

Arch Therapeutics, Inc.
Form 10-K/A
May 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington , D.C. 20549
FORM 10-K/A

Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x1934

For the fiscal year ended September 30, 2013

OR

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

Commission File Number: 333-178883

ARCH THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

46-0524102

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

20 William Street, Suite 270

Wellesley , MA 02481

(Address of principal executive offices)

02481

(Zip Code)

(617) 475-5254

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$0.001 per share**
(Title of Class)

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the average of the bid and asked price of such common equity, was \$1,979,600. For purposes of this calculation, it has been assumed that shares of common stock held by each director, each officer and each person who owns 10% or more of the registrant's outstanding common stock are held by affiliates.

As of May 1, 2014, there were 72,076,487 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

Arch Therapeutics, Inc. and subsidiary (the “Company”) is filing this Amendment No. 1 (“Amendment No. 1”) to its Annual Report on Form 10-K for the fiscal year ended September 30, 2013, which was originally filed on December 27, 2013 (the “Original Form 10-K”), for the purpose of correcting immaterial presentation errors associated with the issuances of stock and warrants in the consolidated statements of changes in stockholders’ equity (deficit), which disclosed such issuances in the aggregate rather than by date within each year, as well as certain classification and presentation matters in the consolidated statement of cash flows, which disclosed an interest payment within cash flows from financing activities rather than cash flows from operating activities. This Amendment No. 1 also corrects certain standard wording within the Report of Independent Registered Public Accounting Firm, which was unintentionally misstated.

The Company has revised its consolidated statements of changes in stockholders’ equity (deficit) and cash flows and related footnotes as of and for the year ended September 30, 2013 and for the period from inception (March 6, 2006) through September 30, 2013 and will reflect these corrections in all future filings that contain such consolidated financial statements. In this Amendment No. 1, the new consolidated statements of changes in stockholders’ equity (deficit) presentation reflects the issuances by date within each year rather than in the aggregate and the appropriate disclosure of total and per share consideration for shares issued. The new consolidated statement of cash flows presentation reflects the appropriate classification of certain operating and non-cash financing activities. These presentation errors and corrections had no effect on the Company’s consolidated net loss or its consolidated stockholders’ equity (deficit) as of and for the periods then ended.

This Amendment No. 1 hereby amends the cover page, Item 8 of Part II and Item 15 of Part IV of the Original Form 10-K. In addition, as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), new certifications by the Company’s principal executive officer and principal financial officer are filed as exhibits to this Amendment No. 1. Except as described above, no changes have been made to the Original Form 10-K. The Original Form 10-K continues to speak as of the date of its filing, and the Company has not updated the disclosures contained therein to reflect any events that occurred subsequent to the filing of the Original Form 10-K. As a result, this Amendment No. 1 should be read in conjunction with the Original Form 10-K and the Company’s other filings made with the Securities and Exchange Commission.

TABLE OF CONTENTS

	Page
PART II .	
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	2
PART IV.	
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	3
SIGNATURES	4

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are set forth at the end of this Amendment No.1 beginning on page F-1 and are incorporated herein by reference. We are not required to provide the supplementary data required by this item as we are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of Arch Therapeutics, Inc. and subsidiary, beginning on page F-1 1. immediately following the signature page hereto, are filed as part of this Amendment No.1 under Item 8 — Financial Statements and Supplementary Data:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at September 30, 2013 and 2012

Consolidated Statements of Operations for the years ended September 30, 2013 and 2012 and for the Period From Inception (March 6, 2006) to September 30, 2013

Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the Period From Inception (March 6, 2006) to September 30, 2013 (restated)

Consolidated Statement of Cash Flows for the years ended September 30, 2013 and 2012 and for the Period From Inception (March 6, 2006) to September 30, 2013 (restated)

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

These schedules are omitted because they are not required, or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The Exhibit Index attached to this Amendment No.1 is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arch Therapeutics, Inc.

By: /s/ Terrence W. Norchi

Date: May 1, 2014

Terrence W. Norchi

President and Chief Executive Officer

Arch Therapeutics, Inc.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at September 30, 2013 and 2012	F-3
Consolidated Statements of Operations for the years ended September 30, 2013 and 2012 and for the period from inception (March 6, 2006) to September 30, 2013	F-4
Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the period from inception (March 6, 2006) to September 30, 2013 (restated)	F-5
Consolidated Statement of Cash Flows for the years ended September 30, 2013 and 2012 and for the period from inception (March 6, 2006) to September 30, 2013 (restated)	F-6
Notes to Consolidated Financial Statements	F-7

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Arch Therapeutics, Inc.

Wellesley, Massachusetts

We have audited the accompanying consolidated balance sheets of Arch Therapeutics, Inc. and subsidiary (the "Company") as of September 30, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the years then ended and for the period from inception (March 6, 2006) through September 30, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arch Therapeutics, Inc. and subsidiary as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended and for the period from inception (March 6, 2006) through September 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Arch Therapeutics, Inc. and subsidiary will continue as a going concern. As discussed in Notes 1 and 2 to the consolidated financial statements, the Company has an accumulated deficit, has suffered significant net losses and negative cash flows from operations, and has limited working capital that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes 1 and 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moody, Famiglietti & Andronico, LLP

Tewksbury, MA

April 30, 2014

F-2

Arch Therapeutics, Inc.
(A Development Stage Company)
Consolidated Balance Sheets
September 30, 2013 and 2012

	September 30, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 557,319	\$ 17,139
Promissory Note Receivable	1,000,000	-
Prepaid expenses and other current assets	19,629	3,308
Total current assets	1,576,948	20,447
Long Term Assets:		
Property and equipment, net	322	908
Other Assets	10,062	-
Total long-term assets	10,384	908
Total assets	\$ 1,587,332	\$ 21,355
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of convertible notes payable	\$ -	\$ 1,395,000
Current maturities of convertible notes payable, related parties	-	105,000
Notes payable, related party	-	275,200
Accounts payable	314,769	258,426
Accrued expenses and other liabilities	140,840	49,510
Current Portion of accrued interest	-	352,755
Accrued interest to related parties	-	116,548
Total current liabilities	455,609	2,552,439
Long-term liabilities:		
Note payable	944,707	-
Convertible notes payable, net of current maturities	-	235,000
Accrued interest, net of current portion	-	6,351
Total long-term liabilities	944,707	241,351
Total liabilities	1,400,316	2,793,790
Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock, \$0.001 par value, 300,000,000 shares authorized at September 30, 2013 and 75,000,000 at September 30, 2012, 60,145,237 and 5,645,212 shares issued and outstanding at September 30, 2013 and September 30, 2012, respectively	60,145	5,645
Additional paid in capital	4,758,742	-
Deficit accumulated during the development stage	(4,631,871)	(2,778,080)
Total stockholders' equity (deficit)	187,016	(2,772,435)

