayment after August 13, 2013, the Company classified all of the outstanding debt balance and related accrued interest of \$130,466 as a current liability as of December 31, 2013. In connection with the Merger, these convertible promissory notes were extinguished.

On September 27, 2013, the Company entered into a note purchase agreement (“September 2013 Note Purchase Agreement”) with related parties to which it was authorized to issue and sell convertible promissory notes up to \$500,000 in the aggregate. These notes were intended as bridge financing to a planned APO in the third quarter of 2013. The notes accrue interest at 8% per annum and mature at the earlier of the date upon which the majority note holders demand repayment after March 31, 2014 or the date of the closing of a qualified financing in which the Company issues common or preferred stock for gross proceeds of not less than \$5,000,000 excluding the conversion of these notes, the November 2012 notes and the 2013 Note Purchase Agreement. The notes convert into the number of shares equal to the principal and unpaid accrued interest divided by the conversion price, which is defined as 70% of the purchase price in the qualified financing. If the Company does not execute a qualified financing, the holders may elect conversion of the notes prior to the maturity date of March 31, 2014. Under the elective conversion, the notes convert into the number of the next equity financing shares or shares of Series B convertible preferred stock that are equal to the principal and the unpaid accrued interest divided by the conversion price. The conversion price is defined as 70% of the price paid by the investors in the next equity financing series or \$0.05, if the notes are converted into the Series B convertible preferred stock. As of September 30, 2014 and December 31, 2013, the outstanding principal balance was \$0 and \$500,000. Because the holders had the ability to demand repayment after March 31, 2014, the Company classified all of the outstanding debt balance and related accrued interest of \$10,411 as a current liability as of December 31, 2013. In connection with the Merger, these convertible promissory notes were extinguished.

On November 12, 2013, the Company entered into a note purchase agreement (“November 2013 Note Purchase Agreement”) with related parties to which it was authorized to issue and sell convertible promissory notes up to \$500,000 in the aggregate. These notes were intended as bridge financing to a planned APO in the fourth quarter of 2013. The notes accrue interest at 8% per annum and mature at the earlier of the date upon which the majority note holders demand repayment after March 31, 2014 or the date of the closing of a qualified financing in which the Company issues common or preferred stock for gross proceeds of not less than \$5,000,000 excluding the conversion of these notes, the November 2012 notes and the 2013 Note Purchase Agreement. The notes convert into the number of shares equal to the principal and unpaid accrued interest divided by the conversion price, which is defined as 70% of the purchase price in the qualified financing. If the Company does not execute a qualified financing, the holders may elect conversion of the notes prior to the maturity date of March 31, 2014. Under the elective conversion, the notes convert into the number of the next equity financing shares or shares of Series B convertible preferred stock that are equal to the principal and the unpaid accrued interest divided by the conversion price. The conversion price is defined as 70% of the price paid by the investors in the next equity financing series or \$0.05, if the notes are converted into the Series B convertible preferred stock. As of September 30, 2014 and December 31, 2013, the outstanding principal balance was \$0 and \$500,000. Because the holders had the ability to demand repayment after March 31, 2014, the Company classified all of the outstanding debt balance and related accrued interest of \$5,370 as a current liability as of December 31, 2013. In connection with the Merger, these convertible promissory notes were extinguished.

On December 27, 2013, the Company entered into a note purchase agreement (“December 2013 Note Purchase Agreement”) with related parties to which it was authorized to issue and sell convertible promissory notes up to \$375,000 in the aggregate. These notes were intended as bridge financing to a planned APO in the first quarter of 2014. The notes accrue interest at 9% per annum and mature at the earlier of the date upon which the majority note holders demand repayment after March 31, 2014 or the date of the closing of a qualified financing in which the Company issues common or preferred stock for gross proceeds of not less than \$5,000,000 excluding the conversion of these notes, the November 2012 notes and the 2013 Note Purchase Agreement. The notes convert into the number of shares equal to the principal and unpaid accrued interest divided by the conversion price, which is defined as 70% of the purchase price in the qualified financing. If the Company does not execute a qualified financing, the holders may elect conversion of the notes prior to the maturity date of March 31, 2014. Under the elective conversion, the notes convert into the number of the next equity financing shares or shares of Series B convertible preferred stock that are equal to the principal and the unpaid accrued interest divided by the conversion price. The conversion price is defined as 70% of the price paid by the investors in the next equity financing series or \$0.05, if the notes are converted into the Series B convertible preferred stock. As of September 30, 2014 and December 31, 2013, the outstanding principal balance was \$0 and \$375,000. Because the holders had the ability to demand repayment after March 31, 2014, the Company classified all of the outstanding debt balance and related accrued interest of \$370 as a current liability as of December 31, 2013. In connection with the Merger, these convertible promissory notes were extinguished.

On March 5, 2014, the Company entered into a note purchase agreement in which it was authorized to issue and sell up to \$1,250,000 in aggregate principal amount of convertible promissory notes of which \$200,000 was issued. In May 2014, the Company completed another sale of convertible promissory notes in the aggregate principal amount of \$1,050,000. The notes accrued interest at 9% per annum and converted into common stock in connection with the private placement.

On July 7, 2014, the Company entered into a note purchase agreement in which it was authorized to issue convertible promissory notes up to \$250,000 in the aggregate. The notes accrue interest at 9% per annum and converted into common stock in connection with the private placement.

Pursuant to the Company’s amendment to the note purchase agreement dated November 20, 2012, effective February 13, 2013, the above notes payable would be redeemable upon a change of control of the Company at an amount equal to 300% of the outstanding principal amount and accrued and unpaid interest on the notes as of the time of a change of control. A change of control will occur in the event the Company enters into a transaction where the holders of the voting securities no longer own a majority of the total outstanding voting securities once the transaction is completed or a disposition of substantially all assets occurs. The sale of stock for capital raising purposes or an alternative public offering involving a reverse merger into a public shell company for capital raising purposes is excluded from the Company’s definition of a change of control. The Company has determined that the value of this provision is not material and as such did not record a liability on the Company’s condensed consolidated financial statements as of December 31, 2013. All of these notes were extinguished as part of the Merger Agreement.



## 7. Commitments and Contingencies

### *Operating Lease*

In January 2012, the Company relocated and entered into a lease agreement for a new facility. The new lease commenced in March 2012 and will terminate in February 2015. Rent expense for the nine months ended September 30, 2014 and 2013 was \$128,359 and \$128,359, respectively.

As of September 30, 2014, future minimum payments under the lease are as follows:

<u>Year Ending December 31,</u>		
2014	\$	46,428
2015		30,952
Total minimum lease payments	\$	<u>77,380</u>

### *Indemnification Agreements*

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with performance of services within the scope of the agreement, breach of the agreement by the Company, or noncompliance of regulations or laws by the Company, in all cases provided the indemnified party has not breached the agreement and/or the loss is not attributable to the indemnified party's negligence or willful malfeasance. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal.

### *Contingencies*

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

## 8. Common Stock

In connection with the Merger, all shares of Viveve Series A convertible preferred stock and Series B convertible preferred stock were converted to common stock and the Company exchanged shares of common stock with the former stockholders of Viveve. The total common shares issued for these transactions was 3,743,282 shares based on the exchange ratio of 0.0080497.

In connection with the proposed Merger, on May 9, 2014, Viveve issued to GBS Venture Partners Limited (“GBS”), a convertible debenture holder, a warrant to purchase shares of our common stock equal to approximately 5% of the outstanding shares of common stock on a post-Merger basis in consideration for the cancellation of convertible promissory notes in the aggregate principal amount of \$1,750,000 and accrued interest of approximately \$211,000 held by GBS. As part of the closing of the Merger, the Company issued 943,596 shares of common stock to GBS upon the automatic exercise of the warrant.

Concurrent with the Merger, the Company completed a separate private placement of 11,305,567 shares of our common stock, together with warrants for the purchase of 940,189 shares of common stock, for gross proceeds of approximately \$6,000,000, which included the conversion of \$1,545,678 of convertible promissory notes and related accrued interest. The price per unit was \$0.53.

#### ***Warrants for Common Stock***

In connection with the private placement, the Company issued warrants to purchase a total of 940,189 shares of common stock at an exercise price of \$0.53 per share. The warrants have a contractual life of five years and are exercisable immediately in whole or in part, on or before five years from the issuance date.

In connection with the Loan and Security Agreement entered into on September 30, 2014, the Company issued a warrant to purchase a total of 471,698 shares of common stock at an exercise price of \$0.53 per share. The warrant has a contractual life of ten years and is exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrant on the date of issuance to be \$622,170 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 77%, risk free interest rate of 2.5% and a contractual life of ten years. The warrant will expire on September 30, 2024. The fair value of the warrant was recorded as a deferred financing cost in other assets and will be amortized to interest expense over the loan term.

As of September 30, 2014, all of these warrants remain outstanding.

### **9. Convertible Preferred Stock**

As part of the Merger Agreement, all shares of the Series A convertible preferred stock and Series B convertible preferred stock converted to common stock, pursuant to the conversion rights.

The holders of preferred stock had various rights and preferences as follows:

#### ***Dividends***

The preferred stockholders were entitled to receive, when and as declared by the Board of Directors, out of funds legally available, cash dividends in the amount of \$0.0488 and \$0.004, respectively, per share, per year for each share of Series A and Series B outstanding in preference and priority to any declaration or payment of any distribution on common stock in such calendar year. These dividends are noncumulative. No distributions could be made to common stock unless all declared dividends on preferred stock have been paid or set aside for payment. No dividends have been declared to date.

### ***Liquidation***

Upon liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of the Series A and Series B were entitled to receive an amount per share equal to the original issuance price for the preferred stock (as adjusted for any stock dividends, stock splits or recapitalization and similar events), plus all declared and unpaid dividends thereon to the date fixed for such distribution. If upon the liquidation event, there were insufficient funds to permit the payment to stockholders of the full preferential amounts, then the entire assets and funds of the Company would be distributed ratably among the holders of preferred stock.

### ***Conversion***

At the option of the holder thereof, each share of preferred stock was convertible, at the option of the holder at any time after the date of issuance into fully paid and non-assessable shares of common stock as determined by dividing the applicable original issue price for such series by the conversion price for such series. The conversion price was \$0.05 for Series A and Series B.

Each share of preferred stock was to automatically be converted into shares of common stock at their respective conversion price immediately upon the earlier of (A) immediately prior to the closing of a firm commitment underwritten initial public offering pursuant to a registration statement under the Securities Act of 1933 covering the offering and sale of the Company's common stock provided the aggregate gross proceeds to the Company and/or selling stockholders was not less than \$30,000,000 prior to underwriters' commissions and expenses, or (B) upon receipt of a written request for conversion from the holders of a majority of the voting power of the outstanding shares of preferred stock.

### ***Voting***

Each holder of preferred stock was entitled to the number of votes equal to the number of shares of common stock into which such holder's shares of preferred stock could be converted as of the record date. The holders of shares of the preferred stock were entitled to vote on all matters on which the common stock was entitled to vote. The holders of preferred stock, voting as a separate class, were entitled to elect two members of the Board of Directors. The holders of common stock, voting as a separate class, were entitled to elect one member of the Board of Directors. Any additional members of the Board of Directors were to be elected by the holders of common stock and preferred stock, voting together as a single class.

### ***Warrants for Convertible Preferred Stock***

In connection with the loan and security agreement entered into in December 2008, the Company issued a warrant to purchase a total of 196,721 shares of Series A at an exercise price of \$0.61 per share. The warrant had a contractual life of ten years and was exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrant on the date of issuance to be \$53,863 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 79%, risk free interest rate of 2.7% and a contractual life of ten years. The warrant was to expire on December 2, 2018. The fair value of the warrant was recorded as a debt issuance cost in other assets and was amortized to interest expense over the draw down term of the loan. The entire amount of the warrant was amortized to interest expense in the year ended December 31, 2008. The fair value of the warrant was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$9,639 and \$(2,361) were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In connection with the Series A offering in 2009, the Company issued warrants to purchase 245,900 shares of Series A for \$0.61 per share in April 2009. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the fair value of the warrants on the date of issuance to be \$70,082 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 79%, risk free interest rate of 2.8% and a contractual life of ten years. The warrants were to expire on April 2, 2019. The fair value of the warrants was recorded as an equity issuance cost. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$11,803 and \$(984) were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In connection with the loan and security agreement entered into in November 2010, the Company issued a warrant to purchase a total of 163,934 shares of Series A at an exercise price of \$0.61 per share. The warrant had a contractual life of ten years and was exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrant on the date of issuance to be \$46,721 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 79%, risk free interest rate of 2.9% and a contractual life of ten years. The warrant was to expire on November 19, 2020. The fair value of the warrant was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrant was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$2,295 and \$(1,311) were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In connection with the loan and security agreement entered into in April 2012, the Company issued a warrant to purchase a total of 73,770 shares of Series A at an exercise price of \$0.61 per share. The warrant had a contractual life of ten years and was exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrant on the date of issuance to be \$27,443 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 92%, risk free interest rate of 1.98% and a contractual life of ten years. The warrant was to expire on April 19, 2022. The fair value of the warrant was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrant was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$3,025 and \$885 was recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In May 2011, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 2,000,000 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$84,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 3.2% and a contractual life of ten years. The warrants were to expire on May 9, 2021. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$2,000 and \$2,000 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In June 2011, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 4,000,000 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$168,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 3.2% and a contractual life of ten years. The warrants were to expire on June 30, 2021. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$4,000 and \$4,000 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In September 2011, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 4,000,000 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$168,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 2.0% and a contractual life of ten years. The warrants were to expire on September 9, 2021. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$0 and \$4,000 was recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In November 2011, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 1,000,000 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$42,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 2.1% and a contractual life of ten years. The warrants were to expire on November 30, 2021. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$1,000 and \$1,000 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In December 2011, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 1,000,000 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$41,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 1.8% and a contractual life of ten years. The warrants were to expire on December 19, 2021. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$1,000 and \$0 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In January 2012, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 910,445 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$37,328 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 1.8% and a contractual life of ten years. The warrants were to expire on January 31, 2022. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$3,642 and \$910 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

In February 2012, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 738,535 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$31,018 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 1.98% and a contractual life of ten years. The warrants were to expire on February 27, 2022. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$2,954 and \$740 were recorded to other income (expense), net, respectively, for the nine months ended September 30 2014 and 2013. The warrants were extinguished in connection with the Merger.

