

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Lightwave Logic, Inc.  
Form 10-Q  
May 20, 2008

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 March 31, 2008

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 0-52567

Lightwave Logic, Inc.

(Exact name of registrant as specified in its charter)

Nevada

82-049-7368

(State or other jurisdiction of  
Incorporation or Organization)

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

2601 Annand Drive  
Suite 16  
Wilmington, DE

19808

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (302) 998-8824

Indicate by check mark whether the registrant (1) has filed all reports  
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 is a large accelerated filer,  
an accelerated filer or a non-accelerated filer. See definition of  
"accelerated filer and large accelerated filer" in Rule 12b-2 of the  
Exchange Act (check one).

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The number of shares of the registrant's Common Stock outstanding as of May 19, 2008 was 34,800,076.

=====

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	Page
	----
Item 1 Financial Statements.....	1
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.....	22
Item 4T Controls and Procedures.....	31

PART II - OTHER INFORMATION

Item 1 Legal Proceedings .....	32
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds .....	33
Item 4 Submission of Matters to a Vote of Security Holders .....	34
Item 6 Exhibits .....	35
Signatures .....	35

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)

FINANCIAL STATEMENTS

MARCH 31, 2008

# Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

(UNAUDITED)

## CONTENTS

	PAGE ----
BALANCE SHEETS	1
STATEMENTS OF OPERATIONS	2
STATEMENTS OF COMPREHENSIVE LOSS	3
STATEMENTS OF STOCKHOLDERS' EQUITY	4 - 5
STATEMENTS OF CASH FLOW	6 - 7
NOTES TO FINANCIAL STATEMENTS	8 - 21

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
BALANCE SHEETS

	March 31, 2008	December 31, 2007
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 175,463	\$ 479,451
Deferred charges	-	12,395
Prepaid expenses	4,899	7,294
Note receivable	100,000	100,000
Interest receivable	1,283	1,244
	281,645	600,384
AVAILABLE FOR SALE SECURITIES		
Related party	41,266	26,779
Other	20,383	2,411
	61,649	29,190
PROPERTY AND EQUIPMENT - NET	73,564	67,276

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

OTHER ASSETS		
Intangible assets	182,642	174,421
	-----	-----
TOTAL ASSETS	\$ 599,500	\$ 871,271
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 173,976	\$ 103,426
Accrued expenses	98,206	114,665
CONTINGENCY		
	-----	-----
TOTAL LIABILITIES	272,182	218,091
	-----	-----
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value, 1,000,000 authorized		
No shares issued or outstanding	-	-
Common stock \$0.001 par value, 100,000,000 authorized 34,121,742 and 33,690,075 issued and outstanding at March 31, 2008 and December 31, 2007	34,122	33,690
Additional paid-in-capital	11,250,496	10,449,763
Deferred charges	(304,333)	(154,667)
Unrealized loss on Available for Sale Securities	(26,151)	(58,610)
Accumulated deficit	(15,827)	(15,827)
Deficit accumulated during development stage	(10,610,989)	(9,601,169)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	327,318	653,180
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 599,500	\$ 871,271
	=====	=====

See accompanying notes to these financial statements.

-1-

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDING MARCH 31, 2008 AND  
2007 AND FOR THE PERIOD JANUARY 1, 2004  
(INCEPTION OF DEVELOPMENT STAGE) TO MARCH 31, 2008  
(UNAUDITED)

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

	Cumulative Since Inception -----	For the Three Months Ending March 31, 2008 -----	For the Three Months Ending March 31, 2007 -----
NET SALES	\$ -	\$ -	\$ -
COST AND EXPENSE			
Research and development	4,267,592	704,835	568,725
General and administrative	6,399,950	308,767	176,419
	-----	-----	-----
	10,667,542	1,013,602	745,144
LOSS FROM OPERATIONS	(10,667,542)	(1,013,602)	(745,144)
OTHER INCOME (EXPENSE)			
Interest income	22,649	4,624	3
Dividend income	1,527	-	-
Realized gain on investment	63,187	-	-
Realized gain on disposal of assets	637	-	-
Interest expense	(31,447)	(842)	(2,008)
	-----	-----	-----
NET LOSS	\$ (10,610,989)	\$ (1,009,820)	\$ (747,149)
	=====	=====	=====
Basic and Diluted Loss per Share		\$ (0.03)	\$ (0.03)
		=====	=====
Basic and Diluted Weighted Average Number of Shares		33,718,463	28,515,338
		=====	=====

See accompanying notes to these financial statements.

-2-

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
STATEMENTS OF COMPREHENSIVE LOSS  
FOR THE THREE MONTHS ENDING MARCH 31, 2008 AND  
2007 AND FOR THE PERIOD JANUARY 1, 2004  
(INCEPTION OF DEVELOPMENT STAGE) TO MARCH 31, 2008  
(UNAUDITED)

	Cumulative Since Inception	For the Three Months Ending March 31, 2008	For the Three Months Ending March 31, 2007
--	----------------------------------	--	--

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

	-----	-----	-----
NET LOSS	\$ (10,610,989)	\$ (1,009,820)	\$ (747,149)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on Available for Sale Securities	(26,151)	32,459	6,029
	-----	-----	-----
COMPREHENSIVE LOSS	\$ (10,637,140)	\$ (977,361)	\$ (741,120)
	=====	=====	=====

See accompanying notes to these financial statements.

-3-

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE PERIOD JANUARY 1, 2004 (INCEPTION OF DEVELOPMENT  
STAGE) TO MARCH 31, 2008  
(UNAUDITED)

	Number of Shares	Common Stock	Paid-in Capital	Subscription Receivable	Deferred Charges	Unrealized Loss on Securities	Accumul Defic
	-----	-----	-----	-----	-----	-----	-----
ENDING BALANCE AT DECEMBER 31, 2003	100	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (15
Retroactive recapitalization							

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

upon reverse acquisition	706,973	706	(706)	-	-	-	
BALANCE AT JANUARY 1, 2004	707,073	707	(706)	-	-	-	(15)
Common stock issued to founders	13,292,927	13,293	(13,293)	-	-	-	
Common stock issued for future services in July 2004 at \$0.16/share	1,600,000	1,600	254,400	-	-	-	
Common stock issued at merger	2,000,000	2,000	(2,000)	-	-	-	
Common stock issued for future services in August 2004 at \$0.12/share	637,500	638	74,362	-	-	-	
Conversion of note payable in December 2004 at \$0.16/share	187,500	187	29,813	-	-	-	
Net loss for the year ended December 31, 2004	-	-	-	-	-	-	
BALANCE AT DECEMBER 31, 2004	18,425,000	18,425	342,576	-	-	-	(15)
Common stock issued in private placement in April 2005 at \$0.25/share	4,000,000	4,000	996,000	-	-	-	
Conversion of notes payable in May 2005 at \$0.16/share	3,118,750	3,119	495,881	-	-	-	
Subscription receivable	-	-	-	(6,500)	-	-	
Common stock issued for future services in August 2005, valued at \$2.79/share	210,000	210	585,290	-	-	-	
Common stock issued for future services in August 2005, valued at \$2.92/share	200,000	200	583,800	-	-	-	
Warrants issued for services in May 2005, vested during 2005, valued at \$1.13/share	-	-	37,000	-	-	-	
Warrants issued for services in September 2005, vested during 2005, valued at \$1.45/share	-	-	24,200	-	-	-	
Warrants issued for services in October 2005, vested during 2005, valued at \$0.53/share	-	-	15,900	-	-	-	
Warrants issued for future services in December 2005, vested during 2005, valued							

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

at \$1.45/share	-	-	435,060	-	-	-	
Deferred charges for common stock issued for future services in August 2005, valued at \$2.92/share	-	-	-	-	(584,000)	-	
Amortization of deferred charges	-	-	-	-	265,455	-	
Exercise of warrants in December 2005 at \$0.25/share	300,000	300	74,700	-	-	-	
Net loss for the year ended December 31, 2005	-	-	-	-	-	-	
	-----	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2005	26,253,750	26,254	3,590,407	(6,500)	(318,545)	-	(1
Common stock issued in private placement during 2006 at \$0.50/share	850,000	850	424,150	-	-	-	
Common stock issued for future services in February 2006, valued at \$0.90/share	300,000	300	269,700	-	-	-	
Common stock issued for future services in May 2006, valued at \$1.55/share	400,000	400	619,600	-	-	-	
Common stock issued for future services in June 2006, valued at \$1.45/share	25,000	25	36,225	-	-	-	
Common stock issued for future services in November 2006, valued at \$0.49/share	60,000	60	29,340	-	-	-	
Warrants issued for services in September 2005, vested during 2006, valued at \$1.45/share	-	-	66,500	-	-	-	
Warrants issued for future services in June 2006, vested during 2006, valued at \$1.55/share	-	-	465,996	-	-	-	
Options issued for services in February 2006, vested during 2006, valued at \$1.01/share	-	-	428,888	-	-	-	
Contributed capital related to accrued interest	-	-	35,624	-	-	-	
Subscription receivable	-	-	-	6,500	-	-	
Amortization of deferred charges	-	-	-	-	318,545	-	
Unrealized gain (loss) on securities	-	-	-	-	-	(26,000)	
Net loss for the year ending December 31, 2006	-	-	-	-	-	-	
	-----	-----	-----	-----	-----	-----	-----



Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

See accompanying notes to these financial statements.

