

Arch Therapeutics, Inc.  
Form 424B3  
April 28, 2016

**Filed Pursuant to Rule 424(b)(3)**

**Registration No. 333-194745**

**PROSPECTUS SUPPLEMENT NO. 8 DATED APRIL 28, 2016**

**TO**

**PROSPECTUS DATED JANUARY 15, 2016**

**(AS SUPPLEMENTED)**

**ARCH THERAPEUTICS, INC.**

**PROSPECTUS**

**Up to 12,200,000 Shares of Common Stock**

This Prospectus Supplement No. 8 supplements the prospectus of Arch Therapeutics, Inc. (“the **“Company”**”, **“we”**”, **“us”**”, or **“our”**”) dated January 15, 2016 (as supplemented to date, the **“Prospectus”**) with the following attached documents which we filed with the Securities and Exchange Commission:

- A. Our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 25, 2016
- B. Our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 28, 2016

This Prospectus Supplement No. 8 should be read in conjunction with the Prospectus, which is required to be delivered with this Prospectus Supplement. This Prospectus Supplement updates, amends and supplements the information included in the Prospectus. If there is any inconsistency between the information in the Prospectus and this Prospectus Supplement, you should rely on the information in this Prospectus Supplement.

This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements to it.

**Investing in our common stock involves a high degree of risk. Before making any investment in our common stock, you should carefully consider the risk factors for our common stock, which are described in the Prospectus, as amended or supplemented.**

**You should rely only on the information contained in the Prospectus, as supplemented or amended by this Prospectus Supplement No. 1 and any other Prospectus Supplement or amendment thereto. We have not authorized anyone to provide you with different information.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus Supplement No. 8 is April 28, 2016

## **INDEX TO FILINGS**

The Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 25, 2016	<b>Annex A</b>
The Company's Quarterly Report filed with the Securities and Exchange Commission on April 28, 2016	<b>B</b>



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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events.**

On April 25, 2016, Arch Therapeutics, Inc. (the “**Company**”) issued a press release announcing that the Company has received a notice of allowance from the U.S. Patent Office on a broad method of use patent that covers systemically administering the Company’s self-assembling technology for treating damaged extracellular matrix and leaky tight junctions. The text of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibit**

(d)Exhibits

**Exhibit Description**

99.1 Press Release issued by Arch Therapeutics, Inc. on April 25, 2016

**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.

**ARCH THERAPEUTICS, INC.**

Dated: April 25, 2016 By: /s/ Terrence W. Norchi, M.D.  
Name: Terrence W. Norchi, M.D.  
Title: President, Chief Executive  
Officer

**Exhibit List**

**Exhibit Description**

99.1 Press Release issued by Arch Therapeutics, Inc. on April 25, 2016

**Exhibit 99.1**

**Arch Therapeutics Receives Notice of Allowance for Patent Covering Systemic Applications for Self-Assembling Peptides**

*U.S. Patent Addresses Use of the Self-Assembling Peptide Barrier Technology to Treat Disorders Involving Leaky Tight Junctions and Extracellular Matrix*

**FRAMINGHAM, MA – April 25, 2016** -- Arch Therapeutics, Inc. (OTCQB: ARTH) (“Arch” or the “Company”), developer of the AC5 Surgical Hemostatic Device™ (AC5™) for use in controlling bleeding and fluid loss in order to provide faster and safer surgical and interventional care, received a notice of allowance from the U.S. Patent Office for a broad method-of-use patent that covers systemically administering the Company’s self-assembling technology for treating damaged extracellular matrix and leaky tight junctions.

Many disorders are associated with leakage around blood vessels and within the tight junctions between cells. Such leakage can lead to fluid invading the tissues, causing a loss in blood pressure, organ dysfunction or failure, and death. Some examples include inflammatory bowel disease, sepsis and ischemic stroke.

Dr. Terrence W. Norchi, President and CEO of Arch Therapeutics, said, “This important patent lends additional support to Arch’s planned products. It is another example of Arch’s inventiveness in exploring better ways to address a range of areas of unmet or poorly met medical needs with our self-assembling peptide technology.”