Total liabilities and stockholders' equity (deficit)	\$ 1,587,332	\$ 21,355
--	--------------	-----------

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

F-3

Arch Therapeutics, Inc.
(A Development Stage Company)
Consolidated Statements of Operations
Years Ended September 30, 2013 and 2012 and the
Period from Inception (March 6, 2006) through September 30, 2013

	Fiscal year ended September 30, 2013	Fiscal year ended September 30, 2012	Period from Inception (March 6, 2006) through September 30, 2013
Other Revenues	\$ -	\$ -	\$ 431,461
Operating expenses:			
General and administrative expenses	1,526,075	333,503	3,662,040
Research and development expenses	218,901	87,021	866,673
Total operating expenses	1,744,976	420,524	4,528,713
Operating loss	(1,744,976)	(420,524)	(4,097,252)
Other (expense) income:			
Interest expense	(108,879)	(156,865)	(588,597)
Other income	64	478	53,978
Total other expense	(108,815)	(156,387)	(534,619)
Net loss	\$ (1,853,791)	\$ (576,911)	\$ (4,631,871)
Net loss per common share basic and diluted	\$ (0.09)	\$ (0.10)	
Weighted average number of shares outstanding	21,366,752	5,645,212	

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

Arch Therapeutics, Inc.

(A Development Stage Company)

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

Period from Inception (March 6, 2006) through September 30, 2013

	Common Stock \$0.001 Par Value Shares	\$ Amount	Additional Paid-in- Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Deficit
Balance at inception (March 6, 2006)	-	\$ -	\$-	\$-	\$-
Net loss	-	-	-	(18,153)	(18,153)
Balance at September 30, 2006	-	-	-	(18,153)	(18,153)
Issuance of common stock to founder on November 13 for \$33 (\$0.00001 per share)	3,198,105	3,198	-	-	3,198
Net loss	-	-	-	(450,038)	(450,038)
Balance at September 30, 2007	3,198,105	3,198	-	(468,191)	(464,993)
Net loss	-	-	-	(233,040)	(233,040)
Balance at September 30, 2008	3,198,105	3,198	-	(701,231)	(698,033)
Issuances of common stock to directors on May 13 (1)	1,524,721	1,525	-	-	1,525
Issuances of common stock in connection with a technology license on May 13 (1)	282,886	283	-	-	283
Issuances of common stock to advisors and consultants on May 13 (1)	11,242	11	-	-	11
Issuances of common stock to advisors and consultants on July 22 (1)	42,448	42	-	-	42

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

Issuances of common stock to advisors and consultants on September 22 (1)	8,722	9	-	-	9
Net loss	-	-	-	(504,687)	(504,687)
Balance at September 30, 2009	5,068,124	5,068	-	(1,205,918)	(1,202,527)
Issuances of common stock to advisors and consultants on October 21 (1)	259,240	259	-	-	259
Net loss	-	-	-	(420,093)	(420,093)
Balance at September 30, 2010	5,327,364	5,327	-	(1,626,011)	(1,622,361)
Issuances of common stock to advisors and consultants on December 16 (1)	82,279	82	-	-	82
Issuances of common stock to directors on May 24 (1)	213,764	214	-	-	214
Issuances of common stock to advisors and consultants on May 24 (1)	12,114	12	-	-	12
Net loss	-	-	-	(573,472)	(573,472)
Balance at September 30, 2011	5,635,521	5,636	-	(2,201,160)	(2,195,524)
Issuance of common stock to an advisor on June 17 (1)	9,691	9	-	-	9
Net loss	-	-	-	(576,911)	(576,911)
Balance at September 30, 2012	5,645,212	5,645	-	(2,778,080)	(2,772,435)
Net loss	-	-	-	(1,853,791)	(1,853,791)
Equity acquired in reverse merger on June 26	41,500,000	41,500	(41,500)	-	-
Issuance of common stock and 2,500,000 warrants to purchase 2,500,000 shares of common stock on June 26 for \$1,250,000 (\$0.50 per share)	2,500,000	2,500	1,247,500	-	1,250,000
Exchange of debt and accrued interest for common stock pursuant to reverse merger on June 26	9,000,025	9,000	2,461,022	-	2,470,022
Issuance of common stock and 500,000 warrants to purchase 500,000 shares of	500,000	500	249,500	-	249,500

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

common stock on July 3 for \$250,000
(\$0.50 per share)

Issuance of common stock and 1,000,000 warrants to purchase 1,000,000 shares of common stock on August 30 for \$500,000 (\$0.50 per share)	1,000,000	1,000	499,000	-	499,000
Grant of one warrant to purchase 145,985 shares of common stock issued with note payable on September 30	-	-	55,293	-	55,293
Stock based compensation expense	-	-	287,927	-	287,927
Balance at September 30, 2013 (restated)	60,145,237	60,145	4,758,742	(4,631,871)	187,016

(1) The Company performed an analysis of the value of its common stock as of each of these dates and determined the value per share is equivalent to par value which is considered to be de minimis.

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

F-5

Arch Therapeutics, Inc.
(A Development Stage Company)
Consolidated Statement of Cash Flows
Years Ended September 30, 2013 and 2012 and the
Period from Inception (March 6, 2006) through September 30, 2013

	Fiscal year ended September 30, 2013 (restated)	Fiscal year ended September 30, 2012	Period from Inception (March 6, 2006) through September 30, 2013 (restated)
Cash flows from operating activities:			
Net loss	\$ (1,853,791)	\$ (576,911)	\$ (4,631,871)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation expense	586	3,372	18,371
Other noncash adjustments	(92)	-	5,752
Stock based compensation	287,927	-	287,927
Noncash interest expense on convertible notes payable	82,147	118,657	441,253
Noncash interest expense on notes payable to related party	25,599	37,211	142,057
Repayment of accrued interest to related party	(98,288)	-	(98,288)
Issuance of common stock for services	-	1	253
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Prepaid expenses and other current assets	(16,321)	648	(19,629)
Other Assets	(10,062)	-	(10,062)
Increase (decrease) in:			
Accounts payable	56,343	139,878	314,769
Accrued expenses and other liabilities	91,332	22,508	140,840
Net cash used in operating activities	(1,434,620)	(254,636)	(3,408,628)
Cash flows from investing activities:			
Purchases of property and equipment	-	-	(19,053)
Net cash used in investing activities	-	-	(19,053)
Cash flows from financing activities:			
Proceeds from issuance of common stock and warrants	2,000,000	-	2,000,000
Repayment of notes payable to related party	(275,200)	-	(275,200)
Proceeds from issuance of notes payable to related party	-	-	275,200
Proceeds from issuance of convertible notes payable to related party	-	-	105,000
Proceeds from issuance of convertible notes payable	250,000	235,000	1,880,000
Net cash provided by financing activities	1,974,800	235,000	3,985,000