-4-

LIGHTWAVE LOGIC, INC.  
 (A Development Stage Company)  
 STATEMENT OF STOCKHOLDERS' EQUITY  
 FOR THE PERIOD JANUARY 1, 2004 (INCEPTION OF DEVELOPMENT  
 STAGE) TO MARCH 31, 2008  
 (UNAUDITED)

	Number of Shares	Common Stock	Paid-in Capital	Subscription Receivable	Deferred Charges	Unrealized Loss on Securities	Accumul Defic
BALANCE AT DECEMBER 31, 2006	27,888,750	27,889	5,966,430	-	-	(26,000)	(15,8
Common stock issued in private placement during 2007 at \$0.50/share	2,482,000	2,482	1,238,518	-	-	-	
Common stock issued in private placement during 2007 at \$0.60/share	1,767,540	1,768	1,058,756	-	-	-	
Common stock subscription rescinded during 2007 at \$0.50/share	(400,000)	(400)	(199,600)	-	-	-	
Common stock issued for future services in February 2007, valued at \$0.70/share	151,785	152	106,098	-	-	-	
Common stock issued for future services in March 2007, valued at \$0.58/share	1,000,000	1,000	579,000	-	-	-	
Common stock issued for services and settlement for accounts payable in April 2007, valued at \$0.35/share	100,000	100	34,900	-	-	-	
Common stock issued for services in October 2007, valued at \$0.68/share	150,000	150	101,850	-	-	-	
Common stock issued for services in October 2007, valued							

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

at \$0.90/share	150,000	150	134,850	-	-	-
Common stock issued for services in November 2007, valued at \$0.72/share	400,000	400	287,600	-	-	-
Warrants issued for services in September 2005, vested during 2007, valued at \$1.45/share	-	-	36,370	-	-	-
Warrants issued for services in March 2007, vested during 2007, valued at \$0.63/share	-	-	52,180	-	-	-
Warrants issued for services in April 2007, vested during 2007, valued at \$0.69/share	-	-	293,476	-	-	-
Warrants issued for services in April 2007, vested during 2007, valued at \$0.63/share	-	-	140,490	-	-	-
Warrants issued for services in May 2007, vested during 2007, valued at \$0.56/share	-	-	52,946	-	-	-
Warrants issued for services in October 2007, vested during 2007, valued at \$0.61/share	-	-	61,449	-	-	-
Warrants issued for services in October 2007, vested during 2007, valued at \$0.78/share	-	-	52,292	-	-	-
Warrants issued for services in December 2007, vested during 2007, valued at \$0.55/share	-	-	1,159	-	-	-
Options issued for services in February 2006, vested during 2007, valued at \$1.01/share	-	-	17,589	-	-	-
Options issued for services in February 2006, vested during 2007, valued at \$1.09/share	-	-	43,757	-	-	-
Options issued for services in November 2007, vested during 2007, valued at \$0.60/share	-	-	41,653	-	-	-
Warrants issued for future services in April 2007, vested during 2007, valued at \$0.70/share	-	-	348,000	-	-	-
Deferred charges for common stock issued for future services in March 2007, valued at \$0.58/share	-	-	-	-	(928,000)	-
Amortization of						

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

deferred charges	-	-	-	-	773,333	-	
Unrealized gain (loss) on securities	-	-	-	-	-	(32,610)	
Net loss for the year ending December 31, 2007	-	-	-	-	-	-	
-----							
BALANCE AT DECEMBER 31, 2007	33,690,075	\$33,690	\$10,449,763	\$	-	\$(154,667)	\$(58,610) \$ (15,8
Common stock issued in private placement during 2008 at \$0.60/share	31,667	32	18,968	-	-	-	
Common stock issued for services in March 2008, valued at \$0.75/share	100,000	100	74,900	-	-	-	
Exercise of warrants in March 2008 at \$0.25/ share	300,000	300	74,700	-	-	-	
Warrants issued for services in September 2005, vested during 2008, valued at \$1.45/share	-	-	9,043	-	-	-	
Warrants issued for services in March 2007, vested during 2008, valued at \$0.63/share	-	-	10,885	-	-	-	
Warrants issued for services in April 2007, vested during 2008, valued at \$0.69/share	-	-	103,513	-	-	-	
Warrants issued for services in April 2007, vested during 2008, valued at \$0.63/share	-	-	47,177	-	-	-	
Warrants issued for services in May 2007, vested during 2008, valued at \$0.56/share	-	-	21,040	-	-	-	
Warrants issued for services in December 2007, vested during 2008, valued at \$0.55/share	-	-	3,402	-	-	-	
Options issued for services in November 2007, vested during 2008, valued at \$0.60/share	-	-	86,851	-	-	-	
Options issued for services in January 2008, vested during 2008, valued at \$0.60/share	-	-	18,254	-	-	-	
Warrants issued for future services in March 2008, vested during 2008, valued at \$0.83/share	-	-	332,000	-	(332,000)	-	
Amortization of deferred charges	-	-	-	-	182,334	-	

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Unrealized gain (loss) on securities	-	-	-	-	-	32,459	
Net loss for the three months ending March 31, 2008	-	-	-	-	-	-	
-----							
BALANCE AT MARCH 31, 2008 (UNAUDITED)	34,121,742	\$34,122	\$11,250,496	\$	-	\$(304,333)	\$(26,151)
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to these financial statements.

-5-

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
STATEMENTS OF CASH FLOW  
FOR THE THREE MONTHS ENDING MARCH 31, 2008 AND 2007 AND  
FOR THE PERIOD JANUARY 1, 2004 (INCEPTION OF DEVELOPMENT STAGE)  
TO MARCH 31, 2008  
(UNAUDITED)

	Cumulative Since Inception	For the Three Months Ending March 31, 2008	For the Three Months Ending March 31, 2007
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$(10,610,989)	\$ (1,009,820)	\$ (747,149)
Adjustment to reconcile net loss to net cash used in operating activities			
Amortization of deferred charges	4,088,123	194,729	352,223
Warrants issued for services	1,029,022	195,060	18,672
Stock options issued for services	970,492	105,105	39,458
Common stock issued for services	605,292	75,000	-
Depreciation	49,057	3,919	3,711
Realized gain on investments	(63,187)	-	-
Realized gain on disposal of assets	(637)	-	-
(Increase) decrease in assets			
Receivables	(31,744)	(39)	-
Prepaid expenses	(4,899)	2,395	4,366
Increase (decrease) in liabilities			
Accounts payable	261,891	70,550	55,429
Accounts payable - related party	-	-	(34,878)
Accrued expenses	32,691	(16,459)	3,499
	-----	-----	-----
Net cash used in operating activities	(3,674,888)	(379,560)	(304,669)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Cost of intangibles	(182,642)	(8,221)	(100,480)
Proceeds from sale of available for sale securities	175,387	-	-
Purchase of available for sale securities	(200,000)	-	-
Purchase of equipment	(85,371)	(10,207)	(40,200)
	-----	-----	-----
Net cash used in investing activities	(292,626)	(18,428)	(140,680)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, private placement	3,745,524	19,000	574,000
Common stock rescinded, private placement	(200,000)	-	-
Issuance of common stock, exercise of warrants	75,000	75,000	-
Repayment of notes payable	(14,970)	-	(1,207)
Proceeds from subscription receivable	6,500	-	-
Advances to stockholders	(3,435)	-	-
Proceeds from convertible notes	529,000	-	-
Advances from officers	-	-	-
	-----	-----	-----
Net cash provided by financing activities	4,137,619	94,000	572,793
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,105	(303,988)	127,444
CASH AND CASH EQUIVALENTS			
- BEGINNING OF PERIOD	5,358	479,451	528
	-----	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 175,463	\$ 175,463	\$ 127,972
	=====	=====	=====

See accompanying notes to these financial statements.

-6-

LIGHTWAVE LOGIC, INC.  
(A Development Stage Company)  
STATEMENTS OF CASH FLOW  
FOR THE THREE MONTHS ENDING MARCH 31, 2008 AND 2007 AND  
FOR THE PERIOD JANUARY 1, 2004 (INCEPTION OF DEVELOPMENT STAGE)  
TO MARCH 31, 2008  
(UNAUDITED)

Cumulative Since Inception	For the Three Months Ending March 31, 2008	For the Three Months Ending March 31, 2007
-----	-----	-----

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

#### CASH PAID DURING THE PERIOD FOR:

Interest	\$ 18,838	\$ 842	\$ 2,008
	=====	=====	=====

#### SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Common stock issued in exchange for deferred charges	\$ 3,142,400	\$ -	\$ 686,250
Warrants issued in exchange for deferred charges	\$ 1,581,056	\$ 332,000	\$ 348,000
Common stock issued as settlement for accounts payable	\$ 29,708	\$ -	\$ -
Increase/(Decrease) in fair value of investment securities	\$ 26,151	\$ (32,459)	\$ 6,029
Accrued interest contributed as capital	\$ 35,624	\$ -	\$ -
Common stock issued in the conversion of notes payable	\$ 529,000	\$ -	\$ -
Acquisition of automobile through loan payable	\$ 24,643	\$ -	\$ -
Common stock issued upon exercise of a warrant in exchange for receivable	\$ 75,000	\$ -	\$ -
Insurance company pay off of note payable	\$ 9,673	\$ -	\$ -

See accompanying notes to these financial statements.