In April 2012, in connection with the issuance of convertible promissory notes, the Company issued warrants to purchase 2,351,019 shares of Series B at an exercise price of \$0.05 per share. The warrants had a contractual life of ten years and were exercisable immediately in whole or in part, on or before ten years from the issuance date. The Company determined the value of the warrants on the date of issuance to be \$98,743 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84%, risk free interest rate of 2.0% and a contractual life of ten years. The warrants were to expire on April 16, 2022. The fair value of the warrants was recorded as a debt discount and amortized to interest expense over the life of the loan. The fair value of the warrants was re-measured as of the date of the Merger, September 23, 2014, and September 30, 2013 and \$9,404 and \$2,351 were recorded to other income (expense), net, respectively, for the nine months ended September 30, 2014 and 2013. The warrants were extinguished in connection with the Merger.

Convertible preferred stock warrants outstanding as of December 31, 2013 were as follows:

Issuance Date	Series Exercisable for	Expiration Date	Exercise Price	Number of Shares Outstanding Under Warrants	Fair Value December 31, 2013
December 2008	Series A	December 2, 2018	\$ 0.61	196,721	\$ 44,066
April 2009	Series A	April 2, 2019	0.61	245,900	58,278
November 2010	Series A	November 19, 2020	0.61	163,934	46,393
May 2011	Series B	May 6, 2021	0.05	2,000,000	54,000
June 2011	Series B	June 30, 2021	0.05	4,000,000	108,000
September 2011	Series B	September 9, 2021	0.05	4,000,000	108,000
November 2011	Series B	November 30, 2021	0.05	1,000,000	28,000
December 2011	Series B	December 19, 2021	0.05	1,000,000	28,000
January 2012	Series B	January 31, 2022	0.05	910,445	28,224
February 2012	Series B	February 28, 2022	0.05	738,535	22,895
April 2012	Series B	April 16, 2022	0.05	2,351,019	72,882
April 2012	Series A	April 19, 2022	0.61	73,770	24,934
				<u>16,680,324</u>	<u>\$ 623,672</u>

## 10. Summary of Stock Options

### *Stock Option Plans*

The Company has issued equity awards in the form of stock options from three employee benefit plans. The plans include the PLC 2005 Stock Incentive Plan (the “2005 Plan”), the Viveve Amended and Restated 2006 Stock Plan (the “2006 Plan”) and the PLC 2013 Stock Option and Incentive Plan (the “2013 Plan”).

The 2005 Plan was adopted by PLC's Board of Directors and approved by its stockholders. 22,095 shares of common stock remain reserved for issuance under the 2005 Plan. The Company does not intend to grant further awards from the 2005 Plan, however, it will continue to administer the 2005 Plan until all outstanding awards are exercised, expire, terminate or are forfeited. There are currently outstanding stock option awards issued from the 2005 Plan covering a total of 22,095 shares of the Company's common stock. The weighted average exercise price of the outstanding stock options is \$12.83 per share and the weighted average remaining contractual term is 8.80 years.

The 2006 Plan was adopted by the Board of Directors of Viveve and was terminated in conjunction with the Merger. Outstanding stock option awards have been assumed by the Company and will continue to be administered in accordance with the terms of the 2006 Plan until such awards are exercised, expire, terminate or are forfeited. There are currently outstanding stock option awards issued from the 2006 Plan covering a total of 324,820 shares of the Company's common stock and no shares available for future awards. The weighted average exercise price of the outstanding stock options is \$1.55 per share and the weighted average remaining contractual term is 8.06 years. Additionally, prior to the Merger, the Board of Directors voted to accelerate the vesting of all unvested options that were outstanding as of the date of the Merger such that all options would be immediately vested and exercisable by the holders. Furthermore, at the Merger, outstanding options to purchase shares of Viveve, Inc. common stock issued from the 2006 Plan were converted into options to purchase shares of the Company's Common Stock (rounded down to the nearest whole share). The number of shares of the Company's common stock into which the 2006 Plan options were converted was determined by multiplying the number of shares covered by each 2006 Plan option by the exchange ratio of 0.0080497. The exercise price of each 2006 Plan option was determined by dividing the exercise price of each 2006 Plan option immediately prior to the Merger by the exchange ratio of 0.0080497 (rounded up to the nearest cent).

The 2013 Plan was also adopted by PLC's Board of Directors and approved by its stockholders. The 2013 Plan is administered by the Compensation Committee of the Company's Board of Directors (the “Administrator”). Under the 2013 Plan, the Company may grant to eligible participants awards of equity which may take the form of stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted, deferred or unrestricted stock awards, performance based awards or dividend equivalent rights. Awards may be granted to officers, employees, non-employee Directors (as defined in the 2013 Plan) and other key persons (including consultants and prospective employees). The term of any stock option award may not exceed 10 years and may be subject to vesting conditions, as determined by the Administrator. Options granted generally vest over four years. Incentive stock options may be granted only to employees of the Company or any subsidiary that is a “subsidiary corporation” within the meaning of Section 424(f) of the Internal Revenue Code. The exercise price of any stock option award cannot be less than the fair market value of the Company's common stock, provided, however, that an incentive stock option granted to an employee who owns more than 10% of the Company's outstanding voting power must have an exercise price of no less than 110% of the fair market value of the Company's common stock and a term that does not exceed five years. There are currently outstanding stock option awards issued from the 2013 Plan covering a total of 1,947,619 shares of the Company's common stock and there remain reserved for future awards 839,148 shares of the Company's common stock. The weighted average exercise price of the outstanding stock options is \$0.80 per share. Concurrent with the Merger, the stockholders approved an amendment to the 2013 Plan to increase the number of shares reserved under the 2013 Plan from 113,826 to 3,111,587.

Activity under the 2005 Plan, the 2006 Plan and the 2013 Plan is as follows:

	Outstanding Options		
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)
Options outstanding as of December 31, 2013	363,413	\$ 2.94	8.80
Options granted	1,901,476	\$ 0.60	
Options assumed from PLC	68,238	\$ 10.24	
Options canceled	(38,593)	\$ 1.75	
Options outstanding as of September 30, 2014	<u>2,294,534</u>	\$ 1.02	9.67

As of September 30, 2014, the Company had 839,148 shares available for grant.

The options outstanding and exercisable as of September 30, 2014 are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of September 30, 2014	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number Exercisable as of September 30, 2014	Weighted-Average Exercise Price
\$0.12	320	\$ 0.12	2.21	320	\$ 0.12
\$0.60	1,901,476	\$ 0.60	10.00	20,000	\$ 0.60
\$1.24	314,036	\$ 1.24	8.15	314,036	\$ 1.24
\$7.00 - \$9.00	59,372	\$ 8.63	8.28	59,372	\$ 8.63
\$12.00 - \$18.63	19,081	\$ 15.29	6.79	19,081	\$ 15.29
\$37.00	250	\$ 37.00	3.72	250	\$ 37.00
	<u>2,294,535</u>	\$ 1.02	9.67	<u>413,059</u>	\$ 2.94

### ***Stock-Based Compensation***

During the three and nine months ended September 30, 2014, the Company granted stock options to employees to purchase 1,901,476 shares of common stock with a weighted-average grant date fair value of \$0.32 per share. Stock-based compensation expense recognized during the three months ended September 30, 2014 and 2013 was \$113,345 and \$16,284 respectively. Stock-based compensation expense recognized during the nine months ended September 30, 2014 and 2013 was \$143,643 and \$66,001, respectively. As of September 30, 2014, the total unrecognized compensation cost in connection with unvested stock options was approximately \$567,000. These costs are expected to be recognized over a period of approximately 3.26 years. The aggregate intrinsic value of options outstanding as of September 30, 2014 was approximately \$1.7 million. There were no options exercised during the nine months ended September 30, 2014 and 2013.



The Company estimated the fair value of stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options granted was estimated using the following assumptions:

	Nine Months Ended September 30,	
	2014	2013
Expected term (in years)	5	5
Average volatility	61%	67%
Risk-free interest rate	1.80%	0.87%
Dividend yield	0%	0%

Option-pricing models require the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility is based on analysis of the Company's stock price history over a period commensurate with the expected term of the options, trading volume of comparable companies' stock, look-back volatilities and Company specific events that affected volatility in a prior period. The expected term of employee stock options represents the weighted average period the stock options are expected to remain outstanding and is based on the history of exercises and cancellations on all past option grants made by the Company, the contractual term, the vesting period and the expected remaining term of the outstanding options. The risk-free interest rate is based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and does not anticipate issuing any dividends in the future.

The following table shows stock-based compensation expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Research and development	\$ 101	\$ 976	\$ 667	\$ (7,016)
General and administrative	113,245	15,308	142,976	73,017
Total	\$ 113,346	\$ 16,284	\$ 143,643	\$ 66,001

## 11. Income Taxes

### *Provision for Income Tax*

The Company's effective tax rate is 0% for the three and nine months ended September 30, 2014 and the Company expects that its effective tax rate for the full year 2014 will be 0%. Based on the weight of available evidence, including cumulative losses since inception and expected future losses, the Company has determined that it is more likely than not that the deferred tax asset amount will not be realized and therefore a full valuation allowance has been provided on net deferred tax assets.

As of September 30, 2014, the Company had net operating loss carryforwards of approximately \$11,188,000 and \$11,176,000 available to offset future taxable income, if any, for both federal and California state income tax purposes, respectively. The Company's federal and state net operating loss carry-forwards begin to expire in 2027 and 2016, respectively, and valuation allowances have been provided, where necessary.

Utilization of the net operating loss carry-forward may be subject to an annual limitation due to the ownership percentage change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of the net operating loss before utilization.

All of the Company's tax years will remain open for examination by the federal and state authorities for three and four years, respectively, from the date of utilization of any net operating loss or credits.

#### ***Uncertain Tax Positions***

The gross amount of unrecognized tax benefits as of September 30, 2014 is approximately \$78 thousand related to reserves on research and development credits, none of which will affect the effective tax rate if recognized due to the valuation allowance. The Company does not expect any material changes in the next 12 months in unrecognized tax benefits.

The Company recognizes interest and/or penalties related to uncertain tax positions as other expense and not tax expense. The Company currently has no interest and penalties related to uncertain tax positions.

#### **12. Related Party Transactions**

In June 2006, the Company entered into a Development and Manufacturing Agreement with Stellartech Research Corporation (the "Agreement"). The Agreement was amended on October 4, 2007. Under the Agreement, the Company agreed to purchase 300 units of generators manufactured by Stellartech. In conjunction with the Agreement, Stellartech purchased 300,000 shares of common stock at par value. These shares are subject to a right of repurchase by the Company, which lapse over a four-year period. As of December 31, 2012, none of the shares of common stock were subject to repurchase. Under the Agreement, the Company paid Stellartech \$345,472 and \$33,000 for goods and services in the nine months ended September 30, 2014 and 2013, respectively.

#### **13. Subsequent Events**

On September 30, 2014, the Company entered into a Loan and Security Agreement pursuant to which we received a term loan in the amount of \$5 million, which will be funded in 3 tranches. The first tranche of \$2.5 million was provided to the Company on October 1, 2014. The proceeds from the first tranche were used to repay the existing loan with a financial institution which totaled \$1,630,925. Before the second and the third tranches of the term loan will be funded, we must meet certain enrollment milestones and achieve certain positive results relating to our OUS Clinical Trials, among other things.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION CONTAINED IN THIS REPORT**

This report contains forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “hopes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “would,” “should,” “could,” “may” or other similar expressions in this report. In particular, forward-looking statements include statements relating to future actions, prospective products and applications, customers, technologies, future performance or future financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our limited cash and our history of losses;
- our ability to achieve profitability;
- our limited operating history;
- emerging competition and rapidly advancing technology;
- whether we are successful in having our medical device approved for sale by the FDA;
- the effect of changes in foreign and domestic regulatory requirements
- whether demand develops for our medical device;
- the impact of competitive or alternative products, technologies and pricing;
- the adequacy of protections afforded to us by the patents that we own and the cost to us of maintaining, enforcing and defending those patents;
- our ability to obtain, expand and maintain patent protection in the future, and to protect our non-patented intellectual property;
- our exposure to and ability to defend third-party claims and challenges to our patents and other intellectual property rights;
- our ability to obtain adequate financing in the future, as and when we need it;
- our ability to continue as a going concern;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The forward-looking statements are based upon management’s beliefs and assumptions and are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements included in this report to conform such statements to actual results or changes in our expectations. You should not place undue reliance on these forward-looking statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q as well as our audited 2013 financial statements and related notes included in the proxy statement which was filed with the Securities and Exchange Commission on August 11, 2014. In addition to historical information, the discussion and analysis here and throughout this Form 10-Q contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Item 1A. Risk Factors".*

### OVERVIEW

In the discussion below, when we use the terms "we", "us" and "our", we are referring to Viveve Medical, Inc. and its wholly-owned subsidiary, Viveve, Inc., which was acquired on September 23, 2014.