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

Net increase in cash and cash equivalents	540,180	(19,636)	557,319
Cash and cash equivalents, beginning of period	17,139	36,775	-
Cash and cash equivalents, end of period	\$ 557,319	\$ 17,139	\$ 557,319

Supplemental disclosure of cash flow information and non-cash financing activities

Cash paid during the period for:			
Interest	\$ 98,288	\$ -	\$ 98,288
Income taxes	\$ -	\$ -	\$ -
Debt with warrants issued for promissory notes receivable	\$ 1,000,000	\$ -	\$ 1,000,000
Exchange of convertible notes and related accrued interest for common stock	\$ 2,470,022	\$ -	\$ 2,470,022

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

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS

Arch Therapeutics, Inc. and subsidiary (the “Company”) was incorporated under the laws of State of Nevada on September 16, 2009 under the name “Almah, Inc.” to pursue the business of distributing automobile spare parts online. Effective June 26, 2013, the Company completed a merger (the “Merger”) with Arch Biosurgery, Inc. (formerly known as Arch Therapeutics, Inc.), a Massachusetts corporation (“ABS”), and Arch Acquisition Corporation (“Merger Sub”), the Company’s wholly owned subsidiary formed for the purpose of the transaction, pursuant to which Merger Sub merged with and into ABS and ABS thereby became the wholly owned subsidiary of the Company. As a result of the acquisition of ABS, the Company has abandoned its prior business plan and has changed its operations to the business of developing polymers comprising synthetic peptides intended to form gel-like barriers over wounds to stop or control bleeding and seal wounds. The Company is in the development stage and has generated no operating revenues to date. The Company is currently devoting substantially all of its efforts toward product research and development. Also in connection with the Merger, we relocated our principal office to Wellesley, Massachusetts.

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

The Company is in the development stage and is devoting substantially all of its efforts toward product research and development. The Company has incurred losses of \$4,631,871 since inception. To date, the Company has principally raised capital through the issuance of debt, convertible debt and the sale of investment units consisting of common stock and warrants.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company is in the development stage and is devoting substantially all of its efforts to raising capital, developing technologies, establishing customer and vendor relationships, and recruiting new employees. Accordingly, the accompanying consolidated financial statements are presented under the development stage accounting provisions of the Financial Accounting Standards Board (FASB).

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

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

Property and Equipment

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

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment*. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Convertible Debt

The Company records a discount to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying preferred stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized to noncash interest expense using the effective interest rate method over the term of the related debt to their date of maturity. If a security or instrument becomes convertible only upon the occurrence of a future event outside the control of the Company, or, is convertible from inception, but contains conversion terms that change upon the occurrence of a future event, then any contingent beneficial conversion feature is measured and recognized when the triggering event occurs and contingency has been resolved.

Income Taxes

In accordance with ASC 740, *Income Taxes*, the Company recognizes deferred tax assets and liabilities for the expected future tax consequences or events that have been included in the Company's consolidated financial statements and/or tax returns. Deferred tax assets and liabilities are based upon the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and for loss and credit carryforwards using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company provides reserves for potential payments of tax to various tax authorities related to uncertain tax positions when management determines that it is probable that a loss will be incurred related to these matters and the amount of the loss is reasonably determinable. The Company has no reserves related to uncertain tax positions as of September 30, 2013 and 2012.

Revenue

The Company recognizes revenue in accordance with ASC 605-28, the milestone method of revenue recognition for arrangements involving research or development or other performance obligations whereby a portion or all of the consideration is contingent upon achievement of milestone events. Under these provisions, arrangement consideration contingent upon achievement of a milestone is recognized by the Company in the period the milestone is met when the Company concludes that the milestone is substantive. Upon inception of each applicable arrangement, the Company assesses each milestone and the consideration payable upon achievement of each milestone and concludes that the milestone is substantive if all of the following criteria are met: (i) the consideration is commensurate with the Company's performance or the enhanced value of a delivered item which is a direct result of the Company's performance to achieve the milestone, (ii) the consideration relates to past performance and there are no refund rights or other penalties related to the consideration based on completion of future performance and (iii) the consideration is reasonable relative to all the deliverables and payment terms within the arrangement. The related consideration for milestones that are considered substantive is recognized in its entirety in the period which the milestone is met. For the period from inception (March 6, 2006) through September 30, 2013 the Company has not recorded any revenue for these types of activities.

Other Revenue

During the period from inception (March 6, 2006) to September 30, 2013, the Company had a contract with a pharmaceutical company to allow that pharmaceutical company access to materials for a fixed period of time. Other revenue from this contract was recognized based upon the proportional performance method, over the period of access. The Company does not consider this revenue to be significant and does not consider this event to be a regular practice.

Research and Development

The Company expenses internal and external research and development costs, including costs of funded research and development arrangements, in the period incurred. Research and development related income is recognized over the term of the related project under the proportional performance method based on costs incurred.

Accounting for Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with the guidance of FASB ASC Topic 718, *Compensation-Stock Compensation*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values. The Company accounts for non-employee stock-based compensation in accordance with the guidance of FASB ASC Topic 505, *Equity* ("FASB ASC Topic 505"), which requires that companies recognize compensation expense based on the estimated fair value of options granted to non-employees over their vesting period, which is generally the period during which services are rendered by such non-employees. FASB ASC Topic 505 requires the Company to re-measure the fair value of stock options issued to non-employee at each reporting period during the vesting period or until services are complete.

In accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*, the Company has elected to use the Black-Scholes option pricing model to determine the fair value of options granted and recognizes the compensation cost of share-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the fair value of the common stock and a number of other assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The Company does not have a history of market prices of the common stock, and as such volatility is estimated in accordance with ASC 718-10-S99 Staff Accounting Bulletin ("SAB") No.

107, *Share-Based Payment* (“SAB No. 107”), using historical volatilities of similar public entities. The life term for awards and, therefore, uses simplified method for all “plain vanilla” options, as defined in SAB No. 107 and the contractual term for all other employee and non-employee awards. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on history and the expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense, when recognized in the consolidated financial statements, is based on awards that are ultimately expected to vest.