Arch has filed its own patent applications and, in addition, has licensed worldwide exclusive rights to certain patents and patent applications assigned jointly to MIT and Versitech Limited, the technology transfer company of the University of Hong Kong, and worldwide non-exclusive rights to another portfolio of patents assigned jointly to MIT and Versitech Limited. The applications and rights cover self-assembling compositions and methods of making and using such compositions for medical applications, including stopping bleeding; preventing the movement of bodily fluids, contaminants, etc., within or on the human body; preventing adhesions; treatment of leaky or damaged tight junctions; and reinforcement of weak or damaged vessels, such as aneurysms, with patents covering this technology in the United States, Europe, Japan, Canada, Israel, Australia, Hong Kong and China. Additional patent applications are pending in multiple jurisdictions.

**About Arch Therapeutics, Inc.**



Arch Therapeutics, Inc. is a medical device company developing a novel approach to stop bleeding (hemostasis) and control leaking (sealant) during surgery and trauma care. Arch is developing products based on an innovative self-assembling peptide technology platform to make surgery and interventional care faster and safer for patients. Arch's flagship development stage product candidate, known as the AC5 Surgical Hemostatic Device™, is being designed to achieve hemostasis in surgical procedures.

## Notice Regarding Forward-Looking Statements

This news release contains “forward-looking statements” as that term is defined in Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934, as amended. Statements in this press release that are not purely historical are forward-looking statements and include any statements regarding beliefs, plans, expectations or intentions regarding the future. Such forward-looking statements include, among other things, references to novel technologies and methods, our business and product development plans and projections, or market information. Actual results could differ from those projected in any forward-looking statements due to numerous factors. Such factors include, among others, the inherent uncertainties associated with developing new products or technologies and operating as a development stage company, our ability to retain important members of our management team and attract other qualified personnel, our ability to raise the additional funding we will need to continue to pursue our business and product development plans, our ability to obtain required regulatory approvals, our ability to develop and commercialize products based on our technology platform, and market conditions. These forward-looking statements are made as of the date of this news release, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Although we believe that any beliefs, plans, expectations and intentions contained in this press release are reasonable, there can be no assurance that any such beliefs, plans, expectations or intentions will prove to be accurate. Investors should consult all of the information set forth herein and should also refer to the risk factors disclosure outlined in the reports and other documents we file with the SEC, available at [www.sec.gov](http://www.sec.gov).

On Behalf of the Board,

Terrence W. Norchi, MD

Arch Therapeutics, Inc.

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**ANNEX B**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2016**

**Commission File Number: 000-54986**

**ARCH THERAPEUTICS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**46-0524102**

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

**235 Walnut Street, Suite 6**

**Framingham, MA**

(Address of principal executive offices)

**01702**

(Zip Code)

**(617) 431-2313**

Registrant's telephone number, including area code

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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 April 27, 2016, 116,827,248 shares of the registrant’s common stock were outstanding.

**ARCH THERAPEUTICS, INC.**

**Quarterly Report on Form 10-Q**

**For the Three and Six Months Ended March 31, 2016**

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

Arch Therapeutics, Inc.  
 Consolidated Balance Sheets  
 As of March 31, 2016 (Unaudited) and September 30, 2015

	March 31, 2016 (Unaudited)	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,669,249	\$ 3,960,100
Prepaid expenses and other current assets	90,119	42,919
Total current assets	1,759,368	4,003,019
Total assets	\$ 1,759,368	\$ 4,003,019
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 135,615	\$ 231,761
Accrued expenses and other liabilities	163,386	245,478
Convertible notes, net of unamortized discount	100,000	473,747
Current derivative liabilities	-	335,092
Total current liabilities	399,001	1,286,078
Long-term liabilities:		
Note payable, net of unamortized discount	972,353	966,824
Accrued interest, net of current portion	270,500	210,000
Total long-term liabilities	1,242,853	1,176,824
Total liabilities	1,641,854	2,462,902
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value, 300,000,000 shares authorized, 110,423,588 and 107,592,205 shares issued and outstanding as of March 31, 2016 and September 30, 2015, respectively	110,424	107,392
Additional paid-in capital	18,139,021	17,154,945

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Accumulated deficit	(18,131,931 )	(15,722,220 )
Total stockholders' equity	117,514	1,540,117
Total liabilities and stockholders' equity	\$ 1,759,368	\$4,003,019

The accompanying notes are an integral part of these consolidated financial statements



Arch Therapeutics, Inc.  
Consolidated Statements of Operations (Unaudited)  
For the Three and Six Months Ended March 31, 2016 and 2015