-7-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

#### NOTE 1- FINANCIAL STATEMENTS

The accompanying unaudited financials statements have been prepared by Lightwave Logic, Inc. (the Company). These statements include all adjustments (consisting only of its normal recurring adjustments) which management believes necessary for a fair presentation of the statements and have been prepared on a consistent basis using the accounting policies described in the

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Summary of Accounting Policies included in the 2007 Annual Report. Certain financial information and footnote disclosures normally indicated in financial statements prepared in accordance with accounting principals generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company firmly believes that the accompanying disclosures are adequate to make the information presented not misleading. The financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007, as filed with the Securities and Exchange Commission. The interim operating results for the three months ending March 31, 2008 may not be indicative of operating results expected for the full year.

### Loss per Share

-----  
The company follows SFAS 128, "Earnings per Share", resulting in the presentation of basic and diluted loss per share. The basic loss per share calculations includes the change in capital structure for all periods presented. Because the Company reported a net loss for each of the three months ending March 31, 2008 and 2007, common stock equivalents consisting of options and warrants were anti-dilutive; therefore, the basic and diluted net loss per share for each of these periods was the same.

### Recently Issued Accounting Pronouncements

-----  
During September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS 157"), which is effective for fiscal years beginning after November 15, 2007 with earlier adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. The Company adopted SFAS 157 on January 1, 2008 for all financial assets and liabilities, but the implementation did not require additional disclosures or have a significant impact on the Company's financial statements. The Company has not yet determined the impact the implementation of SFAS 157 will have on the Company's non-financial assets and liabilities which are not recognized or disclosed on a recurring basis. However, the Company does not anticipate that the full adoption of SFAS 157 will significantly impact their consolidated financial statements.

-8-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 1- FINANCIAL STATEMENTS (CONTINUED)

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

### Recently Issued Accounting Pronouncements

-----  
During February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company has adopted SFAS 159 on January 1, 2008 and has elected not to measure any additional financial assets, liabilities or other items at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the Company beginning January 1, 2009 and will change the accounting for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for the Company beginning January 1, 2009. This statement is not currently applicable since it has no majority-owned subsidiaries.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"), which is effective January 1, 2009. SFAS 161 requires enhanced disclosures about derivative instruments and hedging activities to allow for a better understanding of their effects on an entity's financial position, financial performance, and cash flows. Among other things, SFAS 161 requires disclosures of the fair values of derivative instruments and associated gains and losses in a tabular format. The Company is in the process of evaluating the effect, if any, the adoption of SFAS 161 will have on its financial statements.

### Reclassifications

-----  
Certain reclassifications have been made to the March 31, 2007 financial statements to conform to the March 31, 2008 presentation.

NOTE 2 - RESTATEMENT



## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

The accompanying March 31, 2007 financial statements have been restated to reflect the adjusted valuation of warrants issued for management services. Originally the warrant was valued at \$288,428 and amortized over the life of the contract, which is one year. The adjusted valuation of the warrant was \$348,000. The effect of this restatement was a net increase in the net loss of \$4,965 for the additional amortization expense associated with the adjusted valuation.

-9-

### LIGHTWAVE LOGIC, INC. NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008 AND 2007

#### NOTE 3 - GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred significant losses and experienced negative cash flow during the development stage. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company is in the development stage at March 31, 2008. Currently, the Company has funds to maintain its operations through September 2008. The Company's development is proceeding on schedule and management hopes to demonstrate a prototype by August 2008. Successful completion of the Company's prototype could lead to adequate financing to fulfill its development activities and achieve a level of revenue adequate to support the Company's cost structure for the following three years. Management is in the process of developing a business plan that it believes will be attractive enough to investors to raise the necessary capital. However, there can be no assurances that the Company will be able to secure the necessary financing and/or equity investment or achieve an adequate sales level.

#### NOTE 4 - DEFERRED CHARGES

Deferred charges represent the unamortized fair value of the issuance of common stock and warrants for future services to non-employees which was accounted for in accordance with Emerging Issue Task Force No. 96-18, Accounting for Equity Instruments That Are Issued To Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, as follows:

	March 31, 2008	December 31, 2007
	-----	-----
Common stock	\$ 2,811,400	\$ 2,811,400

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Warrants	1,581,056	1,249,056
	-----	-----
	4,392,456	4,060,456
Less: Accumulated Amortization	4,088,123	3,893,394
	-----	-----
	304,333	167,062
Less: Amount reflected as a contra-equity account for management consulting services provided by related party	304,333	154,667
	-----	-----
	\$ -	\$ 12,395
	=====	=====

-10-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 5 - NOTE RECEIVABLE

Note Receivable consists of the following:

	March 31, 2008	December 31, 2007
	-----	-----
Note Receivable - Theater Xtreme Entertainment Group, Inc., bears interest at 14% per year, matures one year from the date of issue (August 15, 2008) and may be prepaid at any time without penalty. Pursuant to the term of the Note, the Company received warrants to purchase 50,000 shares of common stock at an exercise price of \$1.00 per share. The value of the warrant is \$19,369 at March 31, 2008 and \$2,300 at December 31, 2007, using the Black-Scholes pricing formula. This value is included in the investments.	\$ 100,000	\$ 100,000
	-----	-----
Total	\$ 100,000	\$ 100,000
	=====	=====

NOTE 6 - AVAILABLE FOR SALE SECURITIES

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

As described in Note 1, the Company partially adopted SFAS No. 157 on January 1, 2008. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Observe inputs such as quoted prices in active markets;
- Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets measured at fair value on a recurring basis are as follows:

	Fair Value March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Related Party	\$ 41,266	\$ 41,266	\$ -	\$ -
Other	20,383	1,014	-	19,3
Total available for sale securities	\$ 61,649	\$ 42,280	\$ -	\$ 19,3

-11-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 6 - AVAILABLE FOR SALE SECURITIES (CONTINUED)

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Fair Value Measurement Using  
Significant Unobservable Inputs  
(Level 3)

Beginning Balance, January 1, 2008	\$	2,300
Total gains or losses (realized/unrealized)		
Included in earnings		-
Included in other comprehensive income		17,069
Purchases, issuance and settlements		-
Ending Balance, March 31, 2008	\$	19,369

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

\$ -

NOTE 7 - EQUIPMENT

Equipment consists of the following:

	March 31, 2008	December 31, 2007
Automobile	\$ -	\$ -
Office equipment	27,019	23,752
Lab equipment	82,105	75,165
	109,124	98,917
Less: Accumulated depreciation	35,560	31,641
	\$ 73,564	\$ 67,276

Depreciation expense for the three months ending March 31, 2008 and 2007 was \$3,919 and \$3,711.

NOTE 8 - INTANGIBLE ASSETS

This represents legal fees and patent fees associated with the registration of patents. The Company has not recorded any amortization expenses since the patents have yet to be declared effective. Once issued, the cost of the patents will be amortized over their legal lives, which is generally 20 years.

NOTE 9 - INCOME TAXES

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

There is no income tax benefit for the losses for the three months ended March 31, 2008 and 2007 since management has determined that the realization of the net deferred tax asset is not assured and has created a valuation allowance for the entire amount of such benefits.

There was no change in unrecognized tax benefits during the period ended March 31, 2008 and there was no accrual for uncertain tax positions as of March 31, 2008.

-12-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

### NOTE 10- STOCKHOLDERS' EQUITY

#### Preferred Stock

-----

Pursuant to our Company's Articles of Incorporation, our board of directors is empowered, without stockholder approval, to issue series of preferred stock with any designations, rights and preferences as they may from time to time determine. The rights and preferences of this preferred stock may be superior to the rights and preferences of our common stock; consequently, preferred stock, if issued could have dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the common stock. Additionally, preferred stock, if issued, could be utilized, under special circumstances, as a method of discouraging, delaying or preventing a change in control of our business or a takeover from a third party.

#### Common Stock and Warrants

-----

The stockholders' deficit at January 1, 2004 has been retroactively restated for the equivalent number of shares received in the reverse acquisition at July 14, 2004 (Note 1) after giving effect to the difference in par value with the offset to additional paid-in-capital.

In July 2004, the Company issued 1,600,000 shares of its common stock for professional services valued at \$256,000, fair value.

In August 2004, the Company issued 637,500 shares of its common stock for professional services valued at \$75,000, fair value.

In December 2004, the Company converted a note payable of \$30,000 into 187,500 shares of common stock at a conversion price of \$0.16 per share.

In April 2005, the Company issued 4,000,000 shares of its common stock in a private placement for proceeds of \$1,000,000.

On May 4, 2005, the Company converted the notes payable of \$499,000 into 3,118,750 shares of common stock at a conversion

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

price of \$0.16 per share. An unpaid note payable in the amount of \$6,500 has been reflected as a subscription receivable.