Fair Value Measurements

The Company measures both financial and nonfinancial assets and liabilities in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, except those that are recognized or disclosed in the consolidated financial statements at fair value on a recurring basis. The standard created a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company’s own assumptions about the assumptions market participants would use in pricing the asset or liability.

The Company's financial instruments include cash and cash equivalents. Because of their short maturity, the carrying amount of cash and cash equivalents are considered to approximate fair value.

Subsequent Events

The Company evaluated all events or transactions that occurred through April 30, 2014 the date which these consolidated financial statements were available to be issued. The Company disclosed material subsequent events in Note 14.

Going Concern Basis of Accounting

The Company does not currently believe its existing cash resources are sufficient to meet its anticipated needs during the next twelve months. As reflected in the financial statements, the Company has an accumulated deficit, has suffered significant net losses and negative cash flows from operations, and has limited working capital. The Company expects to incur substantial expenses for the foreseeable future for the research, development and commercialization of its potential products. In addition, the Company will require additional financing in order to seek to license or acquire new assets, research and develop any potential patents and the related compounds, and obtain any further intellectual property that the Company may seek to acquire. The Company does not have sufficient cash and cash equivalents to support its current operating plan. The Company will be required to raise additional capital, obtain alternative means of financial support, or both, in order to continue to fund operations. Therefore, there exists substantial doubt about the Company's ability to continue as a going concern. Historically, the Company has funded its operations primarily through equity and debt financings.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

The consolidated financial statements include the accounts of the Company as of September 30, 2013. All significant intercompany balances and transactions have been eliminated in consolidation.

Correction of an Immaterial Error

In connection with comments received from the Securities and Exchange Commission (“SEC”) on April 18, 2014, with respect to a registration statement filed on Form S-1 on March 21, 2014, the Company identified errors in the presentation of issuances of stock and warrants in the consolidated statements of changes in stockholders’ equity (deficit) and presentation matters in the consolidated statements of cash flows, as well as related footnotes.

The Company assessed the materiality of these errors for each period presented in accordance with the guidance in Accounting Standards Codification (ASC) Topic 250, “Accounting Changes and Error Corrections,” ASC Topic 250-10-S99-1, “Assessing Materiality”, and determined that the errors were immaterial to the consolidated financial statements taken as a whole. The Company has revised its consolidated statements of changes in stockholders’ equity (deficit) and cash flows, as well as related footnotes as of and for the year ended September 30, 2013 and for the period from inception (March 6, 2006) through September 30, 2013 and will reflect these corrections in all future filings that contain such consolidated financial statements.

3. PROPERTY AND EQUIPMENT

At September 30, 2013 and 2012, property and equipment consisted of:

	Estimated Useful Life	2013	2012
Furniture and fixtures	5 years	\$2,925	\$11,791
Computer equipment	3 years	-	4,196
Lab equipment	5 years	3,066	3,066
		5,991	19,053
Less - accumulated depreciation		5,669	18,145
		\$322	\$908

Depreciation expense for the years ended September 30, 2013 and 2012, and for the period from inception (March 6, 2006) through September 30, 2013 was \$586, \$3,372 and \$18,731, respectively.

4. INCOME TAXES

The principal components of the Company's net deferred tax assets consisted of the following at September 30:

	2013	2012
Net operating loss carryforwards	\$1,332,955	\$884,891
Research and experimentation credit carryforwards	32,559	32,559
Stock based compensation	115,171	-
Fixed assets	7,492	7,258
Accrued expenses	35,744	10,000
Gross deferred tax assets	1,523,921	934,708
Deferred tax asset valuation allowance	(1,523,921)	(934,708)
Net deferred tax assets	\$-	\$-

As of September 30, 2013 and 2012, the Company had federal net operating loss carryforwards of approximately \$3,486,000 and \$2,228,000, respectively, which may be available to offset future taxable income and which would begin to expire in 2026. As of September 30, 2013 and 2012, the Company had federal research and experimentation credit carryforwards of \$32,559 which may be available to offset future income tax liabilities and which would begin to expire in 2028.

As of September 30, 2013 and 2012, the Company had state net operating loss carryforwards of approximately \$2,800,000 and \$2,120,000, respectively, which may be available to offset future taxable income and which would begin to expire in 2013. As of September 30, 2013 and 2012, the Company had state research and experimentation credit carryforwards of \$10,135 which may be able to offset future income tax liabilities and which would begin to expire in 2023.

As the Company has not yet achieved profitable operations, management believes the tax benefits as of September 30, 2013 and 2012 did not satisfy the realization criteria set forth in FASB ASC Topic 740, Income Taxes, and therefore has recorded a valuation allowance for the entire deferred tax asset. The valuation allowance increased in 2013 and 2012 by approximately \$589,213 and \$198,220, respectively. The Company's effective income tax rate differed from the federal statutory rate due to state taxes and the Company's full valuation allowance, the latter of which reduced the Company's effective federal income tax rate to zero.

The Company experienced an ownership change as a result of the Merger described in Note 6, causing a limitation on the annual use of the net operating loss carryforwards, which are subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions

5. RELATED PARTY TRANSACTIONS

Notes Payable, Related Party

In February 2009, ABS issued a promissory note (the "Note") to Terrence Norchi (the "Note Holder"), a shareholder and director of the Company. During the period from February 2009 through February 2011, aggregate cash proceeds of \$275,200 were advanced to the Company under Note. The Note accrued interest at a rate of 6% per year through December 31, 2009 and 10% per year beginning January 1, 2010. The original maturity date of the Note was August 10, 2010. In connection with the Note, the Company issued warrants to purchase shares of convertible preferred stock at the purchase price of such stock equal to 20% of the principal balance of the Note divided by the purchase price.

Upon maturity of the Note on August 10, 2010, the Note Holder entered into an agreement of forbearance with the Company extending the time to repay the Note and accrued interest for an unspecified period of time. Under the terms of the agreement, interest will continue to accrue at 10% per year. On June 24, 2013 the Company repaid the full amount of principle and accrued interest and the Note Holder agreed to cancel all related warrants.

Convertible Notes Payable, Related Parties

From June 2006 through December 2008, ABS issued convertible notes to related parties for aggregate cash proceeds of \$105,000. The notes accrued interest at various rates ranging from 6% to 10% per year and had an original maturity date of two years from issuance. The "Convertible Notes" were originally convertible into shares of convertible preferred stock upon the closing of a preferred equity financing of at least \$1,000,000, the number of which was to be determined by dividing the principle and accrued interest by the purchase price of the convertible preferred stock ("Conversion Price").