We design, develop, manufacture and market a medical device for the non-invasive treatment of vaginal introital laxity. Prior to our merger with PLC Systems Acquisition Corp., a wholly-owned subsidiary of PLC Systems Inc., which occurred on September 23, 2014 (the "Merger"), we devoted substantially all of our time and effort to developing products, raising capital and recruiting personnel. To date, we have not generated significant revenues and, prior to the Merger, we funded our operations primarily through the sale of our common and preferred stock and borrowings from related parties and financial institutions.

On September 23, 2014, PLC Systems, Inc., a Yukon Territory corporation ("PLC"), completed an Agreement and Plan of Merger ("Merger Agreement" or "Merger") with Viveve, Inc., a Delaware corporation ("Viveve"). Viveve will operate as a wholly-owned subsidiary of PLC and PLC will now be known as Viveve Medical, Inc. ("Viveve Medical" or the "the Company").

In preparation for the stock exchange pursuant to the Merger, Viveve convertible bridge notes in the aggregate amount of \$4,875,000 and related accrued interest of approximately \$522,000 were extinguished, along with Viveve warrant liabilities of approximately \$573,000.

Pursuant to the Merger Agreement, all shares of capital stock (including common and preferred stock) of Viveve were converted into 3,743,282 shares of the Company's common stock which represented approximately 62% of the issued and outstanding shares of common stock of the Company on a fully diluted basis. In addition, non-accredited investors were entitled to receive approximately \$16,500 upon closing. Upon the closing of the Merger, the Company issued an additional 943,596 shares of common stock upon the automatic conversion of a warrant issued in exchange for the cancellation of related party convertible bridge notes.

The acquisition was accounted for as a reverse merger and recapitalization effected by a share exchange. Viveve is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

In connection with the Merger, on May 9, 2014, we issued to GBS Venture Partners Limited ("GBS"), a convertible debenture holder, a warrant to purchase shares of our common stock equal to approximately 5% of the outstanding shares of common stock on a post-Merger basis in consideration for the cancellation of convertible promissory notes in the aggregate principal amount of \$1,750,000 held by GBS. As part of the closing of the Merger, we issued 943,596 shares of common stock to GBS upon the exercise of the warrant.

Concurrent with the consummation of the Merger, we completed a separate private placement of 11,305,567 shares of our common stock together with warrants for the purchase of 940,189 shares of common stock for gross proceeds of approximately \$6,000,000, which included the conversion of \$1,500,000 of convertible notes. The price per unit was \$0.53 per share.

On September 30, 2014, we entered into a Loan and Security Agreement with Square 1 Bank pursuant to which we received a term loan in the amount of \$5 million, which will be funded in 3 tranches. The first tranche of \$2.5 million was provided to us on October 1, 2014. The proceeds from the first tranche were used to repay certain indebtedness owed by us, and specifically the indebtedness owed to Oxford Finance LLC which totaled \$1,630,925. Before the second and third tranches of the term loan will be funded, we must meet certain enrollment milestones and achieve certain positive results relating to our outside of the U.S. ("OUS") Clinical Trials, among other things. A description of the loan we received from Square 1 Bank is included in the Current Report on Form 8-K that we filed with the Securities and Exchange Commission on October 3, 2014.

We are subject to risks, expenses and uncertainties frequently encountered by companies in the medical device industry. These risks include, but are not limited to, intense competition, whether we can be successful in obtaining FDA approval for the sale of our product, whether there will be a demand for our product, the Viveve System, given that the cost of the procedure will likely not be reimbursed by the government or private health insurers, the uncertainty of availability of additional financing when and if we need it, and the uncertainty of achieving future profitability. We cannot be certain that in the event we require additional financing, such financing will be available or on terms which are favorable to us. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives. These factors raise substantial doubt about our ability to continue as a going concern.



## PLAN OF OPERATION

We intend to increase our sales and exposure both internationally and in the United States market by seeking regulatory approval for the sale and distribution of our product, identifying and training qualified distributors and expanding the scope of physicians who offer the Viveve Treatment™ to include plastic surgeons, dermatologists, general surgeons, urologists, urogynecologists and primary care physicians. In addition, we intend to use the strategic relationships that we have developed with outside contractors and medical experts to improve the Viveve System by focusing our research and development efforts on various areas including, but not limited to:

- designing new treatment tips optimized for both ease-of-use and to reduce procedure times for patients and physicians;
- increasing security to prevent the re-use of treatment tips, resulting in improved procedure efficacy and reduced safety concerns; and
- developing a new cooling system that integrates a substitute for hydrofluorocarbon, to maintain compliance with changes in international environmental regulations.

We are using the net proceeds received from the private placement discussed above to support commercialization of our product in existing and new markets, for our research and development efforts and for protection of our intellectual property, as well as for working capital and other general corporate purposes. We expect that we will continue to require funds to fully implement our plan of operation. The net proceeds of approximately \$4.2 million received from the private placement are expected to be sufficient to fund our activities through June 2015. Our operating costs include employee salaries and benefits, compensation paid to consultants, professional fees and expenses, costs associated with our clinical trials, capital costs for research and other equipment, costs associated with research and development activities including travel and administration, legal expenses, sales and marketing costs, general and administrative expenses, and other costs associated with an early stage public company subject to the reporting requirements of the Securities Exchange Act of 1934. We also expect to incur expenses related to obtaining regulatory approvals in the U.S. and internationally as well as legal and related expenses to protect our intellectual property. We expect capital expenditures to be less than \$250,000 annually.

We intend to continue to meet our operating cash flow requirements through the sales of our products and by raising additional funds from the sale of equity or debt securities. If we sell our equity securities, or securities convertible into equity, to raise capital, our current stockholders will likely be substantially diluted. We may also consider the sale of certain assets, or entering into a transaction, such as a merger, with a business complimentary to ours, although we do not currently have plans for any such transaction. While we have been successful in raising capital to fund our operations since inception, other than as discussed in this report, we do not have any committed sources of financing and there are no assurances that we will be able to secure additional funding. If we cannot obtain financing, then we may be forced to curtail our operations or consider other strategic alternatives.

## Results of Operations

### Comparison of the Three Months Ended September 30, 2014 and 2013

#### Revenue

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
Revenue	\$ 17,180	\$ 4,610	\$ 12,570	273%

We recorded revenue of \$17,180 for the three months ended September 30, 2014 as compared to revenue of \$4,610 for the three months ended September 30, 2013, an increase of \$12,570, or approximately 273%. This increase was primarily due to sales of our disposable treatment tips to existing customers. Despite this increase, we significantly slowed the production of inventory available for sale and sales and marketing efforts in late 2013 and throughout 2014 due to funding constraints. As a result, we experienced low sales volumes during both third quarter periods.

#### Research and development expenses

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
Research and development	\$ 572,134	\$ 177,203	\$ 394,931	223%

Research and development expense totaled \$572,134 for the three months ended September 30, 2014, compared to research and development expense of \$177,203 for the three months ended September 30, 2013, an increase of \$394,931, or approximately 223%. Spending on research and development increased in the third quarter of 2014 as we prepared for our OUS Clinical Trial and incurred costs associated with the trial's implementation. The Viveve OUS Clinical Trial is expected to commence in the fourth quarter of 2014 and is designed to evaluate the safety and effectiveness of the Viveve Treatment. Research and development further increased due to additional engineering work related to certain product improvement efforts.

#### Selling, general and administrative expenses

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
Selling, general and administrative	\$ 1,790,014	\$ 532,369	\$ 1,257,645	236%

Selling, general and administrative expenses totaled \$1,790,014 for the three months ended September 30, 2014, compared to \$532,369 for the three months ended September 30, 2013, an increase of \$1,257,645, or approximately 236%. The increase in selling, general and administrative expenses was primarily attributable to additional professional services related expenses associated with the Merger transaction that was completed in September 2014 and to a lesser degree greater spending to build brand and market awareness. Selling, general and administrative expenses further increased due to additional stock-based compensation expense associated with the acceleration of vesting in connection with the Merger.

#### Interest expense

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
Interest expense	\$ (152,296)	\$ (156,727)	\$ (4,431)	(3)%

During the three months ended September 30, 2014, we had interest expense of \$152,296 as compared to \$156,727 for the three months ended September 30, 2013, a decrease of \$4,431, or approximately 3%. The interest expense during these quarterly periods was primarily due to our convertible bridge notes and our note payable. The interest expense for the third quarter of 2014 was partially offset by decreased fees associated with our note payable due to an agreed upon reduction in restructuring fees of \$47,500 in September 2014.

***Other income (expense) net***

	Three Months Ended September 30,		Change	
	2014	2013	\$	%
Other income (expense), net	\$ 7,827	\$ (8,713)	\$ 16,540	190%

Other income (expense), net, for the three months ended September 30, 2014 and 2013 was \$7,827 and \$(8,713), respectively. The increase of \$16,540, or approximately 190%, was attributable to mark-to-market adjustments associated with the change in the fair value for our preferred stock warrants, which were accounted for as liabilities.

***Comparison of the Nine Months Ended September 30, 2014 and 2013***

***Revenue***

	Nine Months Ended September 30,		Change	
	2014	2013	\$	%
Revenue	\$ 64,475	\$ 147,660	\$ (83,185)	(56%)

We recorded revenue of \$64,475 for the nine months ended September 30, 2014 as compared to revenue of \$147,660 for the nine months ended September 30, 2013, a decrease of \$83,185 or approximately 56%. The decrease in revenue was a result of the limited production of inventory available for sale and reduced sales and marketing efforts in the second half of 2013 and throughout 2014 due to funding constraints.

***Research and development expenses***

	Nine Months Ended September 30,		Change	
	2014	2013	\$	%
Research and development	\$ 940,954	\$ 628,545	\$ 312,409	50%

Research and development expense totaled \$940,954 for the nine months ended September 30, 2014, compared to research and development expense of \$628,545 for the nine months ended September 30, 2013, an increase of \$312,409 or approximately 50%. Spending on research and development primarily increased as we prepared for our OUS Clinical Trial in the third quarter of 2014 and incurred costs associated with the trial's implementation. The Viveve OUS Clinical Trial is expected to commence in the fourth quarter of 2014 and is designed to evaluate the safety and effectiveness of the Viveve Treatment.

***Selling, general and administrative expenses***

	Nine Months Ended September 30,		Change	
	2014	2013	\$	%
Selling, general and administrative	\$ 3,085,580	\$ 2,517,791	\$ 567,789	23%



Selling, general and administrative expenses totaled \$3,085,580 for the nine months ended September 30, 2014, compared to \$2,517,791 for the nine months ended September 30, 2013, an increase of \$567,789 or approximately 23%. The increase in selling, general and administrative expenses was primarily attributable to additional professional services related expenses associated with the Merger transaction that was completed in September 2014. The increase was partially offset by greater spending in the first quarter of 2013 as we prepared to launch a major funding effort in the second quarter of 2013 that was later scaled back.

#### *Interest expense*

	Nine Months Ended		Change	
	September 30,		\$	%
	2014	2013		
Interest expense	\$ (486,582)	\$ (334,380)	\$ 152,202	46%

During the nine months ended September 30, 2014, we had interest expense of \$486,582 as compared to \$334,380 for the nine months ended September 30, 2013. The increase of \$152,202 or approximately 46% resulted primarily from greater interest expense of \$192,135 on our convertible bridge notes due to the issuance of additional convertible notes in the aggregate principal amount of \$2,375,000, partially offset by a decrease of \$39,933 of fees and interest expense for our note payable due to an agreed upon reduction in restructuring fees in September 2014.

#### *Other income (expense) net*

	Nine Months Ended		Change	
	September 30,		\$	%
	2014	2013		
Other income (expense), net	\$ 51,312	\$ 11,230	\$ 40,082	357%

Other income (expense), net, for the nine months ended September 30, 2014 and 2013 was \$51,312 and \$11,230, respectively. The increase of \$40,082, or approximately 357%, was attributable to mark-to-market adjustments associated with the change in the fair value for our preferred stock warrants, which were accounted for as liabilities.

#### **Liquidity and Capital Resources**

Liquidity is our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments. In addition, liquidity includes the ability to obtain appropriate financing or to raise capital. We have funded our operations since inception through the sale of common and preferred stock and borrowings from related parties and financial institutions. To date, we have not generated sufficient cash flows from operating activities to meet our obligations and commitments, and we anticipate that we will continue to incur losses for the foreseeable future.

We completed our Merger with PLC Systems, Inc. on September 23, 2014. Concurrent with the Merger, we completed a private placement of total gross proceeds of approximately \$6,000,000, which included the conversion of \$1,500,000 of convertible notes. The proceeds were partially offset by costs of \$295,768 related to the private placement.

On September 30, 2014, we entered into a Loan and Security Agreement pursuant to which we received a term loan in the amount of \$5 million, which will be funded in 3 tranches. The first tranche of \$2.5 million was provided to us on October 1, 2014. The proceeds from the first tranche were used to repay the existing loan with a financial institution which totaled \$1,630,925. Before the second tranche of \$1.5 million and the third tranche of \$1 million of the term loan will be funded, we must meet certain enrollment milestones and achieve certain positive results relating to our OUS Clinical Trials, among other things.

The following table summarizes the primary sources and uses of cash for the periods presented below:

	Nine Months Ended	
	September 30,	
	2014	2013
Net cash used in operating activities	\$ (4,050,988)	\$ (2,949,832)
Net cash used in investing activities	(106,359)	(4,214)
Net cash provided by financing activities	5,704,220	2,865,186
Net increase (decrease) in cash and cash equivalents	\$ 1,546,873	\$ (88,860)

### *Operating Activities*

We have incurred, and expect to continue to incur, significant expenses in the areas of research and development, regulatory and other clinical study costs, associated with the Viveve System.