During August 2005, the Company issued 210,000 shares of common stock for professional services rendered valued at \$585,500, fair value. Consulting expense of \$375,500 was recognized during 2005, and at December 31, 2005, the remaining balance of \$210,000 is reflected as a deferred charge on the balance sheet. During 2006, consulting expense of \$210,000 was recognized. This agreement ended in May 2006.

In August 2005, in conjunction with a management services contract, the Company issued 200,000 shares of common stock valued at \$584,000. Management expense of \$265,455 was recognized during 2005, and at December 31, 2005, the remaining balance of \$318,545 is reflected as a deferred charge in a contra-equity account. During 2006, management expense of \$318,545 was recognized. This agreement ended in June 2006.

-13-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

Common Stock and Warrants (Continued)

-----  
During May 2005, the Company issued Stock Purchase Warrants to purchase 100,000 shares of common stock at an exercise price of \$2.10 in exchange for consulting services. The warrants are exercisable until May 2008 and vest as follows: 50,000 shares during the first year of the agreement, 25,000 shares during the second year of the agreement, and 25,000 shares during the third year. In accordance with the fair value method, the Company used the Black-Scholes model to calculate the grant-date fair value, with the following assumptions: no dividend yield, expected volatility of 60%, risk-free interest rate of 3.8% and expected life of option of three years. The fair market value of the warrants was \$113,250. In accordance with the fair value method as described in accounting requirements of SFAS No. 123, the Company recognized consulting expense of \$37,000 in 2005. This warrant was cancelled during 2006.

During September 2005, the Company issued Stock Purchase Warrants to purchase 100,000 shares of common stock at an exercise price of \$2.00 in exchange for consulting services. The warrants expire in September 2008 and vest as follows: 50,000 shares during the first year of the agreement, 25,000 shares during the second year of the agreement, and 25,000 shares during the third year of the agreement. In accordance with the fair value method, the Company used the Black-Scholes model to calculate the grant-date fair value, with the following assumptions: no dividend yield, expected volatility of 60%, risk-free interest rate of 3.8% and expected life of option of three years. The fair market value of the warrants was \$145,100. The Company recognized consulting expense of \$36,370, \$66,500 and \$24,200 for the years ended

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

December 31, 2007, 2006 and 2005 in conjunction with this agreement. For the three months ending March 31, 2008, the Company recognized \$9,043 in consulting expense.

On October 15, 2005, the Company issued Stock Purchase Warrants to purchase 30,000 shares of common stock at an exercise price of \$1.40 in exchange for consulting services. The warrants expire in October 2006 and are exercisable immediately. In accordance with the fair value method, the Company used the Black-Scholes model to calculate the grant-date fair value, with the following assumptions: no dividend yield, expected volatility of 60%, risk-free interest rate of 4.15% and expected life of option of one year. The fair market value of the warrants was \$15,900. In accordance with the fair value method as described in accounting requirements of SFAS No. 123, the Company recognized consulting expense of \$15,900 during 2005. These warrants expired in October 2006.

In December 2005, in conjunction with a consulting contract, the Company issued Stock Purchase Warrants to purchase 300,000 shares of common stock at an exercise price of \$0.25 per share valued at \$435,060, fair value. The warrants expire in December 2007 and were exercisable immediately. In accordance with the fair value method, the Company used the Black-Scholes model to calculate the grant-date fair value, with the following assumptions: no dividend yield, expected volatility of 60%, risk-free interest rate of 4.41% and expected life of option of two years. In accordance with the fair value method as described in accounting requirements of SFAS No. 123, the Company recognized consulting expense of \$199,435, and at December 31, 2005, the remaining balance in deferred charges amounted to \$235,625. The 300,000 warrants were fully exercised on December 31, 2005 for \$75,000. The Company recognized \$18,128 and \$217,497 in consulting expense in conjunction with this agreement for the years ended December 31, 2007 and 2006, which was cancelled during 2007.

-14-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

Common Stock and Warrants (Continued)

-----  
During 2006, the Company issued 850,000 shares of common stock and 425,000 warrants for proceeds of \$425,000 in accordance to a private placement memorandum amended December 18, 2006. Pursuant to the terms of the amended offering, up to 20 units were offered at the offering price of \$50,000 per unit, with each unit comprise of 100,000 shares and a warrant to purchase 50,000 shares of common stock at \$0.50 per share. As of December 31, 2007, the 425,000 warrants are still outstanding.

During February 2006, the Company issued 300,000 shares of common stock for professional services rendered valued at \$270,000, fair

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

value. The Company recognized consulting expense of \$16,875 and \$118,125 and legal expense of \$16,875 and \$118,125 during 2007 and 2006. The contracts expired during 2007.

During May 2006, the Company issued 400,000 shares of common stock for professional services rendered valued at \$620,000, fair value. The Company recognized consulting expense of \$258,333 and \$361,667 during 2007 and 2006, and at December 31, 2006. The contracts expired during 2007.

During June 2006, the Company issued 25,000 shares of common stock for professional services rendered valued at \$36,250, fair value. The Company recognized legal expense of \$16,615 and \$19,635 during 2007 and 2006, and at December 31, 2006. The contracts expired during 2007.

During November 2006, the Company issued 60,000 shares of common stock for professional services valued at \$29,400, fair value. The Company recognized investor relations expense of \$25,480 and \$3,920 during 2007 and 2006. The contract expired during 2007.

In June 2006, in conjunction with an addendum to an existing consulting contract effective December 2005, the Company issued Stock Purchase Warrants to purchase 300,000 shares of common stock at an exercise price of \$0.25 per share. The warrants expire in June 2008 and were exercisable immediately. In accordance with the fair value method, the Company used the Black-Scholes model to calculate the grant-date fair value, with the following assumptions: no dividend yield, expected volatility of 186%, risk-free interest rate of 4.41% and expected life of option of two years. The fair market value of the warrants was \$465,996. During 2007 and 2006, the Company recognized consulting expense of \$330,948 and \$135,048 in conjunction with this agreement. The contract was cancelled during 2007. The 300,000 warrants were fully exercised on March 12, 2008 for \$75,000.

During 2006, the Company cancelled a warrant issued during May 2005 to purchase 100,000 shares of the Company's common stock at an exercise price of \$2.10, and issued an option to purchase 500,000 shares of the Company's common stock at an exercise price of \$1 per share and the same option's expiration and vesting terms were modified during November 2006. The incremental cost of the modified option was \$394,030 and will be expensed over the vesting terms. The Company recognized \$17,589 and \$406,215 as a consulting expense in 2007 and 2006, which includes \$337,290 of the incremental cost of the modified option.

During February 2006, the Company awarded an employee with an option to purchase 200,000 shares of common stock at an exercise price of \$1.00 per share under the 2005 Employee Stock Option Plan. These options were valued at \$217,628 using the Black-Scholes Option Pricing Formula. The employee compensation expense recognized during 2007 and 2006 is \$43,757 and \$22,673. In June 2007, the employee was terminated and the vesting ceased. After September 2007, the vested options expired.



## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

### NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

#### Common Stock and Warrants (Continued)

-----  
During 2006, the Company recognized contributed capital of \$35,624 related to the conversion of accrued interest payable.

During 2006, the Company deemed an outstanding subscription receivable of \$6,500 to be uncollectible.

During 2007, the Company issued 2,482,000 shares of common stock and 1,241,000 warrants for proceeds of \$1,241,000 in accordance to a private placement memorandum amended December 18, 2006. Pursuant to the terms of the amended offering, up to 20 units were offered at the offering price of \$50,000 per unit, with each unit comprised of 100,000 shares and a warrant to purchase 50,000 shares of common stock at \$0.50 per share. As of March 31, 2008, 1,041,000 warrants are still outstanding.

During 2007, the Company issued 1,767,540 shares of common stock and 883,770 warrants for proceeds of \$1,060,524 in accordance to a private placement memorandum issued on October 3, 2007. Pursuant to the terms of the offerings, up to 20 units were offered at the purchase price of \$60,000 per unit, with each unit comprised of 100,000 shares and a warrant to purchase 50,000 shares of common stock at \$1.00 per share. As of March 31, 2008, the 883,770 warrants are still outstanding.

During 2007, a shareholder that was issued 400,000 shares of the Company's common stock and a warrant to purchase 200,000 shares of the Company's common stock at \$0.50 per share rescinded his shares and warrant.

During February 2007, the Company issued 151,785 shares of common stock for investor relations services valued at \$106,250, fair value, which was recorded as a deferred charge and amortized over one year, the term of the services contract. During 2007, the Company recognized \$97,396 in investor relations expense. For the three months ending March 31, 2008, the Company recognized \$8,854 in investor relations expense. This contract expired in February 2008.

During February 2007, the Company terminated its then CEO. The 56,000 options that were recorded as deferred charges of \$42,730 were not vested and were forfeited. The 444,000 options that were vested expired during 2007.

During March 2007, the Company issued 1,000,000 shares of common stock for management consulting services valued at \$580,000, fair value. During April 2007, the Company issued 500,000 warrants as an addendum to the original contract for management consulting services valued at \$348,000, fair value. This contract was recorded as a contra-equity deferred charges account and is amortized over one year, the term of the contract. Management consulting expense of \$773,333 was recognized during 2007. For the three months ending March 31, 2008, \$154,667 was recognized as management consulting expense. This contract expired in

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

February 2008.