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
Revenues	\$ -	\$ -	\$ -	\$ -
Operating expenses:				
General and administrative expenses	868,433	853,177	1,733,946	1,723,533
Research and development expenses	386,285	402,495	800,288	802,230
Total operating expenses	1,254,718	1,255,672	2,534,234	2,525,763
Operating loss	(1,254,718 )	(1,255,672 )	(2,534,234 )	(2,525,763 )
Other income (expense):				
Interest expense	(66,823 )	(50,556 )	(210,569 )	(78,320 )
Gain on exercise of warrants and conversion of debt	13,503	-	142,964	224,000
Loss on warrant derivative modification	-	(624,016 )	-	(1,924,186 )
Decrease to fair value of derivative	54,982	1,096,278	192,128	3,849,448
Total other income	1,662	421,706	124,523	2,070,942
Net loss	\$ (1,253,056 )	\$ (833,966 )	\$ (2,409,711 )	\$ (454,821 )
Earnings per share - basic and diluted				
Net loss per common share - basic and diluted	\$ (0.01 )	\$ (0.01 )	\$ (0.02 )	\$ (0.01 )
Weighted common shares - basic and diluted	109,524,010	76,076,487	109,069,824	74,716,734

The accompanying notes are an integral part of these consolidated financial statements

Arch Therapeutics, Inc.  
Consolidated Statements of Cash Flows (Unaudited)  
For the Six Months Ended March 31, 2016 and 2015

	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
Cash flows from operating activities:		
Net loss	\$ (2,409,711	) \$ (454,821
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based compensation	358,330	609,272
Noncash interest expense on notes payable	210,569	78,320
Issuance of restricted stock for services	52,500	8,625
Gain on exercise of warrants and conversion of debt	(142,964	) (224,000
Loss on warrant derivative modification	-	1,924,186
Decrease to fair value of derivative	(192,128	) (3,849,448
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses and other current assets	(47,200	) 11,029
Increase (decrease) in:		
Accounts payable	(96,146	) 28,267
Accrued expenses and other liabilities	(64,101	) 58,650
Net cash used in operating activities	(2,330,851	) (1,809,920
Cash flows from financing activities:		
Proceeds from exercise of warrants	40,000	800,000
Proceeds from issuance of convertible notes	-	750,000
Net cash provided by financing activities	40,000	1,550,000
Net increase in cash	(2,290,851	) (259,920
Cash, beginning of period	3,960,100	833,520
Cash and cash equivalents, end of period	\$ 1,669,249	\$ 573,600
Non-cash financing activities		
Conversion of 8% convertible notes and accrued interest to common stock	\$ 536,278	\$ -

The accompanying notes are an integral part of these consolidated financial statements

## ARCH THERAPEUTICS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

##### Organization and Description of Business

Arch Therapeutics, Inc., (together with its subsidiary, the “Company” or “Arch”) was incorporated under the laws of the State of Nevada on September 16, 2009, under the name “Almah, Inc.” to pursue the business of distributing automobile spare parts online. Effective June 26, 2013, the Company completed a merger (the “Merger”) with Arch Biosurgery, Inc. (formerly known as Arch Therapeutics, Inc.), a Massachusetts corporation (“ABS”), and Arch Acquisition Corporation (“Merger Sub”), the Company’s wholly owned subsidiary formed for the purpose of the transaction, pursuant to which Merger Sub merged with and into ABS and ABS thereby became the wholly owned subsidiary of the Company. As a result of the acquisition of ABS, the Company abandoned its prior business plan and changed its operations to the business of a biotechnology company. Our current principal offices are located in Framingham, Massachusetts.

For financial reporting purposes, the Merger represented a “reverse merger”. ABS was deemed to be the accounting acquirer in the transaction and the predecessor of Arch. Consequently, the accumulated deficit and the historical operations that are reflected in the Company’s unaudited interim consolidated financial statements prior to the Merger are those of ABS. All share information has been restated to reflect the effects of the Merger. The Company’s financial information has been consolidated with that of ABS after consummation of the Merger on June 26, 2013, and the historical financial statements of the Company before the Merger have been replaced with the historical financial statements of ABS before the Merger in this report.

ABS was incorporated under the laws of the Commonwealth of Massachusetts on March 6, 2006 as Clear Nano Solutions, Inc. On April 7, 2008, ABS changed its name from Clear Nano Solutions, Inc. to Arch Therapeutics, Inc. Effective upon the closing of the Merger, ABS changed its name from Arch Therapeutics, Inc. to Arch Biosurgery, Inc.