Operating activities used \$4,050,988 in the nine months ended September 30, 2014 compared to \$2,949,832 used in the nine months ended September 30, 2013. The primary use of our cash was to fund general and administrative expenses and research and development expenses associated with the Viveve System. Net cash used in 2014 consisted of a net loss of \$4,437,399 adjusted for non-cash expenses including depreciation and amortization of \$42,220, stock-based compensation of \$143,643, and non-cash interest expense of \$369,677, partially offset by revaluation of warrant liabilities of \$50,762. Net cash used in 2013 consisted of a net loss of \$3,432,349 adjusted for non-cash expenses including depreciation and amortization of \$35,871, stock-based compensation of \$66,001, and non-cash interest expense of \$227,911, partially offset by revaluation of warrant liabilities of \$11,230.

### *Investing Activities*

Net cash used in investing activities during the nine months ended September 30, 2014 was \$106,359, which was used to purchase property and equipment. Net cash used in investing activities during the nine months ended September 30, 2013 was \$4,214, which was used for the purchase of property and equipment. We expect to continue to purchase property and equipment in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods is difficult to predict and is dependent on a number of factors including, but not limited to, any increase in the number of our employees and changes related to our development programs.

### *Financing Activities*

Net cash provided by financing activities during the nine months ended September 30, 2014 was \$5,704,220, which was the result of proceeds of \$1,500,000 from the issuance of related party convertible bridge notes and the cash proceeds of \$4,499,988 from our private placement, partially offset by transaction costs of \$295,768. Cash provided by financing activities during the nine months ended September 30, 2013 was \$2,865,186, which was the result of proceeds of \$3,000,000 from the issuance of related party convertible bridge notes, partially offset by principal repayments to a financial institution of \$134,814.

## **CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, as part of its ongoing efforts to assist in the convergence of US GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual and interim periods beginning after December 15, 2016. We are currently evaluating the impact that this standard will have on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After a Requisite Service Period" ("ASU 2014-12"). Companies commonly issue share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. The performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 will be effective for the Company's fiscal years beginning fiscal 2016 and interim reporting periods within that year, using either the retrospective or prospective transition method. Early adoption is permitted. We are currently evaluating the effect of the adoption of this guidance on our condensed consolidated financial statements.

In June 2014, the FASB issued ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in topic 810, Consolidation" ("ASU 2014-10"). ASU 2014-10 removes the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification,

thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. ASU 2014-10 also eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. The amendments in ASU 2014-10 will be effective retrospectively except for the clarification to Topic 275, which shall be applied prospectively for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. The Company elected to early adopt the provisions of ASU 2014-10 in the second quarter of 2014.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (subtopic 310-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Since ASU 2014-15 only impacts financial statement disclosure requirements regarding whether there is substantial doubt about an entity's ability to continue as a going concern, we do not expect its adoption to have an impact on our condensed consolidated financial statements.

## **OFF-BALANCE SHEET TRANSACTIONS**

We do not have any off-balance sheet transactions.

## **TRENDS, EVENTS AND UNCERTAINTIES**

Research and development of new technologies is, by its nature, unpredictable. Although we will undertake development efforts with commercially reasonable diligence, there can be no assurance that we will have adequate capital to develop our technology to the extent needed to create future sales to sustain our operations.

We cannot assure you that our technology will be adopted, that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. Furthermore, since we have no committed source of financing, we cannot assure you that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to severely curtail, or even to cease, our operations.

Other than as discussed above and elsewhere in this report, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

This item has been omitted based on Viveve Medical's status as a smaller reporting company.

## **ITEM 4. CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

Our management is responsible for establishing and maintaining our disclosure controls and procedures. Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. Our CEO and CFO have concluded that our disclosure controls and procedures were effective as that date and have also concluded that our consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States.

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

There have been no material changes in our internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II-OTHER INFORMATION**

## **ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

## **ITEM 1A. RISK FACTORS**

We incorporate herein by reference the risk factors included in the proxy statement on Schedule 14A that we filed with the Securities and Exchange Commission on August 11, 2014.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

For information relating to unregistered sales of equity securities during the quarter ended September 30, 2014, refer to the Current Reports on Form 8-K we filed with the Securities and Exchange Commission on July 16, 2014, August 7, 2014, September 29, 2014 and

October 3, 2014.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Attached as Exhibit 99.1 and incorporated herein by reference is a copy of a press release dated November 14, 2014 reporting the Company's 2014 third quarter financial results. The information set forth under this Item 5 is intended to be furnished under this Item 5 and also "Item 7.01, Regulation FD Disclosure" and "Item 2.02, Results of Operations and Financial Condition" of Form 8-K. Such information, including Exhibit 99.1 attached to this Form 10-Q, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

**ITEM 6. EXHIBITS****Exhibit****Number Document**

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3.1	Articles of Continuance, pursuant to the Yukon Business Corporations Act, as amended (1)
3.1.1	Articles of Amendment to Articles of Continuance (2)
3.2	Bylaws, as amended*
4.1	Form of 5% Senior Secured Convertible Debenture due January 16, 2016 and issued on July 15, 2014 and August 6, 2014 to GCP IV LLC (4)
4.2	Form of Common Stock Purchase Warrant issued on July 15, 2014 and August 6, 2014 to GCP IV LLC (4)
10.1	Form of Debenture Amendment Agreement dated September 2, 2014 made in favor of each holder of the registrant's 5% Senior Secured Convertible Debentures (5)
10.2	Promissory Note dated September 2, 2014 and issued to GCP IV LCC (5)
10.3	Amendment dated September 10, 2014 to Securities Purchase Agreement dated February 22, 2013 (6)
10.4	Amendment dated September 11, 2014 to Securities Purchase Agreement dated February 22, 2011 (6)
10.5	Amendment dated September 22, 2014 to Securities Purchase Agreement dated May 9, 2014 (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer*
99.1	Press Release announcing 2014 Third Quarter Financial Results issued on November 14, 2014+
101.INS	XBRL Instant Document *+
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
10.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

\*Filed herewith

+Furnished herewith

(1) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission on March 25, 2005.

(2) Incorporated by reference from the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2014.

(3) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended December 31, 1999 filed with the Securities and Exchange Commission on March 30, 2000.

(4) Incorporated by reference from the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 16, 2014 and on August 7, 2014.

(5) Incorporated by reference from the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2014.

(6) Incorporated by reference from the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2014.

## 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 hereunto duly authorized.

Dated November 14, 2014

**VIVEVE MEDICAL, INC.**  
(Registrant)

By: /s/ Patricia Scheller

Patricia Scheller  
Chief Executive Officer

By: /s/ Scott Durbin

Scott Durbin  
Chief Financial Officer



BY-LAW NO. 1

A BY-LAW RELATING GENERALLY TO THE TRANSACTION OF  
THE BUSINESS AND AFFAIRS OF  
PLC SYSTEMS INC.  
(THE "CORPORATION")

CONTENTS:

1. Interpretation
2. Business of the Corporation
3. Borrowing and Securities
4. Directors
5. Committees
6. Officers
7. Protection of Directors, Officers and Others
8. Shares
9. Dividends and Rights
10. Meetings of Shareholders
11. Division and Departments
12. Notices

BE IT ENACTED as a By-Law of the Corporation as follows:

SECTION ONE

INTERPRETATION

1.01 DEFINITIONS - in the By- Laws of the Corporation, unless the context otherwise requires:

"ACT" means the BUSINESS CORPORATIONS ACT, and any statute that may be substituted therefore, as from time to time amended; marginal references to sections of the Act herein are not made for the purpose of modifying or affecting the meaning of any provision of this By-Law in any way but are inserted only for the purpose of directing attention to provisions of the Act which may be regarded as relevant;

"APPOINT" includes "ELECT" and vice versa;

"ARTICLES" means the Articles attached to the Certificate of Continuance dated the 12th day of March, 1999 of the Corporation as from time to time amended or restated;

"BOARD" means the Board of Directors of the Corporation;

"BY-LAWS" means this By-Law and all other By-Laws of the Corporation from time to time in force and effect relating to transaction of business and affairs of the Corporation in addition hereto, or in amendment hereof or in substitution for all or any part of this ByLaw;

"CORPORATION" means the Corporation incorporated by Certificate of Continuance under the Act and named: PLC SYSTEMS INC.

"MEETING OF SHAREHOLDERS" includes an annual meeting of Shareholders and a Special Meeting of Shareholders; "Special Meeting of Shareholders" includes both a meeting of any class or classes acting separately from any other class or classes and also a meeting, other than an annual meeting, of all Shareholders entitled to vote at any annual meeting of Shareholders;

"NON-BUSINESS DAY" means Saturday, Sunday and any other day that is a holiday as defined in the INTERPRETATION ACT (CANADA) or the INTERPRETATION ACT (YUKON);

"PROHIBITED CORPORATE SHAREHOLDER" means a corporation prohibited from holding shares in itself or its holding body corporate or a subsidiary corporation prohibited from holding shares in its parent corporation pursuant to the Act and not exempted from such prohibited shareholdings by Virtue of the Act;

"RECORDED ADDRESS" means in the case of a Shareholder his address as recorded in the securities register, and in the case of joint Shareholders the address appearing in the securities register in respect of such joint holdings determined under Section 8.09; and in the case of a Director, Officer, auditor or member of a Committee of Directors, his latest address as recorded in the records of the Corporation; save as aforesaid, words and expressions defined in the Act have the same meaning when used herein; and words importing the singular number include the plural and vice versa; words importing gender include the masculine, feminine and neuter genders; and words importing persons include individuals, bodies corporate, partnerships, trusts and unincorporated organizations.

## SECTION TWO

### BUSINESS OF THE CORPORATION

2.01 REGISTERED OFFICE - Until changed in accordance with the Act, the registered office of the Corporation shall be at the City of Whitehorse, in the Yukon Territory, and at such location therein as the Board may from time to time determine.

2.02 CORPORATE SEAL - Until changed by the Board, the corporate seal of the Corporation and any facsimiles thereof adopted by the Board for use in jurisdictions outside the Yukon Territory shall be in the form approved by the Directors.

2.03 FINANCIAL YEAR - The financial year of the Corporation shall end on the day in each year that is established by the Board.

2.04 EXECUTION OF INSTRUMENTS - Deeds, transfers, assignments, contracts, obligations, certificates and other instruments required by law or otherwise by these By-Laws or any resolution of the Board or Shareholders of the Corporation to be executed under corporate seal may be signed on behalf of the Corporation by any one or more persons each of which is either a Director of the Corporation or a person who holds the office of Chief Executive Officer, Chairman of the Board, President, Managing Director, Vice-President, Secretary, Treasurer, Assistant Secretary, Assistant Treasurer or any other office created by by-law or by resolution of the Board. Notwithstanding the foregoing, the Board may from time to time direct the manner in which and the person or persons by whom any particular instrument or class of instruments may or shall be signed or sealed. Any one Officer may affix the corporate seal to any instrument requiring the same.

2.05 BANKING ARRANGEMENTS - The banking business of the Corporation including, without limitation, the borrowing of money and the giving of security therefore, shall be transacted with such banks, trust companies or other bodies corporate or organizations as may from time to time be designated by or under the authority of the Board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the Board may from time to time by resolution prescribe or authorize.

2.06 VOTING RIGHTS IN OTHER BODIES CORPORATE - Any one of the Officers of the Corporation may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favor of such person or persons as may be determined by the Officers executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights.

In addition the Board may from time to time direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

2.07 WITHHOLDING INFORMATION FROM SHAREHOLDERS - Subject to the provisions of the Act, no Shareholder shall be entitled to discovery of any information respecting any details or conduct of the Corporation's business which, in the opinion of the Board, would not be in the best interests of the Shareholders or the Corporation to communicate to the public. The Board may from time to time determine whether and to what extent and at what time and place and under what conditions or regulations the accounts, records and documents of the Corporation or any of them shall be open to the inspection of Shareholders and no Shareholder shall have any right of inspecting any account, record or document of the Corporation except as conferred by the Act or authorized by the Board or by resolution passed at a general meeting of Shareholders,

2.08 MECHANICAL REPRODUCTION OF SIGNATURES - The signature of any officer of the Corporation may, if authorized by the Board, be printed, lithographed, engraved or otherwise mechanically reproduced upon all instruments executed or issued by the Corporation or any officer thereof; and any instrument on which the signature of any such person is so reproduced, shall subject to Section 2.04 hereof be deemed to have been manually signed by such person whose signature is so reproduced and shall be as valid to all intents and purposes as if such instrument had been signed manually, and notwithstanding that the person whose signature is so reproduced may have ceased to hold office at the date of the delivery or issue of such instrument. The term "instrument" as used in this Section shall include deeds, mortgages, hypothecs, charges, conveyances, transfers and assignments of property, real or personal, agreements, releases, receipts and discharges for the payment of money or other obligations, certificates of the Corporation's shares, share warrants of the Corporation, bonds, debentures and other debt obligations of the Corporation, and all paper writings.

### SECTION THREE

#### BORROWING AND SECURITIES

3.01 BORROWING POWER - Without limiting the borrowing powers of the Corporation as set forth in the Act, the Board is authorized from time to time:

(a) to borrow money upon the credit of the Corporation in such amounts and on such terms as may be deemed expedient by obtaining loans or advances or by way of overdraft or otherwise;

(b) to issue, re-issue, sell or pledge bonds, debentures, notes or other evidence of indebtedness or guarantees of the Corporation, whether secured or unsecured for such sums and at such prices as may be deemed expedient;

(c) subject to the Act, to issue guarantees on behalf of the Corporation to secure the performance of the obligations of any person; and

(d) to charge, mortgage, hypothecate, pledge or otherwise create a security interest in all or any currently owned or subsequently acquired real or personal, movable or immovable, property and undertaking of the Corporation, including book debts, rights, powers and franchises for the purpose of securing any such bonds, debentures, notes or other evidences of indebtedness or guarantee or any other present or future indebtedness or liability of the Corporation.