In connection with the notes, ABS issued warrants to purchase additional shares of convertible preferred stock at the conversion price equal to an aggregate amount of 20% of the principle. At September 30, 2012, \$55,000 of the convertible notes with related parties had matured. In January 2013, an additional \$50,000 matured bringing the total to \$105,000. Each of the holders of the matured notes entered into an agreement of forbearance with the Company extending the time to repay the matured notes and accrued interest for an unspecified amount of time. Under the terms of the agreement, interest continued to accrue at the rate in effect at the time of maturity.

On April 20, 2013, the Convertible Note Holders and the Company entered into an agreement to cancel the related warrants and exchange the notes (with a total aggregate principal balance of \$1,880,000) and the interest accrued through April 30, 2013 for the Company's common stock upon the completion of the Merger on June 26, 2013 as described in Note 6.

Directors Compensation

In November 2010, ABS entered into an agreement to pay Terrence Norchi, its Chief Executive Officer a cash bonus of \$500,000 upon the raising of capital from a financing of at least \$1,000,000. Additionally, ABS agreed that upon such closing, warrants shall be issued to him allowing the purchase of the number of shares of convertible preferred stock equal to \$100,000 divided by the purchase price per share of the convertible preferred stock. On June 25, 2013 Terrence Norchi and ABS entered into a Termination Agreement and Release terminating the agreement for the cash bonus and warrants.

6. MERGER

On June 26, 2013, a merger (“the Merger”) was completed by Arch Acquisition Corporation, a Massachusetts corporation and the Company’s wholly-owned subsidiary formed for the purpose of the transaction (“Merger Sub”) and ABS, with ABS surviving the Merger as the Company’s wholly owned subsidiary. Upon the closing of the Merger, all of the issued and outstanding capital stock and convertible notes of ABS were exchanged for an aggregate of 14,645,237 shares of the Company’s common stock. Also, in connection with the Merger, the warrants of ABS were cancelled. For financial reporting purposes, the Merger represents a “reverse merger” rather than a business combination and ABS is deemed to be the accounting acquirer in the transaction. Consequently, the assets, liabilities, deficit accumulated during the development stage and the historical operations reflected in the Company’s consolidated financial statements are those of ABS. All share information has been restated to reflect the effects of the reverse merger. The Company’s financial information has been consolidated with that of ABS after consummation of the Merger on June 26, 2013, and the historical financial statements of the Company before the Merger have been replaced with the historical financial statements of ABS before the Merger in all future filings with the SEC.

7. CONVERTIBLE NOTES PAYABLE

From March 2006 through January 31, 2013, the Company issued convertible notes for aggregate cash proceeds of \$1,735,000. The notes accrued interest at various rates ranging from 6% to 10% per year and had an original maturity date of two years from issuance. The notes were originally convertible into the number of shares of convertible preferred stock upon the closing of a preferred equity financing of at least \$1,000,000 by dividing the principal and accrued interest by the purchase price of the convertible preferred stock. In connection with the notes, the Company issued warrants to purchase additional shares of convertible preferred stock at the conversion price equal to an aggregate amount ranging from 10% to up to 50% of the principal balance of the note. The warrants had various expiration dates through January 2015.

On July 5, 2011, the Company issued a convertible note for cash proceeds of \$250,000. The note accrued interest at 6% per year and matured in one year. The note was convertible into the number of shares of common stock upon the closing of an equity financing of at least \$750,000 by dividing the principal and accrued interest by the purchase price of the stock sold in the equity financing. Upon maturity of the note on July 5, 2012, the note holder entered into an agreement of forbearance with the Company extending time to repay the matured note and the accrued interest for an unspecified period of time. Under the terms of the agreement, interest will continue to accrue at 6% per year until the note was paid or converted.

The Company held \$1,245,000 of notes that had matured as of September 30, 2012. An additional \$50,000 matured during each of October 2012 and March 2013, bringing the total to \$1,345,000. Each of the holders of the matured notes entered into an agreement of forbearance with the Company extending the time to repay the matured notes and the accrued interest for an unspecified period of time. Under the terms of the agreement, interest continued to accrue at the rate in effect at the time of maturity.

On April 20, 2013, the convertible noteholders and the Company entered into an agreement to cancel the warrants and exchange the notes (with a total aggregate principal balance of \$1,880,000) and the interest accrued through April 30, 2013 for the Company's common stock upon the completion of the Merger completed on June 26, 2013 as described in Note 6.

8. STOCKHOLDERS' EQUITY

In November 2006, ABS issued 3,198,105 shares of restricted common stock to the founders of ABS for consideration equal to the fair value of the common stock. The shares of common stock issued were subject to vesting and became fully vested in 2010.

In May 2009, ABS issued 1,468,221 additional shares of common stock to the founders of ABS for consideration at fair market value. Upon issuance of the shares to the founders, the founders entered into restricted stock agreements whereby the shares of common stock issued were subject to vesting and became fully vested in 2010.

In May 2009, ABS issued 226,290 shares of common stock in connection with a license of technology from the Massachusetts Institute of Technology ("MIT") and 56,596 shares of common stock as a gift to the Deshpande Center, an affiliate of MIT. Under the terms of the license, upon the sale of additional shares of common stock or conversion of debt into additional shares of common stock up to a total of \$4,000,000 in the aggregate, the Company was obligated to issue additional shares of common stock to MIT in an amount to maintain their equity ownership at 4% on a fully diluted basis.

9. STOCK-BASED COMPENSATION

2013 Stock Incentive Plan

On June 18, 2013, the Company established the 2013 Stock Incentive Plan (the “2013 Plan”). Under the 2013 Plan, a maximum number of 7,825,388 shares of the Company’s authorized and available common stock could be issued in the form of: options, SARs, sales or bonuses of restricted stock, restricted stock units or dividend equivalent rights, and an award may consist of one such security or benefit, or two or more of them in any combination or alternative. Commencing with the first business day of each fiscal year of the Company beginning in 2013, such maximum aggregate number of Shares shall be increased by a number equal to the lesser of (A) 3,000,000 Shares, (B) four (4) percent of the number of shares outstanding on the last day of the immediately preceding fiscal year of the Company, or (C) such lesser number of shares as determined by the Company’s Board of Directors (the “Board”). The exercise price of each stock option shall be the fair market value as determined in good faith by the Board at the time each option is granted.

As of September 30, 2013, a total of 1,900,000 options have been issued to employees and directors and 1,100,000 options have been issued to consultants. The exercise price of each option has either been equal to the closing price of a share of our common stock on the date of grant or has been determined to be in compliance with Internal Revenue Section 409A.