The Company has generated no operating revenues to date, and is devoting substantially all of its efforts toward product research and development. To date, the Company has principally raised capital through debt borrowings, the issuance of convertible debt, and the issuance of units consisting of common stock and warrants.

The Company expects to incur substantial expenses for the foreseeable future relating to research, development and commercialization of its potential products. The Company will be required to raise additional capital, obtain alternative means of financial support, or both, prior to or during October 2016 in order to continue to fund operations. However, there can be no assurance that the Company will be successful in securing additional resources when needed, on terms acceptable to the Company, if at all. Therefore, there exists substantial doubt about the Company's ability to continue as a going concern. The unaudited interim consolidated financial statements do not include any adjustments related to the recoverability of assets that might be necessary despite this uncertainty.

## **2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The interim consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our results of operations and financial position for the interim periods.

Although we believe that the disclosures in these unaudited interim consolidated financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, filed with the SEC on December 11, 2015.

For a complete summary of our significant accounting policies, please refer to Note 2 included in Item 15 of our Form 10-K for the fiscal year ended September 30, 2015. There have been no material changes to our significant accounting policies during the six months ended March 31, 2016.

### Basis of Accounting

The unaudited interim consolidated financial statements include the accounts of Arch Therapeutics, Inc. and its wholly owned subsidiary, Arch Biosurgery, Inc., a biotechnology company. All intercompany accounts and transactions have been eliminated in consolidation.

The Company is in the development stage and is devoting substantially all of its efforts to developing technologies, raising capital, establishing customer and vendor relationships, and recruiting new employees.

### Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

### Recently Issued Accounting Guidance

Accounting Standards Update (ASU) 2016-09, “Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting” was issued by the Financial Accounting Standards Board (FASB) in March 2016. The purpose of this amendment is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 2016-02, “Leases (Topic 842)” was issued by the FASB in February 2016. The purpose of this amendment requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 2015-17, “Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes” was issued by the FASB in November 2015. The purpose of this amendment requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 2015-03, “Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs” was issued by the FASB in April 2015. The purpose of this amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 2015-02, “Consolidation (Topic 810) – Amendments to the Consolidation Analysis”, was issued by the FASB in February 2015. The purpose of this amendment is to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

ASU 2014-16, “Derivatives and Hedging (Topic 815)” was issued by the FASB in November 2014. The primary purpose of the ASU is to determine whether the host contract in a Hybrid Financial Instrument issued in the form of a share is more akin to debt or equity. ASU 2014-16 is effective for public entities for the fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations or financial position or disclosures.

ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to ‘Continue as a Going Concern” was issued by the FASB in August 2014. The primary purpose of the ASU is to provide guidance in GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The amendments should reduce diversity in the timing and content of footnote disclosure. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for the annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently assessing the impact of this guidance, but does not believe that it will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 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 the Requisite Service Period” was issued by the FASB in June 2014. ASU 2014-12 requires that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for public business entities for annual periods and interim periods within the annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently assessing the impact of this guidance, but does not believe that it will have a material impact on its consolidated results of operations, financial position or disclosures.

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606) was issued by the FASB in May 2014. The primary purpose of the ASU is to develop a common revenue standard for revenue recognition between the FASB and the International Accounting Standards Board (IASB). The ASU removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, among other items. We are a development stage company and do not currently generate revenue. ASU 2014-09 is effective for public business entities for annual periods beginning after December 15, 2017. While we are a development stage company and do not currently generate revenue, we currently anticipate generating revenue by the effective date of this ASU and therefore will be subject to this guidance. The Company is currently assessing the impact of this guidance, but does not believe that it will have a material impact on its consolidated results of operations, financial position or disclosures.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents as of March 31, 2016 and September 30, 2015.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

#### Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the related asset. Upon sale or retirement, the cost and accumulated depreciation are eliminated from their respective accounts, and the resulting gain or loss is included in income or loss for the period. Repair and maintenance expenditures are charged to expense as incurred.

#### Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment*. For assets that are to be held and used, impairment is recognized when the estimated undiscounted future cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. For the three and six month periods ended March 31, 2016 and 2015 there were no impairments of long-lived assets.



Convertible Debt

The Company records a discount to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized to noncash interest expense using the effective interest rate method over the term of the related debt through their date of maturity. If a security or instrument becomes convertible only upon the occurrence of a future event outside the contr