Nothing in this section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

**3.02 DELEGATION OF BORROWING POWER** - The Board may from time to time delegate to such one or more of the Directors and Officers of the Corporation as may be designated by the Board all or any of the powers conferred on the Board by Section 3.01 to such extent and in such manner as the Board shall determine at the time of each such delegation.

**3.03 EXECUTION OF DEBT OBLIGATION DOCUMENTS** - If the Board so authorizes, or if any instrument under which any bonds, debentures or other debt obligations of the Corporation are issued so provides, any bonds, debentures and other debt obligations of the Corporation, instead of being manually signed by the Directors or Officers authorized in that behalf, may have the facsimile signatures of such Directors or Officers printed or otherwise mechanically reproduced thereon and in either case, shall be as valid as if signed manually, but no such bond, debenture or other debt obligation, shall be issued unless it is manually signed, countersigned or certified by or on behalf of a trust company or other transfer agent or registrar duly authorized by the Board or the instrument under which such bonds, debentures or other debt obligations are issued so to do. Notwithstanding that any persons whose facsimile signature is so used shall have ceased to hold the office that he is stated on such bond, debenture or other debt obligation to hold at the date of the actual issue thereof, the bond debenture or other debt obligation shall be valid and binding on the Corporation.

## SECTION FOUR

### DIRECTORS

**4.01 NUMBER OF DIRECTORS AND QUORUM** - Until changed in accordance with the Act, the Board shall consist of not fewer than three (3) and not more than twenty (20) Directors. Subject to Section 4.07 and subject also to the Articles and the Act, the quorum for the transaction of business at any meeting of the Board shall consist of a majority of the Directors or such lesser number of Directors as the Board may from time to time determine. A Director interested is to be counted in a quorum notwithstanding his interest.

4.02 QUALIFICATION - No person shall be qualified for election as a Director if he is less than Nineteen (19) years of age; if he is of unsound mind and has been so found by a Court in Canada or elsewhere; if he is not an individual; or if he has the status of a bankrupt. A Director need not be a Shareholder.

4.03 ELECTION AND TERM - Each Director named in the Notice of Directors filed at the time of continuance shall hold office from the date of the Certificate of Continuance until the expiration of the term of office applicable to that Director at the date of the Certificate of Continuance. At each annual general meeting of the Corporation, the Corporation shall elect directors to the Board as may be required to fill any positions vacated by reason of the expiration of the term of office of one or more of the Directors. A Director may be elected for a term of office of one or more years of office as may be specified in the resolution by which he is elected. In this part, "year or office" means the period of time commencing on the date of an annual general meeting of the Corporation and ending on the date of the annual general meeting held in the next subsequent calendar year. If in any calendar year the Corporation does not hold an annual general meeting, the Directors whose terms of office would have expired in such calendar year shall be deemed to have been elected as Directors on the last date on which the annual general meeting could have been held in such calendar year pursuant to the Act and each Director so deemed elected may hold office until the next annual general meeting is held and other Directors are elected. The shareholders may, by special resolution, vary the term of office of any Director. The number of Directors to be elected at any such meeting shall be the number of Directors in office prior to the meeting unless the Directors or the Shareholders otherwise determine. The election shall be by ordinary resolution of the Shareholders. If an election of Directors is not held at the proper time, the incumbent Directors shall continue in office until their successors are elected.

4.04 REMOVAL OF DIRECTORS - Subject to the provisions of the Act, the Shareholders may by ordinary resolution passed at a special meeting remove any Director from office and the vacancy created by such removal may be filled at the same meeting failing which it may be filled by the Directors.

4.05 VACATION OF OFFICE - A Director ceases to hold office when: he dies; he is removed from office by the Shareholders; he ceases to be qualified for election as a Director, or his written resignation is sent or delivered to the Corporation, or if a time is specified in such resignation, at the time so specified, whichever is later.

#### 4.06 VACANCIES

(a) Subject to the Act and the Articles, a quorum of the Board may fill a vacancy in the Board, except a vacancy resulting from an increase in the minimum number of Directors or from a failure of the Shareholders to elect the minimum number of Directors. In the absence of a quorum of the Board, or if the vacancy has arisen from a failure of the Shareholders to elect the minimum number of Directors, the Board shall forthwith call a special meeting of the Shareholders to fill the vacancy. If the Board fails to call such meeting or if there are no such Directors then in office, any Shareholder may call the meeting; and

(b) The Directors of the Corporation may, between annual general meetings of the Corporation, appoint one or more additional Directors to serve until the next annual general meeting but the number of additional Directors shall not at any time exceed one third of the number of Directors who held office at the expiration of the last annual general meeting, and in no event shall the total number of Directors exceed the maximum number of Directors fixed pursuant to paragraph 4 of the Articles of Continuance. Any Director so appointed shall hold office only until the next following annual general meeting of the Corporation but shall be eligible for election at such meeting and, so long as he is an additional Director prior to such meeting, the number of Directors for election at such meeting shall be increased accordingly.

4.07 ACTION BY THE BOARD - The Board shall manage the business and affairs of the Corporation. The powers of the Board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing, whether by document, telegram, telecopy or any method of transmitting legibly recorded messages or other means, signed by all the Directors entitled to vote on that resolution at a meeting of the Board and any resolution in writing so signed shall be as valid as if it had been passed at a meeting of Directors or a Committee of Directors and shall be held to relate to any date therein stated to be the effective date thereof, and a copy of every such resolution in writing shall be kept with the minutes of the proceedings of Directors or Committee of Directors. Where there is a vacancy in the Board, the remaining Directors may exercise all the powers of the Board so long as a quorum remains in office. Where the Corporation has only one Director, that Director may constitute a meeting. An act of a Director is valid notwithstanding any irregularity in his election or appointment or a defect in his qualifications.

4.08 MEETINGS BY TELEPHONE -If all of the Directors consent, a Director may participate in a meeting of the Board or of a Committee of Directors by means of telephone or such other communications facilities as permit all persons participating in the meeting to hear each other, and a Director participating in such a meeting by such means is deemed to be present at the meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the Board and of Committees of Directors held while a Director holds office.

4.09 PLACE OF MEETING -Meetings of the Board may be held at any place in or outside Canada.

4.10 CALLING OF MEETINGS -Meetings of the Board shall be held from time to time and at such place as the Board may determine. In addition, each of the Chairman of the Board, the Managing Directors, the President or any two Directors may convene or direct the convening of a meeting of the Board.

4.11 NOTICE OF MEETING -Except as otherwise provided in Section 4.12, notice of the time and place of each meeting of the Board shall be given in the manner provided in Section 12.01 to each Director not less than forty-eight (48) hours before the time when the meeting is to be held. A notice of a meeting of Directors need not specify the purpose of or the business to be transacted at the meeting except where Section 115(3) of the Act requires such purpose or business to be specified, including any proposal to:

- (a) submit to the Shareholders any question or matter requiring approval of the Shareholders
- (b) fill a vacancy among the Directors or in the office of auditor,
- (c) issue securities;
- (d) declare dividends;
- (e) purchase, redeem, or otherwise acquire shares of the Corporation;
- (f) pay a commission for the sale of shares;
- (g) approve a management proxy circular;
- (h) approve any annual financial statements; or

(i) adopt, amend or repeal By-Laws.

A Director may in any manner waive notice of or otherwise consent to a meeting of the Board either before or after the convening of the meeting.

4.12 REGULAR MEETINGS - The Board may by resolution appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named in the resolution. No notice shall be required for any such regular meeting.

4.13 FIRST MEETING OF NEW BOARD - Provided a quorum of Directors is present, each newly elected Board may without notice hold its first meeting immediately following the meeting of Shareholders at which such Board or portion thereof is elected.

4.14 ADJOURNED MEETING - Notice of an adjourned meeting of the Board is not required if the time and place of the adjourned meeting is announced at the original meeting.

4.15 CHAIRMAN - The Chairman of any meeting of the Board shall be the first mentioned of such of the following Officers as have been appointed and who is a Director and is present at the meeting: Chairman of the Board, Managing Director, President, or a Vice-President who is a Director. If no such Officer is present, the Directors present shall choose one of their number to be Chairman.

4.16 VOTES TO GOVERN - At all meetings of the Board every question shall be decided by a majority of the votes cast on the question. In cases of an equality of votes the Chairman of the meeting shall not be entitled to a second or casting vote.

4.17 CONFLICT OF INTEREST - A Director or Officer who is a party to, or who is a Director or Officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation shall disclose the nature and extent of his interest at the time and in the manner provided by the Act. Any such contract or proposed contract shall be referred to the Board or Shareholders for approval even if such contract is one that in the ordinary course of the Corporation's business would not require approval by the Board or Shareholders, and a Director interested in a contract so referred to the Board shall not vote on any resolution to approve the same except as provided by the Act.

4.18 REMUNERATION AND EXPENSES - The Directors shall be paid such remuneration for their services as the Board may from time to time determine. The Directors shall also be entitled to be reimbursed for travelling and other expenses properly incurred by them in attending meetings of the Board or any committee thereof. Nothing herein contained shall preclude any Director from serving the Corporation in any other capacity and receiving remuneration therefore.

4.19 ALTERNATE DIRECTOR - Any director (herein called the "Appointor") may from time to time by written notice to the Corporation appoint any person (herein called the "Appointee") to be his alternate director provided that the directors approve of such appointment by resolution. Such approval shall not be required if a director is appointed alternate director for another director. A person (including a director) may be appointed as an alternate director by more than one director.

(a) The Appointee while he holds office as an alternate director shall be entitled and authorized:

(i) if expressly so specified by the Appointor in the instrument appointing the Appointee, to receive notice of meetings of the directors, and notice of meetings of all committees of which the Appointor is a member;

(ii) to attend and vote as a director at meetings of the directors in the absence of the Appointor;

(iii) to attend and vote at meetings of all committees of which the Appointor is a member, in the absence of the Appointor,

(iv) execute consents to resolutions in writing of the directors and such committees, in substitution for the Appointor; and

(v) if expressly so authorized by the Appointor in the instrument appointing the Appointee, to execute all documents, instruments and writings under the seal of the Corporation or otherwise which the Appointor is authorized to execute on behalf of the Corporation, in substitution for the Appointor, and for the purposes thereof the Appointee shall be deemed to be a director. He shall not be deemed to be the agent of the Appointor.

(b) The Appointee shall have a separate vote on behalf of each director for whom he is an alternate director. If the Appointee is also a director, the Appointee shall be counted separately in determining the quorum of a meeting and shall have a separate vote on behalf of each director for whom he is an alternate director in addition to being so counted and voting in his own right as a director.

(c) The Appointee shall not be entitled to be remunerated as an alternate director otherwise than out of the remuneration of the Appointor.

(d) No person shall act as an alternate director unless he qualifies under the Act to act as a director of the Corporation and has consented in writing to his appointment.

(e) An Appointee's appointment as an alternate director shall terminate if:

(i) the Appointor gives written notice revoking the Appointee's appointment; or

(ii) the Appointee resigns; or

(iii) The Appointor ceases for any reason to be a director, or

(iv) the Appointee ceases to be qualified under the Act to act as a director, or

(v) the term of the Appointee's appointment, if any, expires.

(f) Any Appointor may make or revoke an appointment of an Appointee by notice in writing delivered to, mailed to or transmitted by telegram, cable or telecopier to the registered office of the Corporation, delivery, postage or transmission charges prepaid.



## SECTION FIVE

### COMMITTEES

#### 5.01 COMMITTEE OF DIRECTORS

(a) The Board may appoint one or more Committees of Directors, however designated, and delegate to such committee any of the powers of the Board except those which, under the Act, a Committee of Directors has no authority to exercise.

(b) The Directors may by resolution appoint an Executive Committee to consist of such member or members of their body as they think fit, which Committee shall have, and may exercise during the intervals between the meetings of the Board, all the powers vested in the Board the power to fill vacancies in the Board, the power to change membership of, or fill vacancies in, said Committee or any other committee of the Board and such other powers, if any, as may be specified in the resolution. The said Committee shall keep regular minutes of its transactions and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board of Directors at such times as the Board of Directors may from time to time require. The Board shall have the power at any time to revoke or the authority given to or acts done by the Executive Committee except as to acts done before such revocation or overriding and to terminate the appointment or change the membership of such Committee and to fill vacancies in it. The Executive Committee may make rules for the conduct of its business and may appoint such assistants as it may deem necessary. A majority of the members of said Committee shall constitute a quorum thereof.

(c) The Directors may from time to time by resolution constitute, dissolve or reconstitute standing committees and other committees consisting of such persons as the Board may determine. Every committee constituted by the Board shall have the powers, authorities and discretions delegated to it by the Board (which shall not include the power to fill vacancies on the Board and the power to change the membership of or fill vacancies in any committee constituted by the Board or the power to appoint or remove officers appointed by the Board) and shall conform to the regulations which may from time to time be imposed upon it by the Board.

(d) The Executive Committee and any other committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members of the committee present, and in case of an equality of votes the chairman shall not have a second or casting vote. A resolution approved in writing by all the members of the Executive Committee or any other committee shall be as valid and effective as if it had been passed at a meeting of such Committee duly called and constituted. Such resolution may be in two or more counterparts which together shall be deemed to constitute one resolution in writing. Such resolution shall be filed with the minutes of the proceedings of the committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.

5.02 TRANSACTION OF BUSINESS - Subject to the provisions of Section 5.01, the powers of a Committee of Directors may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all the members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of such committee may be held at any place in or outside Canada.

5.03 AUDIT COMMITTEE - When required by the Act the Board shall, and at any other time the Board may, elect annually from among its number an audit committee to be composed of not fewer than three (3) directors of whom a majority shall not be Officers or employees of the Corporation or its affiliates. The audit committee shall have the powers and duties provided in the Act.