2009 Stock Incentive Plan

During 2009, ABS established the 2009 Stock Incentive Plan (the “2009 Plan”). Under the 2009 Plan, a maximum number of 707,460 shares of ABS authorized and available common stock could be issued in the form of stock options and other equity interests. Under the terms of the 2009 Plan, options and other equity interests may be granted to employees, officers, directors, consultants and advisors of the Company. The exercise price of each stock option shall be the fair market value as determined in good faith by the at the time each option is granted.

As of September 30, 2013, 579,026 shares of common stock subject to vesting were issued under the 2009 Plan to employees, directors and consultants at fair market value. An additional 116,973 shares were issued to consultants not subject to vesting terms at fair market value. Upon effectiveness of the 2013 Plan and the Merger, the Company ceased making awards under the 2009 Plan.

Share-based awards

During the year ended September 30, 2013, the Company granted options to purchase 1,400,000 and 500,000 shares of the Company’s common stock to employees and a director, respectively, under the 2013 Plan. The options issued to employees have terms ranging from 4.5 to 10 years, subject to vesting terms over 3 years and have exercise prices ranging from \$0.37 to \$0.40. The options issued to the director have a 4.5 year term, are subject to vesting terms over 3 years and have an exercise price of \$0.37.

During the year ended September 30, 2013, the Company also granted options to purchase 1,100,000 shares of the Company’s common stock to consultants under the 2013 Plan. The options issued to consultants have a three year term, are immediately vested and have an exercise price of \$0.40.

The Company recognizes compensation expense for stock option awards on a straight-line basis over the applicable service period of the award. The service period is generally the vesting period, with the exception of options granted subject to a consulting agreement, whereby the option vesting period and the service period are defined pursuant to the terms of the consulting agreement. Share-based compensation expense for awards granted during the year ended September 30, 2013 were based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following assumptions were used to calculate the fair value of share based compensation for the year ended September 30, 2013; Expected volatility, 76.57% - 111.88%, Risk-free interest rate, 0.88% - 2.40%, Expected forfeiture rate, 0.00%, Expected dividend yield, 0.00%, Expected term, 3.00 – 5.75 years.

Expected price volatility is the measure by which the Company's stock price is expected to fluctuate during the expected term of an option. The Company exited shell status on June 26, 2013. In situations where a newly public entity has limited historical data on the price of its publicly traded shares and no other traded financial instruments, authoritative guidance is provided on estimating this assumption by basing its expected volatility on the historical, expected, or implied volatility of similar entities whose share option prices are publicly available. In making the determination as to similarity, the guidance recommends the consideration of industry, stage of life cycle, size and financial leverage of such other entities. The Company's expected volatility is derived from the historical daily change in the market price of its common stock since it exited shell status, as well as the historical daily changes in the market price for the peer group as determined by the Company.

For so called "plain vanilla" options granted to employees, the expected term of the options is based upon the simplified method as defined in ASC 718-10-S99 which averages an award's weighted-average vesting period and the contractual term for share options. The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life in accordance with ASC Topic 718. The Company's estimation of the expected term for stock options not subject to the simplified method is based upon the contractual term of the option award. For the purposes of estimating the fair value of stock option awards, the risk-free interest rate used in the Black-Scholes calculation is based on the prevailing U.S. Treasury yield. The Company has never paid any dividends on its common stock and does not anticipate paying dividends on its common stock in the foreseeable future.

Stock-based compensation expense recognized in the Company's consolidated statements of operations is based on awards ultimately expected to vest, reduced for estimated forfeitures. Authoritative guidance requires forfeitures to be estimated at the time of grant, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Due to the Company's minimal stock-based compensation activity, the Company has not had significant forfeitures of stock options granted to employees and directors. Therefore, the Company has estimated the forfeiture rate of its outstanding stock options as zero, but will continually evaluate its historical data as a basis for determining expected forfeitures.

Stock compensation plan activity for the years ended September 30, 2013 and 2012 follows:

Common Stock Options

Stock compensation activity under the 2013 Plan for the year ended September 30, 2013 follows:

Option Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$0's)
---------------------------------	--	---	--

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

Outstanding at October 1, 2012	-			
Awarded	3,000,000	\$ 0.38	-	\$ -
Exercised	-		-	-
Forfeited	-		-	-
Outstanding at September 30, 2013	3,000,000	\$ 0.38	4.88	-
Vested	1,500,000	\$ 0.37	3.90	-
Vested and expected to vest at September 30, 2013	3,000,000	\$ 0.38	4.88	-

As of September 30, 2013, 4,825,388 shares are available for future grants under the 2013 Plan. Share-based compensation expense recorded in the Company's consolidated statement of operations for the year ended September 30, 2013 resulting from stock options awarded to the Company's employees, directors and consultants was approximately \$288,000. Of this amount during the year ended September 30, 2013, \$38,000 was recorded to research and development expenses, and \$250,000 was recorded in general and administrative expenses in the Company's consolidated statement of operations

As of September 30, 2013, there is approximately \$996,000 of unrecognized compensation expense related to unvested stock-based compensation arrangements granted under the 2013 Plan. That cost is expected to be recognized over a weighted average period of 2.78 years.

Restricted Stock

Stock compensation activity under the 2009 Plan for the years ended September 30, 2013 and 2012 follows:

	2013	2012
Restricted Stock		
Non Vested at October 1	56,844	90,947
Awarded	-	9,691
Vested	(56,844)	(43,794)
Forfeited	-	-
Non Vested at September 30	-	56,844

The weighted average restricted stock award date fair value information for the years ended September 30, 2013 and 2012 follows:

	2013	2012
Non Vested at October 1	\$0.0024	\$0.0024
Awarded	-	0.0024
Vested	0.0024	0.0024
Forfeited	-	0.0024

Non Vested at September 30 \$- \$0.0024

F-14

Non-employee restricted shares subject to vesting are revalued at each vesting date and at the end of the reporting period, with all changes in fair value recorded as stock-based compensation expense. There were no changes in fair value during the period from issuance of the shares through April, 2013 when all shares were fully vested and accordingly, no expense has been recorded by the Company.

10. WARRANTS

During the period from inception (March 6, 2006) through September 30, 2013, the Company had issued a total of 42 warrants, all of which were attached to various debt instruments and commitments issued by the Company. The warrants issued were convertible into shares of Series A Preferred Stock, \$.01 par value at the conversion price equal to an aggregate amount ranging from 10% to up to 50% of the principal balance of the debt. Conversion of all warrants was contingent on the Company completing a Series A Preferred Equity Financing, defined as the sale of financing securities to a third party in which the Company receives gross proceeds from investors of at least \$1,000,000, excluding the conversion of the notes. The warrants were cancelled in connection with the exchange of the debt for common shares pursuant to the Merger completed on June 26, 2013 described in Note 6.