During April 2007, the Company issued 100,000 shares of common stock for legal services valued at \$35,000, fair value, to settle \$29,708 of accounts payable and as payment for \$5,292 of legal services incurred in April 2007.

During October 2007, the Company issued 150,000 shares of common stock for investor relations services valued at \$102,000, fair value. During 2007 the Company recognized \$102,000 in investor relation expense.

-16-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

Common Stock and Warrants (Continued)

-----  
During October 2007, the Company issued 150,000 shares of common stock for investor relation services pursuant to a contract entered into by the Chief Executive Officer on behalf of the Company. The value of these shares is \$135,000, fair value. During 2007, the Company recognized \$135,000 in investor relations expense.

During November 2007, the Company issued 400,000 shares of common stock under the 2007 Stock Option Plan to the acting Chief Executive Officer for services rendered valued at \$288,000, fair value. The Company recognized \$288,000 in consulting expense during 2007.

During March 2007, the Company issued a warrant to purchase 100,000 shares of common stock for consulting services at an exercise price of \$0.25 per share. The warrant was valued at \$63,065 using the Black-Scholes Option Pricing Formula and expensed over the life of the contract associated with the consulting services, which is one year. The consulting expense recognized during 2007 is \$52,180. For the three months ending March 31, 2008 the Company recognized \$10,885 of consulting expense.

During April 2007, the Company issued warrants to purchase 900,000 shares of common stock for consulting services at an exercise price of \$0.25 per share. The warrants were valued at \$604,416 using the Black-Scholes Option Pricing Formula and expensed over the life of the contracts associated with the consulting services, which is one year. The consulting expense recognized during 2007 is \$433,966. For the three months ending March 31, 2008, the Company recognized \$150,690 in consulting expense.

During May 2007, the Company issued a warrant to purchase 150,000 shares of common stock for consulting services at an exercise price of \$0.25 per share. The warrant was valued at \$84,390

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

using the Black-Scholes Option Pricing Formula and expensed over the life of the contract associated with the consulting services, which is one year. The consulting expense recognized during 2007 is \$52,946. For the three months ending March 31, 2008, the Company recognized \$21,040 in consulting expense.

During October 2007, the Company issued a warrant to purchase 100,000 shares of common stock at a purchase price of \$0.25 per share for accounting services rendered. The warrant was valued at \$61,449 using the Black-Scholes Option Pricing Formula. The Company recognized \$61,449 in accounting expense during 2007.

During October 2007, the Company issued a warrant to purchase 67,200 shares of common stock at a purchase price of \$0.25 per share for consulting services rendered. The warrant was valued at \$52,292 using the Black-Scholes Option Pricing Formula. During 2007, the Company recognized \$52,292 in consulting expense.

During December 2007, the Company issued a warrant to purchase 25,000 shares of common stock at a purchase price of \$0.50 per share for accounting services rendered. The warrant was valued at \$13,646 using the Black-Scholes Option Pricing Formula and expensed over the life of the contract, which is one year. The Company recognized \$1,159 in consulting expense during 2007. For the three months ending March 31, 2008, the Company recognized \$3,402 in consulting expense.

-17-

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

### NOTE 10 - STOCKHOLDERS' EQUITY (CONTINUED)

#### Common Stock and Warrants (Continued)

During November 2007, under the 2007 Employee Stock Option Plan, the Company issued options to purchase 1,752,000 shares of common stock at a purchase price of \$0.72 per share. The options were valued at \$1,045,077 using the Black-Scholes Option Pricing Formula. During 2007, the Company recognized \$41,653 in consulting expense. For the three months ending March 31, 2008, the Company recognized \$86,851. The value of the options is being recognized pro rata over the vesting terms.

In January 2008, under the 2007 Employee Stock Option Plan, the Company issued options to purchase 100,000 shares of common stock at a purchase price of \$0.72 per share. The options were valued at \$59,490 using the Black-Scholes Option Pricing Formula. For the three months ending March 31, 2008, the Company recognized \$18,254. The value of the options is being recognized pro rata over the vesting terms.

During 2008, the Company issued 31,667 shares of common stock and 15,834 warrants for proceeds of \$19,000 in accordance to a private placement memorandum issued on October 3, 2007. Pursuant

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

to the terms of the offerings, up to 20 units were offered at the purchase price of \$60,000 per unit, with each unit comprised of 100,000 shares and a warrant to purchase 50,000 shares of common stock at \$1.00 per share. As of March 31, 2008, the 15,834 warrants are still outstanding.

During March 2008, the Company issued 400,000 warrants as an addendum to the original contract for management consulting services provided by a related party, valued at \$332,000, fair value. This contract was recorded as a contra-equity deferred charges account and is amortized over one year beginning February 28, 2008, the term of the contract. Management consulting expense of \$27,667 was recognized for the three months ending March 31, 2008.

During March 2008, the company issued 100,000 shares of common stock for legal services valued at \$75,000, fair value. The Company recognized \$75,000 of legal expense for the three months ending March 31, 2008.

### NOTE 11 - STOCK BASED COMPENSATION

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award, with the following assumptions: no dividend yield, expected volatility between 150% and 186%, risk-free interest rate between 3.8% and 5.1% and expected option life of ten years.

During the three months ended March 31, 2008, the Company's net income was approximately \$300,165 lower as a result of stock-based compensation expense as a result of the adoption of SFAS 123(R). As of March 31, 2008, there was \$1,056,684 of unrecognized compensation expense related to non-vested market-based share awards that is expected to be recognized.

-18-

### LIGHTWAVE LOGIC, INC. NOTES TO FINANCIAL STATEMENTS MARCH 31, 2008 AND 2007

### NOTE 11 - STOCK BASED COMPENSATION (CONTINUED)

The following tables summarize all stock option and warrant activity of the Company since December 31, 2004:

	Non-Qualified Stock Options and Warrants Outstanding and Exercised		
	Number of Shares	Exercise Price	Weighted Average Exercise Price
Outstanding, December 31, 2007	6,293,971	\$0.25 - \$2.00	\$ 0.48

Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Granted	515,833	\$0.001- \$1.00	\$	0.145
Exercised	(300,000)	\$ 0.25	\$	0.25
-----				
Outstanding, March 31, 2008	6,509,804	\$0.001- \$2.00	\$	0.74
Exercisable, March 31, 2008	4,762,204	\$0.001- \$2.00	\$	0.54

Non-Qualified Stock Options and Warrants Outstanding

Range of Exercise Prices	Number Outstanding Currently Exercisable at March 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Options and Warrants Currently Exercisable
-----			
\$0.001 - \$2.00	4,762,204	1.57 Years	\$ 0.54

NOTE 12 - CONTINGENCY

2005 Private Offering

-----

During 2005, the Company raised \$1,000,000 through the sale of 4,000,000 shares of common stock in a limited offering to persons believed to be accredited investors. The Company received a legal opinion from third party outside counsel as to the availability of an exemption from registration with the SEC with respect to the limited offering. In December 2005, the Company was informed by the SEC that it is investigating the circumstances surrounding the \$1,000,000 offering including the subsequent public resale of certain shares originally sold in the offering, along with related matters. The Company has further been informed that the original issuance of the stock and subsequent resale may have been done, in the opinion of the SEC, in violation of the registration provisions of the Securities Act of 1933, as amended. These matters could lead to enforcement action by the SEC. The Company's management is committed to cooperate fully with the SEC.

-19-

LIGHTWAVE LOGIC, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 MARCH 31, 2008 AND 2007

NOTE 12 - CONTINGENCY (CONTINUED)

Ronald R. Genova Lawsuit

-----

During July 2007, Ronald R. Genova filed a lawsuit in Philadelphia County, Court of Common Pleas. Ronald R. Genova is the Plaintiff. Third-Order Nanotechnologies, Inc., PSI-TEC

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

Holdings, Inc. and Universal Capital Management are each a Defendant.

Ronald R. Genova ("Genova") served as a consultant and then as the interim chief executive officer of our Company, Third-Order Nanotechnologies, Inc. The Company terminated Genova effective February 28, 2007. On March 26, 2007 the Company paid Genova \$9,806, which the Company determined was the full amount the Company owed Genova. Genova sued, claiming he was owed an additional \$84,650 plus interest for unpaid consulting fees in the amount of \$32,516, a performance bonus in the amount of \$50,000, and an expense reimbursement in the amount of \$2,135. Pursuant to the complaint, Genova is alleging breach of contract, fraud and promissory estoppel in an amount in excess of \$180,000, in addition to the right to exercise his options, that expired on May 30, 2007, until February 13, 2016 or a judgment in an additional amount equal to the monetary value of such options plus punitive damages, interest and costs.

In May 2008, the parties were in the process of reaching a settlement. The estimated settlement amount is included in accounts payable as of March 31, 2008.

### NOTE 13 - RELATED PARTY

The Company has available-for-sale securities of a related party (NOTE 6). The information is summarized below and is recorded on the balance sheet as "Available-for-sale securities". The unrealized loss on this investment is included on the Statement of Other Comprehensive Income.