5.04 PROCEDURE - Unless otherwise determined by the Board, each Committee of Directors shall have the power to fix its quorum at not less than a majority of its members, to elect its Chairman and to regulate its procedure.

## SECTION SIX

### OFFICERS

6.01 APPOINTMENT - The Board may from time to time appoint a President, one or more Vice-Presidents (to which title may be added words indicating seniority or function), a Secretary; a Treasurer and such other Officers as the Board may determine, including one or more assistants to any of the Officers so appointed (herein referred to as "Officers"). The Board may specify the duties of and, in accordance with this By-Law and subject to the provisions of the Act, delegate to such Officers powers to manage the business and affairs of the Corporation. Subject to Sections 6.02 and 6.03, an Officer may but need not be a Director and one person may hold more than one office.

6.02 CHAIRMAN OF THE BOARD - The Board may from time to time also appoint a Chairman of the Board who shall be a Director. The Chairman of the Board shall, when present, preside at all meetings of the Board, Committees of Directors and at all meetings of Shareholders. In addition, the Board may assign to him any of the powers and duties that may by the provisions of this by-law be assigned to the Managing Director or to the President; and he shall have such other powers and duties as the board may specify.

6.03 MANAGING DIRECTOR - The Board may from time to time appoint a Managing Director who shall be a Director. If appointed, he shall be the Chief Executive Officer and, subject to the authority of the Board, shall have general supervision of the business and affairs of the Corporation; and he shall, subject to the provisions of the Act, have such other powers and duties as the Board may specify. During the absence or disability of the President, or if no President has been appointed, the Managing Director shall also have the powers and duties of the President's office.

6.04 PRESIDENT - The Board, from time to time, may elect from among its number, a President. The President, in the absence or non-appointment of the Chairman of the Board, shall preside at meetings of the Board and at all meetings of the Shareholders. He shall have general and active management of the business and affairs of the Corporation, and without limitation to the foregoing:

(i) he shall have general supervision and direction of all the other officers of the Corporation;

(ii) he shall submit the annual report of the Board, if any, and the annual balance sheets and financial statements of the business and affairs and reports on the financial position of the Corporation as required by the statutes to the annual general meeting and from time to time shall report to the Board on all matters within his knowledge which the interest of the Corporation requires to be brought to their attention.

(iii) he shall be ex-officio a member of all standing committees.

6.05 VICE-PRESIDENT - A Vice-President shall have such powers and duties as the Board may specify.

6.06 SECRETARY - The Secretary shall attend and be the Secretary of all meetings of the Board, Shareholders and Committees of the Board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat; he shall give or cause to be given, as and when instructed, all notices to Shareholders, Directors, Officers, the auditor and members of the Committees of Directors; he shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents and instruments belonging to the Corporation, except when some other Officer or agent has been appointed for that purpose; and he shall have such other powers and duties as the Board may specify.

6.07 TREASURER - The Treasurer shall keep proper accounting records in compliance with the Act and shall be responsible for the deposit of money, the safekeeping of securities and the disbursement of the funds of the Corporation; he shall render to the Board whenever required an account of all his transactions as Treasurer and of the financial position of the Corporation; and he shall have such other powers and duties as the Board may specify.

6.08 POWERS AND DUTIES OF OTHER OFFICERS - The powers and duties of all other Officers shall be such as the terms of their engagement call for or as the Board or the Chief Executive Officer may specify. Any of the powers and duties of an Officer to whom an assistant has been appointed may be exercised and performed by such assistant, unless the Board otherwise directs.

6.09 VARIATION OF POWERS AND DUTIES - The Board may from time to time and subject to the provisions of the Act, vary, add to or limit the powers and duties of any Officer.

6.10 TERM OF OFFICE - The Board, in its discretion, may remove any Officer of the Corporation, without prejudice to such Officer's rights under any employment contract, otherwise each Officer appointed by the Board shall hold office until the earlier of the date his resignation becomes effective, the date his successor is appointed or he shall cease to be qualified for that office.

6.11 TERMS OF EMPLOYMENT AND REMUNERATION - The terms of employment and the remuneration of Officers appointed by the Board shall be settled by it from time to time.

6.12 CONFLICT OF INTEREST - An Officer shall disclose his interest in any material contract or proposed material contract with the Corporation in accordance with Section 4.17.

6.13 AGENTS AND ATTORNEYS - The Board shall have power from time to time to appoint agents or attorneys for the Corporation in or outside of Canada with such powers of management or otherwise (including the power to sub-delegate) as may be thought fit.

6.14 FIDELITY BONDS - The Board may require such Officers, employees and agents of the Corporation as the Board deems advisable to furnish bonds for the faithful discharge of their powers and duties, in such form and with such surety as the Board may from time to time determine.

## SECTION SEVEN

### PROTECTION OF DIRECTORS, OFFICERS AND OTHERS

7.01 LIMITATION OF LIABILITY - No Director shall be liable for the acts, receipts, neglects or defaults of any other Director or Officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the moneys, securities or effects of the Corporation shall be deposited, or for any loss occasioned by any error of judgment or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto, unless the same are occasioned by his own willful neglect or default; provided that nothing herein shall relieve any Director or Officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

7.02 INDEMNITY - Subject to the limitations contained in the Act, and to the extent he is otherwise fairly and reasonably entitled thereto, the Corporation shall indemnify a Director or Officer, a former Director or Officer, or a person who acts or acted at the Corporation's request as a Director or Officer of a body corporate of which the Corporation is or was a Shareholder or creditor (or a person who undertakes or has undertaken any liability on behalf of the Corporation or any such body corporate) and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgement, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a Director or Officer of the Corporation or such body corporate, if

(a) he acted honestly and in good faith with a view to the best interests of the Corporation; and

(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

7.03 INSURANCE - Subject to the limitations contained in the Act, the Corporation may purchase and maintain such insurance for the benefit of its Directors and Officers as the Board may from time to time determine.

7.04 DIRECTORS MAY RELY - Directors may rely upon the accuracy of any statement of fact represented by an Officer of the Corporation to be correct or upon statements in a written report of the auditor of the Corporation and shall not be responsible or held liable for any loss or damage resulting from the paying of any dividends or otherwise acting in good faith upon any such statement.

## SECTION EIGHT

### SHARES

8.01 ALLOTMENT AND ISSUE - The Board may from time to time allot, or grant options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times and to such persons and for such consideration as the Board shall determine, provided that no share shall be issued until it is fully paid as prescribed by the Act. Subject to the Articles, no holder of any class of share of the capital of the Corporation shall be entitled as of right to subscribe for, purchase or receive any part of any new or additional issue of shares of any class, whether now or hereafter authorized or any bonds, debentures or other securities convertible into shares of any class.

8.02 COMMISSIONS - The Board may from time to time authorize the Corporation to pay a reasonable commission to any person in consideration of his purchasing or agreeing to purchase shares of the Corporation, whether from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

### 8.03 REGISTRATION OF TRANSFER

(a) Subject to the provisions of the Act, no transfer of shares shall be registered in a securities register except upon presentation of the representing such shares with a transfer endorsed thereon or delivered therewith duly executed by the registered holder or by his or successor duly appointed, together with such reasonable assurance or evidence of signature, identification and authority to transfer as the Board may from time to time prescribe, upon payment of all applicable taxes and any fees prescribed by the Board, upon compliance with such restrictions on transfer, if any, as are authorized by the Articles, and upon satisfaction of any lien referred in Section 8.05.

(b) The signature of the registered owner of any shares, or of his duly attorney, upon an authorized instrument of transfer shall constitute a complete and sufficient authority to the Corporation, its Directors, Officers and agents to register, in the name of the transferee as named in the instrument of transfer, the number of shares specified therein or, if no number is specified, all the shares of the registered owner represented by share certificates deposited with the instrument of transfer. If no transferee is named in the instrument of transfer, the instrument of transfer shall constitute a complete and sufficient authority to the corporation, its Directors, Officers and agents to register, in the name of the person in whose behalf any certificate for the shares to be transferred is deposited with the Corporation for the purpose of having the transfer registered, the number of shares specified in the instrument of transfer or, if no number is specified, all the shares represented by all share certificates deposited with the instrument of transfer.

(c) Neither the Corporation nor any Director, Officer or agent thereof be bound to inquire into the title of the person named in the form of transfer as transferee, or, if no person is named therein as transferee, of the person on whose behalf the certificate is deposited with the Corporation for the purpose of having the transfer registered or be liable to any claim by such registered owner or by any intermediate owner or holder of the certificate or of any of the shares represented thereby or any interest therein for registering the transfer, and the transfer, when registered, shall confer upon the person in whose name the shares have been registered a valid title to such shares.

(d) Every instrument of transfer shall be executed by the transferor and left at the registered office of the Corporation or at the office of its transfer agent or branch transfer agent or registrar for registration together with the share certificate for the shares to be transferred and such other evidence if any, as the Directors or the transfer agent or branch transfer agent or registrar or branch registrar may require to prove the title of the transferor or his right to transfer the shares and the right of the transferee to have the transfer registered. All instruments of transfer where the transfer is registered shall be retained by the Corporation or its transfer agent or branch transfer agent or registrar or branch registrar and any instrument of transfer, where the transfer is not registered, shall be returned to the person depositing the same together with the share certificate which accompanied the same when tendered for registration.

(e) There shall be paid to the Corporation in respect of the registration of any transfer such sum, if any, as the Directors may from time to time determine.

8.04 TRANSFER AGENTS AND REGISTRARS - The Board may from time to time appoint a registrar to maintain the securities register and a transfer agent to maintain the register of transfers and may also appoint one or more branch registrars to maintain branch securities registers and one or more branch transfer agents to maintain branch registers of transfer, but one person may be appointed both registrar and transfer agent. The Board may at any time terminate any such appointment.

8.05 PURCHASE AND REDEMPTION OF SHARES - Subject to the provisions of the Act and the Articles, a Corporation may purchase or otherwise acquire shares issued by it and may purchase or redeem any redeemable shares issued by it at prices not exceeding the redemption of those shares stated in the Articles or calculated according to a formula stated in the Articles.

8.06 NON-RECOGNITION OF TRUSTS - Subject to the provisions of the Act, the Corporation shall treat as absolute owner of the share the person in whose name the share is registered in the securities register as if that person had full legal capacity and authority to exercise all rights of ownership, irrespective of any indication to the contrary through knowledge or notice or description in the Corporation's records or on the share certificate.

8.07 SHARE CERTIFICATES - Every holder of one or more shares of the Corporation shall be entitled, at his option, to a share certificate, or to a non-transferable written acknowledgement of his right to obtain a share certificate, stating the number and list or series of shares held by him as shown on the securities register. Share Certificates and acknowledgements of a Shareholder's right to a share certificate, respectively, shall be in such form as the Board shall from time to time approve. Any share certificate shall be signed in accordance with Section 2.04 and need not be under the corporate seal; provided that, unless the Board otherwise determines, certificates representing shares in respect of which a transfer agent and/or registrar has been appointed shall not be valid unless countersigned by or on behalf of such transfer agent and/or registrar. The signature of one of the signing Officers or, in the case of share certificates which are not valid unless countersigned by or on behalf of a transfer agent and/or registrar, the signature of one of the Officers, may be printed or mechanically reproduced in facsimile upon share certificates and every such facsimile signature shall for all purposes be deemed to be the signature of the Officer whose signature it reproduces and shall be binding upon the Corporation. A share certificate executed as aforesaid shall be valid notwithstanding that one or both of the Officers whose facsimile signature appears thereon no longer holds office at the date of issue of the Certificate.

8.08 REPLACEMENT OF SHARE CERTIFICATES - The Board or any Officer or agent designated by the Board may in its or his discretion direct the issue of a new share certificate in lieu of and upon cancellation of a share certificate that has been mutilated or in substitution for a share certificate claimed to have been lost, destroyed or wrongfully taken or which does not comply as to form with the requirements from time to time of the Act in this regard, on payment of such fee as the Board may direct and on such terms as to indemnity; reimbursement of expenses and evidence of loss and of title as the Board may from time to time prescribe, whether generally or in any particular case.

8.09 JOINT SHAREHOLDERS - If two or more persons are registered as joint holders of any share, the Corporation shall not be bound to issue more than one certificate in respect thereof, and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share. Joint Shareholders may collectively designate in writing an address as their recorded address for service of notice and payment of dividends but in default of such designation the address of the first named joint Shareholder shall be deemed to be the recorded address aforesaid.

8.10 DECEASED SHAREHOLDERS - In the event of the death of a holder, or of one of the joint holders, of any share, the Corporation shall not be required to make any entry in the securities register in respect thereof or to make payment of any dividends thereon except upon production of all such documents as may be required by law and upon compliance with the reasonable requirements of the Corporation and its transfer agents.

## SECTION NINE

### DIVIDENDS AND RIGHTS

9.01 DIVIDENDS - Subject to the provisions of the Act, the Board may from time to time declare dividends payable to the Shareholders according to their respective rights and interest in the Corporation. Dividends may be paid in money or property or by issuing fully paid shares of the Corporation.

9.02 DIVIDEND CHEQUES - A dividend payable in cash shall be paid by cheque drawn on the Corporation's bankers or one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such registered holder at his recorded address, unless such holder otherwise directs. In the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all of such joint holders and mailed to them at their recorded address. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

9.03 NON-RECEIPT OF CHEQUES - In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the Board may from time to time prescribe, whether generally or in any particular case.