11. Coldstream Financing

In contemplation of the Merger, on April 19, 2013, the Company entered into a financing agreement (the "Financing Agreement") with Coldstream Summit Ltd. ("Coldstream") agreeing to issue and sell, and Coldstream agreed to purchase or assist in securing the purchase of, \$2,000,000 worth of units in a private offering within the 12 month period following the closing of the Merger (the "Coldstream Financing"). The sales price of each unit issued in the Coldstream Financing was \$0.50 per share and consists of (i) one share of common stock and (ii) one warrant to purchase one share of common stock at an exercise price of \$0.75 per share and with a term of 12 months.

On June 26, 2013, immediately following the Merger and in accordance with the Financing Agreement, the Company issued and sold units consisting of 2,500,000 shares of common stock and warrants to purchase 2,500,000 shares of common stock in the Coldstream Financing for gross proceeds of \$1,250,000.

On July 3, 2013, pursuant to the Coldstream Financing the Company issued and sold additional units consisting of 500,000 shares of common stock and warrants to purchase 500,000 shares of common stock to a foreign accredited investor identified by Coldstream for gross proceeds of \$250,000.

On August 30, 2013, pursuant to the Coldstream Financing the Company issued and sold additional units consisting of 1,000,000 shares of common stock and warrants to purchase 1,000,000 shares of common stock to a foreign accredited investor identified by Coldstream for gross proceeds of \$500,000.

12. Note Payable

On September 30, 2013, the Company entered into the Life Sciences Accelerator Funding Agreement (the “Loan Agreement”) with the Massachusetts Life Sciences Center (“MLSC”), pursuant to which MLSC will provide an unsecured subordinated loan in the amount of \$1,000,000. The loan bears interest at a rate of 10% per annum, and will become fully due and payable on the earlier of (i) September 30, 2018, (ii) the occurrence of an event of default under the MLSC Loan Agreement, or (iii) the completion of a sale of substantially all of our assets, a change-of-control transaction or one or more financing transactions in which we receive net proceeds of \$5,000,000 or more in a 12-month period. The Loan Agreement includes warrants to purchase 145,985 shares of the Company’s common stock at an exercise price of \$0.27 per share. The warrants expire on September 30, 2023.

Of the \$1,000,000, the Company allocated \$944,707 to the loan and \$55,293 to the warrants. The warrant valuation was derived with the Black-Scholes option pricing model with the following assumptions: risk free rate 2.64%, dividend yield 0.0%, expected life of 10 years, and volatility 114%. The fair value of the warrant was recorded as an increase to additional paid-in capital. The allocation of funds to the warrants resulted in a discount on the loan, which will be amortized to interest expense over the life of the loan.

13. COMMITMENTS AND CONTINGENCIES

MIT Licensing Agreement

In the ordinary course of business, the Company enters into various agreements containing standard indemnification provisions. The Company's indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Company under such indemnification provisions is uncertain. As of September 30, 2013 and 2012, no amounts have been accrued related to such indemnification provisions.

From time to time, the Company may be exposed to litigation in connection with its operations. The Company's policy is to assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses.

In December, 2007, the Company entered into a license agreement with MIT pursuant to which the Company acquired an exclusive world-wide license to develop and commercialize technology related to self-assembling peptide compositions, and methods of making and using such compositions in medical and non-medical applications, including claims that cover the Company's proposed products and methods of use thereof. The license also provides non-exclusive rights to additional intellectual property in the fields that cover the Company's proposed products and methods of use thereof, in order to provide freedom to operate. The license provides the Company a right to sublicense the exclusively licensed intellectual property. The Company has not sublicensed the exclusively licensed intellectual property to any party for any field.

In exchange for the licenses granted in the agreement, the Company has paid MIT license maintenance fees and patent prosecution costs. The Company paid license maintenance fees of \$10,000 to MIT in each of the years ended September 30, 2009 and 2010 and \$25,000 in the year ended September 30, 2013.

Annual license maintenance obligations extend through the life of the patents. The following table reflects the Company's annual license maintenance fee commitments:

Year Ending September 30,	
2014	\$35,000
2015	45,000
2016	50,000

2017	50,000
	\$ 180,000

In addition, MIT is entitled to royalties on applicable future product sales, if any. The annual payments may be applied towards royalties payable to MIT for that year for product sales.

The Company is obligated to indemnify MIT and related parties from losses arising from claims relating to the exercise of any rights granted to the Company under the license, with certain exceptions. The maximum potential amount of future payments the Company could be required to make under this provision is unlimited. The Company considers there to be a low performance risk as of September 30, 2013.

The agreement expires upon the expiration or abandonment of all patents that are issued and licensed to the Company by MIT under such agreement. The Company expects that patents will be issued from presently pending U.S. and foreign patent applications. Any such patent will have a term of 20 years from the filing date of the underlying application. MIT may terminate the agreement immediately, if the Company ceases to carry on its business, if any nonpayment by the Company is not cured or the Company commits a material breach that is not cured. The Company may terminate the agreement for any reason upon six months notice to MIT.

Leases

On August 30, 2013, the Company entered into a lease agreement for an office facility located at 20 William Street, Suite 270, Wellesley, Massachusetts 02481, effective October 1, 2013. The Company has leased this office space pursuant to the terms of a sublease agreement (the "Sublease") with Stream Global Services, Inc. Pursuant to the terms of the Sublease, the Company has agreed to rent the leased premises, comprising approximately 2,322 square feet, until March 31, 2015 for an annual base rent equal to \$26 per square foot, which is payable in monthly rental payments amounting to \$5,031. In addition, the Sublease requires that the Company pay for certain operating expenses of the leased premises and deliver a security deposit of \$10,062.

The following table reflects the Company's future minimum lease payments due under this noncancelable lease agreement as of September 30, 2013:

Year Ending September 30,	
2014	\$60,372
2015	30,186
	\$90,558

14. SUBSEQUENT EVENTS

Private Placement Financing

On January 30, 2014, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with a group of investors ("Investors") providing for the issuance and sale by the Company to the Investors, in a private placement, of an aggregate of 11,400,000 shares of the Company's common stock (collectively, the "Shares") at a purchase price of \$0.25 per share and three series of warrants, the Series A Warrants, the Series B Warrants and the Series C Warrants, to purchase up to an aggregate of 34,200,000 shares of the Company's common stock (collectively, the "Warrants," and the shares issuable upon exercise of the Warrants, collectively, the "Warrant Shares"), for aggregate gross proceeds to the Company of approximately \$2.85 million (the "Private Placement Financing").