	Number of Shares	Cost	Market Value	Unrealized Loss
	-----	-----	-----	-----
Related party	43,900	\$ 87,800	\$ 41,266	\$ (46,534)

Under the management agreement dated August 1, 2005, the related party was issued 200,000 shares of common stock with a fair value of \$584,000 which was amortized over the term of the agreement (one year), which expired in 2006. In February 2007, the Company entered into a contract with the related party and issued 1,000,000 shares of common stock with a fair value of \$580,000. In addition, the Company issued a warrant to purchase 500,000 shares of its common stock with a fair value of \$348,000. This contract was renewed in March 2008 and the Company issued a warrant to purchase 400,000 shares of its common stock in exchange for management services for one year, valued at \$297,425, fair value. For the three months ending March 31, 2008 and 2007, the Company recognized \$182,334 and \$72,369 in management expense. The unamortized expense is reflected as deferred charges in the equity section of the balance sheet.

At March 31, 2008 the Company has accrued officer salaries of \$98,205.

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

NOTE 14 - SUBSEQUENT EVENTS

Common Stock

-----

Through May 10, 2008, the Company issued 658,334 shares of its common stock and warrants to purchase 329,167 shares of the Company's common stock for proceeds of \$395,000. In accordance with Emerging Issue Task Force ("EITF") 00-19, the warrants will be reflected as equity since the warrant contract requires physical settlement or net share settlement and does not permit net cash settlement of the contract.

Warrants

-----

Through May 10, 2008, stockholders exercised their rights to purchase 45,000 shares of the Company's common stock for total proceeds of \$22,500.

LIGHTWAVE LOGIC, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008 AND 2007

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements. The words "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "will," "could," "may" and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and financial performance and involve risks and uncertainties. Should one or more risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, believed, expected, planned, intended, estimated, projected or otherwise indicated. We caution you not to place undue reliance on these forward-looking statements, which we have made as of the date of this Quarterly Report on Form 10-Q.

The following provides information that management believes is relevant to an assessment and understanding of our plans and financial condition. The following selected financial information is derived from our historical financial statements and should be read in conjunction with such financial statements and notes thereto set forth elsewhere herein and the "Forward-Looking Statements" explanation included herein.

Overview

Lightwave Logic, Inc., formerly, Third-Order Nanotechnologies, Inc., formerly, PSI-TEC Holdings, Inc., formerly Eastern Idaho Internet Service, Inc. was organized under the laws of the State of Nevada in 1997, where we engaged in the business of marketing Internet services until June 30, 1998 when our operations were discontinued. We were then inactive until we acquired PSI-TEC Corporation as our wholly owned subsidiary on July 14, 2004, at which time our name was changed to PSI-TEC Holdings, Inc. On October 20, 2006, we completed a parent-subsidary merger with PSI-TEC Corporation whereby we were the surviving corporation of the merger, and our name was changed to Third-Order Nanotechnologies, Inc. On March 10, 2008, we changed our name to Lightwave Logic, Inc. to better suit our strategic business plan and to facilitate stockholder recognition of our Company and its business.

We are a developmental stage company that has developed and continues to develop high-activity, high-stability electro-optic polymers (plastics) that we believe could have a broad range of applications in the electro-optic device market. We engineer our proprietary electro-optic plastics at the molecular level for superior performance, stability, cost-efficiency and ease of processability. We expect our electro-optic plastics to broadly replace more expensive, lower-performance materials that are currently used in fiber-optic ground, wireless and satellite communication networks.

In order to transmit digital information at extremely high-speeds (wide bandwidth) over the Internet, it is necessary to convert the electrical signals produced by a computer into optical signals for transmission over long-distance fiber-optic cable. The actual conversion of electricity to an



## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

optical signal may be performed by a molecularly-engineered material known as an electro-optic plastic.

-22-

We are currently developing electro-optic plastics that promise performance many times faster than any technology currently available and that have unprecedented thermal stability. High-performance electro-optic materials produced by our Company have demonstrated stability as high as 350 degrees Celsius. Stability above 300 degrees Celsius is necessary for vertical integration into many semi-conductor production lines. Our past results, independently confirmed by the University of Arizona, have demonstrated that the molecular performance of some of our Company's molecular designs perform 650% better than competitive electro-optic compounds.

Our revenue model relies substantially on the assumption that we will be able to successfully develop electro-optic products for applications within the industries described below. When appropriate, we intend to create specific materials for each of these applications and use our proprietary knowledge base to continue to enhance its discoveries.

- \* Satellite Reconnaissance
- \* Navigational Systems
- \* Radar Applications
- \* Telecommunications
- \* Backplane Optical Interconnects
- \* Entertainment
- \* Medical Applications
- \* Optical Computing

To be successful, we must, among other things:

- \* Develop and maintain collaborative relationships with strategic partners;
- \* Continue to expand our research and development efforts for our products;
- \* Develop and continue to improve on our manufacturing processes and maintain stringent quality controls;
- \* Produce commercial quantities of our products at commercially acceptable prices;
- \* Rapidly respond to technological advancements;
- \* Attract, retain and motivate qualified personnel; and
- \* Obtain and retain effective intellectual property protection for our products and technology.

### Plan of Operation

Since our inception, we have been engaged primarily in the research and development of our polymer materials technologies and potential products. We are devoting significant resources to engineer next-generation electro-optic plastics for future applications to be utilized by electro-optic device manufacturers, such as telecommunications component and systems manufacturers, networking and switching suppliers, semiconductor companies, aerospace companies and government agencies. We expect to continue to develop products that we intend to introduce to these rapidly changing markets and to seek to identify new markets. We expect to continue to make significant operating and capital expenditures for research and development activities.

As we move from a development stage company to a product vendor, we expect that our financial condition and results of operations will undergo substantial change. In particular, we expect to record both revenue and expense from product sales, to incur increased costs for sales and marketing and to increase general and administrative expense. Accordingly, the financial condition and results of operations reflected in our historical financial statements are not expected to be indicative of our future financial condition and results of operations.

On August 8, 2006, we contracted with Triple Play Communications Corporation, a design and market consulting company, to deliver a comprehensive market opportunity assessment report for high speed 40G (commercial) & 100G+ (military/aerospace) modulators and system applications.

In August, 2006 we entered into a co-location agreement with InPlane Photonics, a New Jersey-based micro-optics company that allowed our scientists to establish a pre-production line in order to test and integrate our organic materials into waveguide devices and system prototypes as a first step toward product commercialization. This agreement was terminated at the end of January 2007 so that we could focus on pursuing a strategic relationship with Photon-X LLC, a Pennsylvania-based firm with extensive experience in polymer waveguide processing. We entered into a non-binding memorandum of understanding with Photon-X, LLC in December 2006 to work towards creating a "fee for services" agreement with Photon-X, LLC to design, develop, produce and market electro-optic components based upon our polymer technology. Such an agreement with Photon-X, LLC would afford our Company access to a full suite of fabrication facilities capable of producing commercial quantities of precision micro-optic devices such as high-speed (40GHz) telecom modulators, optical filters, and optical interconnects important to military and civilian global information movement and management markets.

On September 25, 2006 we obtained independent laboratory results that confirmed the thermal stability of our Perkinamine electro-optic materials. Thermal stability as high as 350 degrees Celsius was confirmed, significantly exceeding many other commercially available high performance electro-optic materials, such as CLD-1 which exhibits thermal degradation in the range of 250 degrees Celsius to 275 degrees Celsius. This high temperature stability of our materials eliminates a major obstacle to vertical integration of electro-optic polymers into standard microelectronic manufacturing processes (e.g. wave/vapor-phase soldering) where thermal stability of at least 300 degrees Celsius is required. In independent laboratory tests, ten-percent material degradation, a common evaluation of overall thermal stability, did not occur until our Perkinamine material base was exposed to temperatures as high as 350 degrees Celsius, as determined by Thermo-Gravimetric Analysis (TGA). The test results supported our Company's progress to introduce our materials into commercial applications such as optical interconnections, high-speed telecom and datacom modulators, and military/aerospace components.

In July 2007, our Company developed an innovative process to integrate our unique architecture into our anticipated commercial devices, whereby dendritic spacer systems are attached to its core chromophore. In the event we are successful in developing a commercially viable product, we believe these dendrimers will reduce the cost of manufacturing materials and reduce the cost and complexity of tailoring the material to specific customer requirements.

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

-24-

In January 2008, we retained TangibleFuture, Inc., a San Francisco based technology analysis and business development consulting company, to generate an independent assessment of our business opportunities in the fiber-optic telecommunications and optical computing sectors and develop strategies to penetrate those potential markets. We recently received an assessment from TangibleFuture, Inc. whereby they consider the existing high speed, long reach, communication modulator market to approximate \$140 million per year.

In March 2008, we commenced production of our first prototype photonic chip, which we delivered to our partner, Photon-X, LLC who will fabricate a prototype polymer optical modulator and measure its technical properties. We hope to be able to demonstrate this prototype early in the second quarter. We intend to utilize the services of Dr. Robert Norwood at the University of Arizona Photonics Department to perform the necessary proof of concept tests, as we have in the past. We may incur delays in this process due to slower than expected material production within our laboratories and/or delays caused by the testing procedures at the University of Arizona. Should these tests produce a functional 10 Gb/s or greater modulator we expect to go forward with product marketing and development in the telecommunication market with partners in the telecommunication field. We cannot anticipate the details of the customer adoption cycle until we have produced a functional prototype to create a credible technology offering.