9.04 RECORD DATE FOR DIVIDENDS AND RIGHTS - The Board may fix in advance a date, preceding by not more than Fifty (50) days the date for the payment of any dividend or the date for the issue of any warrant or other evidence of right to subscribe for securities of the Corporation, as a record date for the determination of the persons entitled to receive payment of such dividend or to exercise the right to subscribe for such securities, provided that, where the Corporation is a distributing Corporation for purposes of the Act, notice of any such record date is given not less than seven (7) days before such record date by newspaper advertisement and otherwise in the manner provided in the Act. Where no record date is fixed in advance as aforesaid, the record date for the determination of the persons entitled to receive payment of any dividend or to exercise the right to subscribe for securities of the Corporation shall be at the close of business on the day on which the resolution relating to such dividend or right to subscribe is passed by the Board.

9.05 UNCLAIMED DIVIDENDS - Any dividend unclaimed after a period of six (6) years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

## SECTION TEN

### MEETINGS OF SHAREHOLDERS

10.01 ANNUAL MEETINGS - The annual meeting of Shareholders shall be held at such time in each year and, subject to the Act, the Articles and to Section 10.04, at such place as the Board may from time to time determine, for the purpose of considering the financial statements and reports required by the Act to be placed before the annual meeting, electing Directors, appointing auditors and for the transaction of such other business as may properly be brought before the meeting.

10.02 SPECIAL MEETINGS - The Board shall have power to call a special meeting of Shareholders at any time.

10.03 SPECIAL BUSINESS - All business transacted at a special meeting of Shareholders and all business transacted at an annual meeting of Shareholders, except consideration of the financial statements, auditors reports, election of directors and reappointment of the incumbent auditors, is deemed to be special business.

10.04 PLACE OF MEETING - Subject to the Articles, meetings of Shareholders may be held in the Cities of Boston, in the State of Massachusetts, New York, in the State of New York, Vancouver in the Province of British Columbia or such other place or places as the Directors in their absolute discretion may determine from time to time.

10.05 NOTICE OF MEETING - Notice of the time and place of each meeting of Shareholders shall be given in the manner provided in Section 12.01 not less than twenty-one (21) nor more than fifty (50) days before the date of the meeting to each Director, to the auditor and to each Shareholder who at the close of business on the record date, if any, for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting. Notice of a meeting of Shareholders called for any purpose other than consideration of the financial statements and auditor's report, election of Directors and re-appointment of the incumbent auditor shall state the nature of such business in sufficient detail to permit the Shareholder to form a reasoned judgement thereon and shall state the text of any special resolution to be submitted to the meeting. A Shareholder and any other person entitled to attend a meeting of Shareholders may in any manner waive notice of or otherwise consent to a meeting of Shareholders.

10.06 LIST OF SHAREHOLDERS ENTITLED TO NOTICE - For every meeting of Shareholders, at any time that the Corporation has more than fifteen (15) Shareholders entitled to vote at a meeting of Shareholders, the Corporation shall prepare a list of Shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares entitled to vote at the meeting held by each Shareholder. If a record date for the meeting is fixed pursuant to Section 10.07, the Shareholders listed shall be those registered or constructively registered pursuant to the Act at the close of business of the record date, such list to be prepared on a day not later than ten (10) days after such record date. If no record date is fixed, the list of Shareholders shall be prepared no later than at the close of business on the day immediately preceding the day on which notice of the meeting is given, or where no such notice is given, the day on which the meeting is held. The list shall be available for examination by any Shareholder during usual business hours at the records office of the Corporation or at the place where the central securities register is kept and at the place where the meeting is held.

10.07 RECORD DATE FOR NOTICE - The Board may fix in advance a record date, preceding the date of any meeting of Shareholders by not more than fifty (50) days and not less than twenty-one (21) days for the determination of the Shareholders entitled to notice of the meeting, provided that notice of any such record date is given, not less than seven (7) days before such record date, by newspaper advertisement in the manner provided in the Act. If no record date is so fixed, the record date for the determination of the Shareholders entitled to notice of the meeting shall be the close of business on the day immediately preceding the day on which the notice is given, or if no notice is given, the day on which the meeting is held.

10.08 MEETINGS WITHOUT NOTICE - A meeting of Shareholders may be held without notice at any time and place permitted by the Act:

- (a) if all the Shareholders entitled to vote thereat are present in person or represented by proxy or if those not present or represented by proxy waive notice of or otherwise consented to such meeting being held, and
- (b) if the auditor and the Directors are present or waived notice of or otherwise consent to such meeting being held.

At such meeting any business may be transacted which the Corporation at a meeting of Shareholders may transact. If the meeting is held at a place outside the Yukon Territory, Shareholders not present or represented by proxy, but who have waived notice of or otherwise consented to such meeting, shall also be deemed to have consented to the meeting being held at such place.



10.09 MEETINGS BY TELEPHONE - If all the Shareholders consent, a Shareholder may participate in a meeting of Shareholders by means of telephone or such other communications facilities as permit all persons participating in the meeting to hear each other, and a Shareholder participating in such a meeting by such consent shall be effective whether given before or after the meeting to which it relates.

10.10 CHAIRMAN, SECRETARY AND SCRUTINEERS - The Chairman of any meeting of Shareholders shall be the first mentioned of such of the following Officers as having been appointed and who is present at the meeting: Chairman of the Board, President, Managing Director, or a Vice-President. If no such Officer is present within fifteen (15) minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to be Chairman. If the Secretary of the Corporation is absent, the Chairman shall appoint some person, who need not be a Shareholder, to act as Secretary of the meeting. If desired, one or more scrutineers, who need not be Shareholders, may be appointed by a resolution or by the Chairman with the consent of the meeting.

10.11 PERSONS ENTITLED TO BE PRESENT - The only persons entitled to be present at a meeting of Shareholders shall be those entitled to vote thereat, the Directors and auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act or the Articles or By-Laws to be present at the meeting. Any other person may be admitted only on the invitation of the Chairman of the meeting or with the consent of the meeting.

10.12 QUORUM - Save as herein otherwise provided, a quorum shall be two shareholders or proxyholders present, holding not less than ten percent (10%) of the outstanding shares of the Corporation entitled to vote at the meeting. If there is only one shareholder, the quorum is one person present and being, or representing by proxy, such shareholder. The Directors, the Secretary or, in his absence, an assistant Secretary, and the solicitor of the Corporation shall be entitled to attend at any general meeting but no such person shall be counted in the quorum or be entitled to vote at any general meeting unless he is a shareholder or proxyholder entitled to vote thereat. If a quorum is present at the opening of any meeting of Shareholders, the Shareholders present or represented by proxy may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. No business, other than the election of a Chairman of the meeting and the adjournment of the meeting shall be transacted at any general meeting unless the quorum requisite was present at the commencement of the meeting. If within one-half hour from the time appointed for a meeting a quorum is not present, the meeting if convened by requisition of the Shareholders, shall be dissolved; but in any other case it shall stand adjourned to the same day in the next week at the same time and place. If at such adjourned meeting a quorum is not present within one-half hour from the time appointed, the Shareholders present in person or by proxy shall be a quorum.

10.13 RIGHT TO VOTE - RECORD DATE FOR VOTING - Subject to the provisions of the Act as to authorized representative of any other body corporate, at any meeting of Shareholders in respect of which the Corporation has prepared the list referred to in Section 10.06, every person who is named in such list shall be entitled to vote the shares shown thereon opposite his name except, where the Corporation has fixed a record date in respect of such meeting pursuant to Section 10.07, to the extent that such person has transferred any of his shares after such record date and the transferee, upon producing properly endorsed Certificates evidencing such shares or otherwise establishing that he owns such shares, demands not later than ten (10) days before the meeting that his name be included in such list, in which event the transferee alone shall be entitled to vote the transferred shares at the meeting. Where no record date for notice has been fixed and no notice of meeting given, or in the absence of a list prepared as aforesaid in respect of a meeting of Shareholders, every person shall be entitled to vote at the meeting who at the time is entered in the securities register as the holder of one or more shares carrying the right to vote at such meeting.

#### 10.14 PROXIES

(a) Every Shareholder entitled to vote at a meeting of Shareholders, may appoint a proxyholder, or one or more alternate proxyholders, who need not be Shareholders, to attend and act at the meeting in the manner and to the extent authorized and With the authority conferred by the proxy. A proxy shall be in writing executed by the Shareholder or his attorney shall conform with the requirements of the Act. An instrument of shall be valid only at the meeting in respect of which it is or any adjournment thereof.

(b) Any corporation, other than a Prohibited Corporate Shareholder, which is a Shareholder of the Corporation may by resolution of its Directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting. The person so authorized shall be entitled to exercise in respect of and at such meeting the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Corporation personally present, including, without limitation, the right, unless by such resolution, to appoint a proxyholder to represent such corporation, and shall, If present at the meeting, be counted for the purpose of forming a quorum and be deemed to be a member present at the meeting. Evidence of the appointment of any such representative may be sent to the Corporation by written instrument, telegram, telex, facsimile or any method of transmitting legibly recorded messages.

(c) Every ballot case upon a poll and every proxy appointing a proxyholder who cast a ballot upon a poll shall be retained by the Secretary for the period and be subject to the inspection as the Act may provide.

10.15 TIME FOR DEPOSIT OF PROXIES - The Board may specify in a notice calling a meeting of Shareholders a time, preceding the time of such meeting by not more than forty-eight (48) hours exclusive of non-business days, before which time proxies to be used at such meeting must be deposited. A proxy shall be acted upon only if, prior to -the time so specified, it shall have been deposited by written instrument, telegram, telex, facsimile or any method of transmitting legibly recorded messages with the Corporation or an agent thereof specified in such notice or, if no such time is specified in such notice, unless it has been received by the Secretary of the Corporation or by the Chairman of the meeting or any adjournment thereof prior to the time of voting.

10.16 JOINT SHAREHOLDERS - If two or more persons hold shares jointly, any one of them present in person or represented by proxy at a meeting of Shareholders may, in the absence of the other or others, vote the shares but if two or more of those persons are present in person or represented by proxy and vote, they shall vote as one on the shares jointly held by them and in the absence of agreement between those so voting the person named first in the Register shall vote the shares.

10.17 VOTES TO GOVERN - At any meeting of Shareholders every question shall, unless otherwise required by the Articles or By-Laws or by law, be determined by the majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a poll, the Chairman of the meeting shall be entitled to a second or casting vote in addition to vote or votes to which he may be entitled as a shareholder.

10.18 MOTION - No resolution proposed at a meeting need be seconded. The Chairman may propose or second a motion.

10.19 SHOW OF HANDS - Subject to the provisions of the Act any question at a meeting of Shareholders shall be decided by a show of hands unless a ballot thereon is required or demanded as hereinafter provided. Upon a show of hands, every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the Chairman of the meeting that the vote upon the question has been carded or carried by a particular majority or not carried, an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the Shareholders upon the said question.

## 10.20 BALLOTS

(a) On any question proposed for consideration at a meeting of Shareholders, and whether or not a show of hands has been taken thereof, any Shareholder or proxyholder entitled to vote at the meeting may require or demand a ballot. A ballot so required or demanded shall be taken in such manner as the Chairman shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled in respect of the shares which he is entitled to vote at the meeting upon the question, to that number of votes provided by the Act or the Articles, and the result of the ballot so taken shall be the decision of the Shareholders upon the said question.

(b) No ballot may be demanded on the election of a Chairman. A ballot demanded on a question of adjournment shall be taken forthwith. A ballot demanded on any other question shall be taken as soon as, in the opinion of the chairman, is reasonably convenient, but in no event later than seven (7) days after the meeting and at such time and place and in such manner as the chairman of the meeting directs. The result of the ballot shall be deemed to be the resolution of and passed at the meeting at which the ballot was demanded. Any business other than that upon which the ballot has been demanded may be proceeded with pending the taking of the ballot. In any dispute as to the admission or rejection of a vote the decision of the chairman made in good faith shall be final and conclusive.

10.21 ADJOURNMENT - If a meeting of Shareholders is adjourned for less than thirty (30) days, it shall not be necessary to give notice of the adjourned meeting, other than by announcement at the earliest meeting that it is adjourned. If a meeting of Shareholders is adjourned by one or more adjournments for an aggregate of thirty (30) days or more, notice of the adjourned meeting shall be given as for an original meeting. At any such adjourned meeting no business shall be transacted other than business left unfinished at the meeting from which the adjournment took place.

10.22 RESOLUTION IN WRITING - A resolution in writing signed by all the Shareholders entitled to vote on that resolution at a meeting of Shareholders is as valid as if it had been passed at a meeting of the Shareholders, and shall be held to relate to any date therein stated to be the effective date thereof.

10.23 ONLY ONE SHAREHOLDER - Where the Corporation has only one Shareholder or only one holder of any class or series of shares, the Shareholder present in person or by proxy constitutes a meeting.

10.24 ONLY TWO SHAREHOLDERS - Where the Corporation has only two Shareholders a quorum for transaction of business at any meeting of Shareholders shall be one (1) person present in person, being a Shareholder entitled to vote thereat, or a duly appointed proxy of said Shareholder, holding not less than ten percent (10%) of the outstanding shares of the Corporation entitled to vote at the meeting.

## SECTION ELEVEN

### DIVISIONS AND DEPARTMENTS

11.01 CREATION AND CONSOLIDATION OF DIVISIONS - The Board may cause the business and operations of the Corporation or any part thereof to be divided or to be segregated into one or more divisions upon such basis, including without limitation, character or type of operation, geographical territory, product manufactured or service rendered, as the Board may consider appropriate in each case. The Board may also cause the business and operations of any such division to be further divided into sub-units and the business and operations of any such divisions or sub-units to be consolidated upon such basis as the Board may consider appropriate in each case.

11.02 NAME OF DIVISION - Subject to the Act any division or its sub-units may be designated by such name as the Board may from time to time determine and may transact business, enter into contracts, sign cheques and other documents of any kind and do all acts and things under such name, provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation. Any such contract, cheque or documents shall be binding upon the Corporation as if it had been entered into or signed in the name of the Corporation.