Upon the closing of the Private Placement Financing on February 4, 2014, the Company entered into a registration rights agreement with the Investors (the "Registration Rights Agreement"), pursuant to which the Company will be obligated, subject to certain conditions, to file with the Securities and Exchange Commission within 45 days one or more registration statements (any such registration statement, a "Resale Registration Statement") to register the Shares and the Warrant Shares for resale under the Securities Act of 1933, as amended (the "Securities Act"). The Company's failure to satisfy certain filing and effectiveness deadlines with respect to a Resale Registration Statement and certain other requirements set forth in the Registration Rights Agreement may subject the Company to payment of monetary penalties.

The Warrants are exercisable upon issuance. The Series A Warrants have an exercise price of \$0.30 per share and have a term of exercise equal to five years from their issuance. The Series B Warrants have an exercise price of \$0.35 per share and have a term of exercise equal to the shorter of twelve months from their issuance and six months after the effective date of a Resale Registration Statement. The Series C Warrants have an exercise price of \$0.40 per share and have a term of exercise equal to the shorter of 18 months after their issuance and nine months after the effective date of a Resale Registration Statement. The number of shares of the Company's common stock into which each of the Warrants is exercisable and the exercise price therefore are subject to adjustment as set forth in the Warrants, including, without limitation, full ratchet anti-dilution protection in the event of certain dilutive issuances of the

Company's equity securities following the issuance date of the Warrants. The exercisability of the Warrants may be limited if, upon exercise, the holder or any of its affiliates would beneficially own more than 4.9% of the Company's common stock.

F-17

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger dated May 10, 2013, by and among Almah, Inc., Arch Acquisition Corporation, and Arch Therapeutics, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Company with the SEC on May 13, 2013)
3.1	Articles of Incorporation of Arch Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 filed by the Company with the SEC on January 5, 2012)
3.2	Certificate of Amendment to Articles of Incorporation of Arch Therapeutics, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed by the Company with the SEC on June 5, 2013)
3.3	Amended and Restated Bylaws of Arch Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Company with the SEC on June 24, 2013)
10.1	Binding Letter of Intent by and between Almah, Inc. and Arch Therapeutics, Inc. dated April 19, 2013 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company with the SEC on April 25, 2013)
10.2	Promissory Note by and between Almah, Inc. and Arch Therapeutics, Inc. dated April 19, 2013 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company with the SEC on April 25, 2013)
10.3	Financing Agreement by and between Almah, Inc. and Coldstream Summit Ltd. dated April 19, 2013 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Company with the SEC on April 25, 2013)
10.4	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by the Company with the SEC on April 25, 2013)
10.5	Form of Warrant (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by the Company with the SEC on April 25, 2013)
10.6	Amended and Restated Exclusive Patent License Agreement dated May 23, 2011 between ABS and the Massachusetts Institute of Technology, as amended by the First Amendment to Amended and Restated Exclusive Patent License Agreement dated May 15, 2012 between ABS and the Massachusetts Institute of Technology, and further amended by the Second Amendment to Amended and Restated Exclusive Patent License Agreement dated February 1, 2013 between ABS and the Massachusetts Institute of Technology, as further amended by the Third Amendment to Amended and Restated Exclusive Patent License Agreement dated April 30, 2013 between ABS and the Massachusetts Institute of Technology, and as further amended by the Letter Agreement dated June 10, 2013 between ABS and the Massachusetts Institute of Technology (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by the Company with the SEC on June 26, 2013)
10.7	# Termination Agreement and Release dated June 25, 2013, between ABS and Terrence W. Norchi (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed by the Company with the SEC on June 26, 2013)
10.8	# Executive Employment Agreement dated June 26, 2013 between Arch Therapeutics, Inc. and Terrence W. Norchi (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed by the Company with the SEC on June 26, 2013)
10.9	# Executive Employment Agreement dated June 26, 2013 between Arch Therapeutics, Inc. and Alan T. Barber (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed by the Company with the SEC on June 26, 2013)

Edgar Filing: Arch Therapeutics, Inc. - Form 10-K/A

- 10.10 # Executive Employment Agreement, effective July 8, 2013, by and between Arch Therapeutics, Inc. and William M. Cotter (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company with the SEC on July 8, 2013)
- 10.11 Amendment No. 1 to Agreement and Plan of Merger, dated May 23, 2013, by and among Almah, Inc., Arch Acquisition Corporation, and Arch Therapeutics, Inc. (incorporated by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q filed by the Company with the SEC on August 14, 2013)
- 10.12 # Arch Therapeutics, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company with the SEC on June 24, 2013)
- 10.13 # Form of Stock Option Award Agreement under Arch Therapeutics, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q filed by the Company with the SEC on August 14, 2013)
- 10.14 # Form of Restricted Stock Unit Award Agreement under Arch Therapeutics, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 to the Quarterly Report on Form 10-Q filed by the Company with the SEC on August 14, 2013)
- 10.15 # Form of Restricted Stock Bonus Award Agreement under Arch Therapeutics, Inc. 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to the Quarterly Report on Form 10-Q filed by the Company with the SEC on August 14, 2013)
- 10.16 Life Sciences Accelerator Funding Agreement dated September 30, 2013 between Arch Therapeutics, Inc. and the Massachusetts Life Sciences Center (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company with the SEC on October 4, 2013)
- 10.17 Form of Warrant to Purchase Shares of Common Stock dated September 30, 2013 issued by Arch Therapeutics, Inc. to the Massachusetts Life Sciences Center (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company with the SEC on October 4, 2013)
- 10.18 Sublease dated August 30, 2013 and effective October 1, 2013, between Arch Therapeutics, Inc. and Stream Global Services, Inc. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Company with the SEC on October 4, 2013)
- 21.1 List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Current Report on Form 8-K filed by the Company with the SEC on June 26, 2013)
- 23.1 * Consent of Independent Registered Public Accounting Firm.
- 24.1 ** Power of Attorney (included on the signature page hereto)
- 31.1 * Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities and Exchange Act of 1934
- 31.2 * Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities and Exchange Act of 1934
- 32.1 * Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Terrence W. Norchi, President and Chief Executive Officer, and Alan T. Barber, Chief Financial Officer
- 101.INS ^* XBRL Instant Document
- 101.SCH ^* XBRL Taxonomy Extension Schema Document
- 101.CAL ^* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF ^* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB ^* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE ^* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Previously filed.

Management contract or compensatory plan or arrangement.

^ In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.