We ultimately intend to use our next-generation electro-optic plastics for future applications vital to the following industries. We expect to create specific materials for each of these applications as appropriate:

- \* Satellite Reconnaissance
- \* Navigational Systems
- \* Radar Applications
- \* Telecommunications
- \* Backplane Optical Interconnects
- \* Entertainment
- \* Medical Applications
- \* Optical Computing

In an effort to maximize our future revenue stream from our electro-optic polymer products, we are currently evaluating each of or some combination of the following approaches:

- \* Licensing our technology for individual specific applications;
- \* Entering into collaborative or joint venture agreements with one or a number of partners; or
- \* Selling our products directly to commercial customers.

Additionally, we must create an infrastructure, including operational and financial systems, and related internal controls, and recruit qualified personnel. Failure to do so could adversely affect our ability to support our operations.

-25-

We have incurred substantial net losses since inception. We have

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

satisfied our capital requirements since inception primarily through the issuance and sale of our common stock. During 2004 we raised approximately \$529,000 from the issuance of convertible promissory notes, of which \$30,000 was converted into common stock of the company during 2004 and the remaining \$499,000 converted in 2005. Also, during 2005, we raised an aggregate of \$1,000,000 from the private sale of our common stock. During 2006, we raised approximately \$425,000 from the private sale of our common stock, of which \$200,000 was rescinded during 2007. During 2007, we raised approximately \$2,301,524 from the private sale of our common stock. During 2008, we raised approximately \$414,000 from the private sale of our common stock. We have also issued shares of our common stock and warrants to purchase shares of our common stock in exchange for services rendered to our company, including professional services.

### Award

On September 26, 2006, we were awarded the 2006 Electro-Optic Materials Technology Innovation of the Year Award by Frost & Sullivan. Frost & Sullivan's Technology Innovation of the Year Award is bestowed upon candidates whose original research has resulted in innovations that have, or are expected to bring, significant contributions to multiple industries in terms of adoption, change, and competitive posture. This award recognizes the quality and depth of our Company's research and development program as well as the vision and risk-taking that enabled us to undertake such an endeavor.

### Results of Operations

Comparison of Three Months Ended March 31, 2008 to Three Months Ended March 31, 2007

#### Revenues

We had no revenues during the three months ended March 31, 2008 and 2007 since we are a development stage company that has yet to commence revenue creating operations.

#### Operating Expenses

Our operating expenses were \$1,013,602 and \$745,144 for the three months ended March 31, 2008 and 2007, respectively, for an increase of \$268,458. This increase in operating expenses was due primarily to our hiring additional personnel, significantly increasing our research and development activities, and legal, accounting, investor relations and other costs associated with being a fully reporting public company.

-26-

Included in our operating expenses for the three months ended March 31, 2008 was \$704,835 for research and development expenses compared to \$568,725 for the three months ended March 31, 2007, for an increase of \$136,110. Research and development expenses currently consist primarily of compensation for employees and contractors engaged in internal research and product development activities; laboratory operations, outsourced development and processing work; fees and expenses related to patent applications and intellectual property protection; costs incurred in acquiring and maintaining licenses; and related operating expenses.

We expect to continue to incur substantial research and development

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

expense to develop commercial products that utilize our electro-optic plastics. These expenses could increase as a result of continued development and commercialization of our electro-optic materials technology; subcontracting work to potential development partners; expanding and equipping in-house laboratories; hiring additional technical and support personnel; pursuing other potential business opportunities; and incurring related operating expenses.

General and administrative expense consists primarily of compensation and support costs for management and administrative staff, and for other general and administrative costs, including executive, investor relations, accounting and finance, legal, consulting and other operating expenses, including laboratory space rental costs.

General and administrative expenses increased \$132,348 to \$308,767 for the three months ended March 31, 2008 compared to \$176,419 for the three months ended March 31, 2007. The increase is due primarily to our increases in accounting and auditing fees, legal fees, management fees, investor relations fees, and wages and salaries, which were offset by a decrease in rent, insurance, state income taxes, travel and entertainment, and other costs.

Accounting and auditing fees were \$29,173 and \$16,501 for the three months ended March 31, 2008 and 2007. The increase of \$12,672 was primarily due to the fees associated with the December 31, 2007 year end audit. Legal fees increased \$44,687 to \$113,419 for the three months ended March 31, 2008 compared to \$68,732 for the three months ended March 31, 2007 due to fees associated with the preparation of the Form 10-KSB and other legal services provided to our Company.

Market research fees were \$75,319 and \$0 for the three months ended March 31, 2008 and 2007. During the first quarter of 2008, the Company entered into a contract with a San Francisco based technology analysis and business development consulting company, to generate an independent assessment of our business opportunities in the fiber-optic telecommunications and optical computing sectors and develop strategies to penetrate those potential markets.

-27-

Wages and salaries increased \$205,822 from \$83,368 for the three months ended March 31, 2007 to \$289,190 for the three months ended March 31, 2008 due to the amortization of employee options and an increase in pay for some of the officers. Consultant expense was \$192,597 and \$282,665 for the three months ended March 31, 2008 and 2007. The decrease of \$90,068 was due to additional consultants being used during the three months ended March 31, 2007. Two of these consultants used during the three months ended March 31, 2007 became employees as of January 1, 2008.

Management fees increased \$105,000 to \$182,334 from \$77,334 for the three months ended March 31, 2007 as a result of an additional contract signed in February 2008. Investor relations fees increased \$26,361 from \$27,210 for the three months ended March 31, 2007 to \$53,571 for the three months ended March 31, 2008 due to the Company becoming fully reporting with the SEC and switching from the Pink Sheets to the Over-the-Counter Bulletin Board.

We expect general and administrative expense to increase in future periods as we increase the level of corporate and administrative activity,

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

including increases associated with our operation as a public company; and significantly increase expenditures related to the future production and sales of our products.

### Other Income (Expense)

Other income was \$3,782 for the three months ended March 31, 2008, consisting of \$4,624 of interest income on cash deposits and short term investments offset by \$842 of interest expense compared to other (expense) of (\$2,005) for the three months ended March 31, 2007, consisting of \$3 of interest income on cash deposits and short term investments offset by \$2,008 of interest expense.

### Net Loss

Net loss was \$1,009,820 and \$747,149 for the three months ended March 31, 2008 and 2007, respectively, for an increase of \$262,671, primarily resulting from research and development and general and administrative expenses incurred as described above.

### Critical Accounting Policies

The Company's accounting policies are more fully described in the Notes to Financial Statements. As disclosed in Note 1 of Notes to Financial Statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The Company believes that, of its significant accounting policies, the following may involve a higher degree of judgment, estimation, or complexity than other accounting policies.

-28-

### Merger

On July 14, 2004, the Company acquired PSI-TEC Corporation. Under the terms of the merger agreement, the stockholders of PSI-TEC Corporation received 15,600,000 shares of common stock in exchange for its 2,206,280 shares. Following the merger, the Company changed its name to PSI-TEC Holdings, Inc. Under accounting principles generally accepted in the United States, the share exchange is considered to be a capital transaction in substance rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by PSI-TEC Holdings, Inc. for the net monetary assets of PSI-TEC Corporation, accompanied by a recapitalization, and is accounted for as a change of capital structure. Accordingly, the accounting for the share exchange will be identical to that resulting from a reverse acquisition, except no goodwill will be recorded. Under reverse takeover accounting, the post-reverse acquisition comparative historical financial statements of the legal acquirer, PSI-TEC Holdings, Inc., are those of the legal acquiree, PSI-TEC Corporation, which is considered to be the accounting acquirer. On October 20, 2006, PSI-TEC Holdings, Inc. and PSI-TEC Corporation merged and changed its name to Third-Order Nanotechnologies, Inc.

### Stock Based Compensation

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative.

On January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective method as permitted under SFAS 123(R). Under this transition method, compensation cost recognized in the first quarter of 2006 includes compensation cost for all share-based payments granted prior to but not yet vested as of December 30, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123. In accordance with the modified prospective method of adoption, the Company's results of operations and financial position for prior periods have not been restated.

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award.

### Liquidity and Capital Resources

During the three months ended March 31, 2008, net cash used in operating activities was \$379,560 and net cash used in investing activities was \$18,428, which was due primarily to the Company applying for patents and the purchase of equipment. Net cash provided by financing activities for the three months ended March 31, 2008 was \$94,000. At March 31, 2008, our cash and cash equivalents totaled \$175,463, our assets totaled \$599,500, our liabilities totaled \$272,182, and we had stockholders' equity of \$327,318.

-29-

### Sources and Uses of Cash

Our future expenditures and capital requirements will depend on numerous factors, including: the progress of our research and development efforts; the rate at which we can, directly or through arrangements with original equipment manufacturers, introduce and sell products incorporating our plastic materials technology; the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; market acceptance of our products and competing technological developments; and our ability to establish cooperative development, joint venture and licensing arrangements. We expect that we will incur in excess of \$1 million of expenditures over the next 12 months. Our cash requirements are expected to increase at a rate consistent with revenue growth as we expand our activities and operations with the objective of commercializing our electro-optic plastic technology during 2008.