11.03 OFFICERS OF DIVISION - From time to time the Board or if authorized by the Board, the Chief Executive Officer, may appoint one or more Officers for any division, prescribe their powers and duties and settle their terms of employment and remuneration. The Board or, if authorized by the Board, the Chief Executive Officer, may remove at its or his pleasure any Officers so appointed, without prejudice to such Officer's right under any employment contract. Officers of divisions or their sub-units shall not, as such, be Officers of the Corporation.

## SECTION TWELVE

### NOTICES

12.01 METHOD OF GIVING NOTICES - Any notice (which term includes any communication or document) to be given (which term includes sent, delivered or served) pursuant to the Act, the regulations thereunder, the Articles, the By-Laws or otherwise to a Shareholder, Director, Officer, auditor or member of a Committee of Directors shall be sufficiently given if delivered personally to the person to whom it is to be given or if delivered to his recorded address by any means of prepaid transmitted or recorded communication. A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid; a notice so mailed shall be deemed to have been received by him on the business day following the day the notice is posted; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication corporation or agency or its representative for dispatch. Subject to the Act, a notice of meeting of Shareholders shall be deemed to have been sent to the Shareholder on the business day following the day on which it is deposited in the mail. The Secretary may change or cause to be changed the recorded address of any Shareholder, Director, Officer, auditor or member of a Committee of Directors in accordance with any information believed by him to be reliable.

12.02 NOTICE TO JOINT SHAREHOLDERS - if two or more persons are registered as joint holders of any share, any notice shall be addressed to all of such joint holders but notice given to any one or more of such persons at the recorded address for such joint shareholders shall be sufficient notice to all of them.

12.03 COMPUTATION OF TIME - In computing the date when notice must be given under any provision requiring a specified number of days notice of any meeting or other event, the date of giving the notice shall be excluded and the date of the meeting or other event in respect of which the notice is being given shall be included.

12.04 UNDELIVERED NOTICES - any notice given to a Shareholder pursuant to Section 12.01 is returned on three (3) consecutive occasions because he cannot be found or served or is unknown at his recorded address, the Corporation shall not be required to give any further notices to such Shareholder until he informs the Corporation in writing of his new recorded address.

12.05 PROOF OF SERVICE - A certificate of the Secretary or other duly authorized Officer of the Corporation in office at the time of the making of the certificate, or of any agent of the Corporation as to the facts in relation to the mailing or delivery or sending of any notice to any Shareholder, Director, the auditors, or conclusive evidence thereof and shall be binding on every Shareholder, Director, the auditors or any Officer of the Corporation as the case may be.

12.06 OMISSIONS AND ERRORS - The accidental omission to give any notice to any Shareholder, Director, Officer, auditor or member of a Committee of Directors or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

12.07 PERSONS ENTITLED BY DEATH OR OPERATION OF LAW - Every person who by operation of law, transfer, death of a Shareholder or any other means whatsoever, shall become entitled to any share, shall be bound by every notice in respect of such share which shall have been duly given to the Shareholder from whom he derives his title prior to such person's name and address being entered on the securities register (whether such notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing to the Corporation the proof of authority or evidence of his entitlement prescribed by the Act.

12.08 WAIVER OF NOTICE -Any Shareholder (or his duly appointed proxyholder), Director, Officer, auditor or member of a Committee of Directors may at any time waive the sending of any notice, or waive or abridge the time for any notice, required to be given to him under any provision of the Act, the regulations thereunder, the Articles, the By-Laws or otherwise and such waiver or abridgement shall cure any default in the giving or the time of such notice, as the case may be. Any such waiver or abridgement shall be in writing except a waiver of notice of a meeting of Shareholders or of the Board which may be given in any manner.

**BY-LAW NO. 2**

BE IT ENACTED AND IT IS HEREBY ENACTED as a by-law of VIVEVE MEDICAL, INC. (formerly PLC Systems Inc.) (hereinafter called the "Corporation") as follows:

**NAME CHANGE**

1. By-Law No. 1 of the by-laws of the Corporation is hereby amended by changing the name referenced throughout from PLC Systems Inc. to Viveve Medical, Inc.;

**ELECTION AND TERM**

2. By-Law No. 1 of the by-laws of the Corporation is hereby amended by deleting paragraph 4.03 of By-Law No. 1 and replacing it with the following:

*"4.03 Election and Term - Each Director named in the Notice of Directors filed at the time of continuance shall hold office from the date of the Certificate of Continuance until the first Meeting of Shareholders thereafter. An election of Directors shall take place at such first Meeting of Shareholders and at each annual meeting of Shareholders thereafter and all the Directors then in office shall retire but, if qualified, shall be eligible for re-election. A Director shall retain office only until the election of his successor. The number of Directors to be elected at any such meeting shall be the number of Directors then in office unless the Directors or the Shareholders otherwise determine. The election shall be by ordinary resolution of the Shareholders. If an election of Directors is not held at the proper time, the incumbent Directors shall continue in office until their successors are elected."*

3. By-law No. 1, as amended from time to time, of the by-laws of the Corporation and this by-law shall be read together and shall have effect, so far as practicable, as though all the provisions thereof were contained in one by-law of the Corporation. All terms contained in this by-law which are defined in By-law No. 1, as amended from time to time, of the by-laws of the Corporation shall, for all purposes hereof, have the meanings given to such terms in the said By-law No. 1 unless expressly stated otherwise or the context otherwise requires.
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This amendment to By-Law No. 1 of the Corporation shall come into force upon being passed by the Directors in accordance with the Business Corporations Act (Yukon) (the "Act").

ENACTED by the Board on the 7<sup>th</sup> day of August, 2014.

/s/ Mark R. Tauscher

Chairperson of the Directors Meeting

CONFIRMED AND RATIFIED by the Shareholders in accordance with the Act of the 18<sup>th</sup> day of September, 2014.

/s/ Mark R. Tauscher

Chairperson of the Shareholders Meeting

**Certification Pursuant to Rule 13a-14(a)/15d-14(a)**

I, Patricia Scheller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Viveve Medical, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

By: /s/ Patricia Scheller  
Patricia Scheller, Chief Executive Officer  
(Principal Executive Officer)



**Certification Pursuant to Rule 13a-14(a)/15d-14(a)**

I, Scott Durbin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Viveve Medical, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

By: /s/ Scott Durbin  
Scott Durbin, Chief Financial Officer (Principal  
Financial and Accounting Officer)

**CERTIFICATION**

In connection with the periodic report of Viveve Medical, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), we, Patricia Scheller, Chief Executive Officer (Principal Executive Officer) and Scott Durbin, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, 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 at the dates and for the periods indicated.

Date: November 14, 2014

/s/ Patricia Scheller

Patricia Scheller  
Chief Executive Officer (Principal Executive Officer)

/s/ Scott Durbin

Scott Durbin  
Chief Financial Officer (Principal Financial and Accounting Officer)

## Viveve Reports Third Quarter 2014 Financial Results

SUNNYVALE, California —November 14, 2014 – Viveve Medical, Inc. (“Viveve”) (OTC PINK: VIVMF), the parent company to Viveve, Inc., a company focused on women’s health, today reported financial results for the period ended September 30, 2014. These results are the first financial results reported for Viveve following the merger of Viveve, Inc. with PLC Systems, Inc.

“With the completion of our recent financing transactions we believe we are now in a position to successfully execute our strategic plans.” said Patricia Scheller, Viveve’s Chief Executive Officer. “Our focus has been and will continue to be driving commercialization through the attainment of necessary regulatory clearances, generating differentiating clinical data and increasing awareness about a condition that affects millions of women worldwide. We believe our treatment provides the first real hope in the effort to effectively address vaginal introital laxity.”

### Recent Business Highlights

- Became publicly traded under the symbol VIVMF following the completion of the merger of Viveve, Inc. and PLC Systems, Inc.
- Successfully raised \$6 million in equity capital, including the conversion of \$1.5 million in outstanding debt, to support additional clinical and global commercialization efforts
- Secured a \$5 million term loan (of which Viveve, Inc. has drawn \$2.5 million) to fund working capital, as we begin to more aggressively pursue sales of the Viveve System
- Preparing for the imminent launch of the VIVEVE I clinical trial in Europe and Canada

### Financial Results

Research and development expenses for the three months ended September 30, 2014 totaled \$572,134, compared to research and development expense of \$177,203 for the three months ended September 30, 2013, an increase of \$394,931, or approximately 223%. Spending on research and development increased in the third quarter of 2014 as we prepared for our OUS Clinical Trial and incurred costs associated with the trial’s implementation. Research and development further increased due to additional engineering work related to certain product improvement efforts.

Selling, general and administrative expenses for the three months ended September 30, 2014 totaled \$1,790,014, compared to \$532,369 for the three months ended September 30, 2013, an increase of \$1,257,645, or approximately 236%. The increase in general and administrative expenses was primarily attributable to additional professional services related expenses associated with our recent merger and to a lesser degree greater spending to build inventory and brand and market awareness.

Net loss for the three months ended September 30, 2014 was \$2,504,159 or a loss of \$0.52 per share, compared with a net loss of \$871,893, or a loss of \$0.23 per share, for the three months ended September 30, 2013.

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Cash and cash equivalents were \$1,976,980 as of September 30, 2014, an increase of \$1,546,873 from \$430,107 as of December 31, 2013.

## **About Viveve**

Viveve, Inc., the operating subsidiary of Viveve Medical, Inc., is a women's health company passionately committed to advancing new solutions to improve women's overall well-being and quality of life. The company's lead product, the Viveve® System, is a non-surgical, non-ablative medical device that remodels collagen and restores tissue. The Viveve System treats the condition of vaginal laxity, which is the result of the over-stretching of tissue during childbirth that can result in a decrease in physical sensation and sexual satisfaction. Physician surveys indicate that vaginal laxity is the number one post-delivery physical change for women, being more prevalent than weight gain, urinary incontinence or stretch marks. The Viveve Treatment uses patented, reverse-thermal gradient radiofrequency technology to tighten the tissues of the vaginal introitus (opening) and requires only a 30-minute out-patient treatment in a physician's office. The Viveve System has received regulatory approval in Europe, Canada and Hong Kong and is available through physician import license in Japan. It is currently not available for sale in the U.S. For more information, please visit Viveve's website at [www.viveve.com](http://www.viveve.com).

## **Safe Harbor Statement**

All statements in this press release that are not based on historical fact are "forward-looking statements". While management has based any forward-looking statements included in this press release on its current expectations, the information on which such expectations were based may change. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties and other factors, many of which are outside of our control, which could cause actual results to materially differ from such statements. Such risks, uncertainties, and other factors include, but are not limited to, the fluctuation of global economic conditions, the performance of management and our employees, our ability to obtain financing, competition, general economic conditions and other factors that are to be detailed in our periodic and current reports available for review at [www.sec.gov](http://www.sec.gov). Furthermore, we operate in a highly competitive and rapidly changing environment where new and unanticipated risks may arise. Accordingly, investors should not place any reliance on forward-looking statements as a prediction of actual results. We disclaim any intention to, and undertake no obligation to, update or revise forward-looking statements to reflect events or circumstances that subsequently occur or of which we hereafter become aware.

*Viveve is a registered trademark of Viveve, Inc.*

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**VIVEVE MEDICAL, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,976,980	\$ 430,107
Accounts receivable	3,750	-
Inventory	136,902	228,163
Prepays and other current assets	188,006	308,183
Total current assets	2,305,638	966,453
Property and equipment, net	191,663	127,524
Other assets	652,045	43,783
Total assets	\$ 3,149,346	\$ 1,137,760
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 566,059	\$ 967,315
Accrued liabilities	387,538	516,152
Note payable	1,471,799	1,463,244
Related party convertible bridge notes	-	4,875,000
Total current liabilities	2,425,396	7,821,711
Preferred stock warrant liabilities	-	623,672
Total liabilities	2,425,396	8,445,383
Stockholders' equity (deficit):		
Series A convertible preferred stock	-	23,863
Series B convertible preferred stock	-	171,199
Preferred stock, no par value	-	-
Common stock, \$0.001 par value	-	6,556
Common stock and paid-in capital, no par value	35,066,274	-
Additional paid-in capital	-	22,395,684
Accumulated deficit	(34,342,324)	(29,904,925)
Total stockholders' equity (deficit)	723,950	(7,307,623)
Total liabilities and stockholders' equity (deficit)	\$ 3,149,346	\$ 1,137,760

**VIVEVE MEDICAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 17,180	\$ 4,610	\$ 64,475	\$ 147,660
Cost of revenue	14,724	1,493	40,075	110,528
Gross profit	<u>2,456</u>	<u>3,117</u>	<u>24,400</u>	<u>37,132</u>
Operating expenses:				
Research and development	572,134	177,203	940,954	628,545
Selling, general and administrative	<u>1,790,014</u>	<u>532,369</u>	<u>3,085,580</u>	<u>2,517,791</u>
Total operating expenses	<u>2,362,148</u>	<u>709,572</u>	<u>4,026,534</u>	<u>3,146,336</u>
Loss from operations	(2,359,692)	(706,455)	(4,002,134)	(3,109,204)
Interest income	2	2	5	5
Interest expense	(152,296)	(156,727)	(486,582)	(334,380)
Other income (expense), net	<u>7,827</u>	<u>(8,713)</u>	<u>51,312</u>	<u>11,230</u>
Net loss	<u>\$ (2,504,159)</u>	<u>\$ (871,893)</u>	<u>\$ (4,437,399)</u>	<u>\$ (3,432,349)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.52)</u>	<u>\$ (0.23)</u>	<u>\$ (1.08)</u>	<u>\$ (0.92)</u>
Weighted average shares used in computing net loss per common share				
Basic and diluted	<u>4,829,300</u>	<u>3,743,282</u>	<u>4,109,266</u>	<u>3,743,282</u>