Our business does not presently generate the cash needed to finance our current and anticipated operations. We believe we have raised sufficient capital to finance our operations for the next four months, however, we will need to obtain additional future financing during 2008 to finance our operations until such time that we can conduct profitable revenue-generating activities. Such future sources of financing may include cash from equity offerings, exercise of warrants and stock options and proceeds from debt instruments; but we cannot assure you that such equity or borrowings will be

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

available or, if available, will be at rates or prices acceptable to us. If adequate funds are not available to satisfy either short-term or long-term capital requirements, or if planned revenues are not generated, we may be required to substantially limit our operations. This limitation of operations may include reductions in capital expenditures and reductions in staff and discretionary costs.

We expect that our cash used in operations will increase beyond the three months ended March 31, 2008 as a result of the following planned activities:

- \* The addition of management, sales, marketing, technical and other staff to our workforce;
- \* Increased spending for the expansion of our research and development efforts, including purchases of additional laboratory and production equipment;
- \* Increased spending in marketing as our products are introduced into the marketplace;
- \* Developing and maintaining collaborative relationships with strategic partners;
- \* Developing and improving our manufacturing processes and quality controls; and
- \* Increases in our general and administrative activities related to our operations as a reporting public company and related corporate compliance requirements.

-30-

### Analysis of Cash Flows

For the three months ended March 31, 2008

Net cash used in operating activities was \$379,560 for the three months ended March 31, 2008, consisting of payments for management, legal, professional and consulting expenses, rent and other expenditures necessary to develop our business infrastructure, offset by \$194,729 in deferred charges, \$195,060 in warrants issued for services, \$105,105 in options issued for services, \$75,000 in common stock issued for services, \$2,395 in prepaid expenses and \$54,091 in accounts payable and accrued expenses

Net cash used by investing activities was \$18,428 for the three months ended March 31, 2008, consisting of \$8,221 for intangibles, as well as the purchase of equipment for \$10,207.

Net cash provided by financing activities was \$94,000 for the three months ended March 31, 2008 and consisted of \$19,000 of proceeds from the sale of our common stock and \$75,000 from the exercise of a warrant.

### Inflation and Seasonality

We do not believe that our operations are significantly impacted by inflation. Our business is not seasonal in nature.

Item 4T Controls and Procedures



## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

As of the end of the period covered by this report, an evaluation was performed by management under the supervision and with the participation of the Company's president and treasurer of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The evaluation revealed to the Company's president and treasurer that the design and operation of the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There was no change in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

-31-

### PART II - OTHER INFORMATION

#### Item 1 Legal Proceedings

Ronald R. Genova v. Third-Order Nanotechnologies, Inc., PSI-TEC Holdings, Inc. and Universal Capital Management

This case was filed in Philadelphia County, Court of Common Pleas, on July 23, 2007. Ronald R. Genova is the Plaintiff. Third-Order Nanotechnologies, Inc., PSI-TEC Holdings, Inc. and Universal Capital Management are each a Defendant.

Ronald R. Genova ("Genova") served as a consultant and then as the interim chief executive officer of our Company, Third-Order Nanotechnologies, Inc. The Company terminated Genova effective February 28, 2007. On March 26, 2007 the Company paid Genova \$9,806, which the Company determined was the full amount the Company owed Genova. Genova sued, claiming he was owed an additional \$84,650 plus interest for unpaid consulting fees in the amount of \$32,516, a performance bonus in the amount of \$50,000, and an expense reimbursement in the amount of \$2,135. Pursuant to the complaint, Genova is alleging breach of contract, fraud and promissory estoppel in an amount in excess of \$180,000, in addition to the right to exercise his options, that expired on May 30, 2007, until February 13, 2016 or a judgment in an additional amount equal to the monetary value of such options plus punitive damages, interest and costs. Our position is that Genova has been fairly paid all amounts due to him, that Genova's options expired and that he is not entitled to exercise such options at any time now or in the future.

On September 4, 2007 our Company answered the complaint seeking dismissal of all allegations contained in the complaint and denying that Genova is entitled to any of the relief he is seeking. Additionally, our Company counter-claimed Genova seeking an undetermined amount of damages from Genova for fraud, breach of contract, breach of duty of loyalty, and breach of duty of disclosure. No discovery has commenced in this proceeding to date. We intend to vigorously contest the matter. Although the facts ascertained to date indicate a favorable outcome is a likely result, it is too early in the process to provide a detailed evaluation of the likelihood of success. It is also too early to provide an estimate of the amount of range of potential loss, although according to the complaint, Genova is seeking in excess of \$180,000, in addition to the right to exercise his options, that expired on May 30, 2007, until February 13, 2016 or a judgment in an additional amount equal to the monetary value of such options plus

## Edgar Filing: Lightwave Logic, Inc. - Form 10-Q

punitive damages, interest and costs, so the assumption can be made that this would be at the high end of that range.

We are not aware of any other litigation or threatened litigation of a material nature.

-32-

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

During the period covered by this report, we sold the following unregistered securities:

During October 2007, we authorized a \$1,500,000 private offering of our common stock and warrants to purchase our common stock. Pursuant to the terms of this private offering, up to 25 units were offered at the offering price of \$60,000 per unit, with each unit comprised of 100,000 shares of common stock, and a warrant to purchase 50,000 shares of common stock at \$1.00 per share. During January 2008 and February 2008, pursuant to this private offering, we issued 31,667 shares of common stock, and warrants to purchase an aggregate of 15,834 shares of common stock, for total proceeds of \$19,000. The warrants are immediately exercisable for a period of two (2) years from the date of purchase. We relied on Section 4(2) and Rule 506 of Regulation D of the Securities Act since the transaction does not involve any public offering.

During January 2008, pursuant to our 2007 Employee Stock Option Plan, we issued options to purchase 100,000 shares of our common stock at a purchase price of \$0.72 per share to one accredited person in exchange for that person serving as a member of our board of directors. 25,000 options vested at their time of issuance and the remaining options vest in three equal annual installments of 25,000 options per year commencing January 2009. All of the options expire on January 8, 2013. This person was the only offeree in connection with these transactions. We relied on Section 4(2) of the Securities Act since the transaction did not involve any public offering.

During March 2008, we issued 100,000 shares of our common stock to one accredited person in exchange for professional services. The shares were valued at approximately \$0.75 per share for an aggregate amount of approximately \$75,000. This person was the only offeree in connection with these transactions. We relied on Section 4(2) of the Securities Act since the transaction did not involve any public offering.

During March 2008, we issued 300,000 shares of common stock to one accredited person for \$75,000 pursuant to a warrant to purchase 300,000 shares of our common stock at an exercise price of \$0.25 per share. The warrant was issued during June 2006. We relied on Section 4(2) of the Securities Act since the transaction did not involve any public offering.

During March 2008, we issued to one accredited person a warrant to purchase up to 400,000 shares of our common stock at an exercise price of \$0.001 per share for a period of up to five years in exchange for management consulting services. The warrants were valued at \$332,000, fair value. This person was the only offeree in connection with this transaction. We relied on Section 4(2) of the Securities Act since the transaction did not involve any public offering.

No underwriters were utilized and no commissions or fees were paid with respect to any of the above transactions.

-33-

Item 4 Submission of Matters to a Vote of Security Holders

Upon the approval of our Board of Directors, on February 6, 2008 a total of ten stockholders, including directors, owning 17,071,904 shares of our outstanding common stock as of February 6, 2008, consented in writing to the actions described below.

1. The Approval of an amendment to the Company's Articles of Incorporation to change the name of the Company from Third-order Nanotechnologies, Inc. to Lightwave Logic, Inc.;
2. The Approval of an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of our common stock from 50,000,000 to 100,000,000; and
3. The adoption of the 2007 Employee Stock Plan.

Such approval and consent constituted the approval and consent of a majority of the total combined voting power of our outstanding common stock and was sufficient under the Nevada Revised Statutes and our Articles of Incorporation and Bylaws to approve the action. Accordingly, the actions were not submitted to other Company stockholders for a vote. On February 19, 2008, an Information Statement was furnished to stockholders to provide them with certain information concerning the actions in accordance with the requirements of the Securities Exchange Act of 1934 and the regulations promulgated thereunder, including Regulation 14C.

Item 6 Exhibits

- (2) Charter and Bylaws.
  - 2.1 Certificate of Amendment to Articles of Incorporation\*
- (10) Material Contracts.
  - 10.1 2007 Employee Stock Plan\*
- (31)
  - 31.1 Certification of the President of Lightwave Logic, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of the Treasurer of Lightwave Logic, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32)
  - 32.1 Certification of the President of Lightwave Logic, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of the Treasurer of Lightwave Logic, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Incorporated by reference to the Company's Definitive Schedule 14C Information Statement filed on February 19, 2008.

-34-

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIGHTWAVE LOGIC, INC.

Registrant

By: /s/ Fred Goetz, Jr.

-----  
Fred Goetz, Jr., President

Date: May 20, 2008

By: /s/ Fred Goetz, Jr.

-----  
Fred Goetz, Jr., President

Date: May 20, 2008

By: /s/ Andrew J. Ashton

-----  
Andrew J. Ashton, Treasurer

Date: May 20, 2008

-35-