PARKER HANNIFIN CORP
Form DEF 14A
September 24, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PARKER-HANNIFIN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

PARKER-HANNIFIN CORPORATION

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OCTOBER 24, 2018

TO OUR SHAREHOLDERS:

You are cordially invited to attend the Annual Meeting of Shareholders of Parker-Hannifin Corporation. The meeting will be held at our headquarters located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, on Wednesday, October 24, 2018, at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Kevin A. Lobo, Candy M. Obourn, Joseph Scaminace, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams as Directors for a term expiring at the Annual Meeting of Shareholders in 2019;

2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2019;

3. To approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers;

4. To approve an amendment to our Code of Regulations to permit proxy access;

5. To approve an amendment to our Code of Regulations to allow the Board to amend our Code of Regulations to the extent permitted by Ohio law; and

6. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on August 31, 2018, are entitled to vote at the meeting. Your vote is important, so if you do not expect to attend the meeting, or if you do plan to attend but wish to vote by proxy, please mark, date, sign and return the enclosed proxy card promptly in the envelope provided or vote electronically via the internet or by telephone in accordance with the instructions on the enclosed proxy card. Please refer to the section How to Attend the Annual Meeting of Shareholders and to the back page of this Proxy Statement for directions to attend the Annual Meeting.

Thank you for your support of Parker-Hannifin Corporation.

By Order of the Board of Directors
Joseph R. Leonti
Secretary

September 24, 2018

Important Notice Regarding the Availability of Proxy Materials for

the Annual Meeting of Shareholders to be held on October 24, 2018.

This Proxy Statement, along with our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, is available free of charge on our investor relations website (www.phstock.com).

Table of Contents

Table of Contents

Table of Contents

PARKER-HANNIFIN CORPORATION

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by our Board of Directors of proxies to be voted at the Annual Meeting of Shareholders scheduled to be held on October 24, 2018, and at all adjournments thereof. Only shareholders of record at the close of business on August 31, 2018, will be entitled to vote at the meeting. On August 31, 2018, 132,416,043 common shares were outstanding and entitled to vote at the meeting. Each share is entitled to one vote. This Proxy Statement and the form of proxy are being mailed to shareholders on or about September 24, 2018.

GOVERNANCE DOCUMENTS

Our Global Code of Business Conduct, our Corporate Governance Guidelines, and our Independence Standards for Directors are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000. The information contained on or accessible through our website is not a part of this Proxy Statement.

PROXY STATEMENT SUMMARY

This summary highlights information relating to items to be voted on at this Annual Meeting of Shareholders and compensation and corporate governance matters. Additional details are found in the discussions contained in this Proxy Statement.

General Information for 2018 Annual Meeting of Shareholders	
Time and Date	October 24, 2018 at 9:00 A.M. EDT
Place	Parker-Hannifin Corporation 6035 Parkland Boulevard Cleveland, Ohio 44124-4141
Record Date	August 31, 2018

Voting Matters and Recommendations

Voting Matter	*Board Recommendations*
Election of Directors	FOR ALL NOMINEES
Ratification of Deloitte & Touche LLP as Independent Auditor	FOR
Advisory Vote to Approve Executive Compensation	FOR
Amendment to Our Code of Regulations to Permit Proxy Access	FOR
Amendment to Our Code of Regulations to Allow the Board to Amend Our Code of Regulations to the Extent Permitted by Ohio Law	FOR

Table of Contents

We are pleased to provide the following key governance and compensation highlights for fiscal year 2018. We believe that these measures will better position us to continue to drive profitable growth and financial performance and otherwise compete and win as a leading worldwide diversified manufacturer of motion and control technologies and systems, utilizing key insights drawn from engagement with our shareholders and the results of our shareholders votes.

Our Board of Directors is committed to sound corporate governance, promoting the long-term interests of our shareholders and holding itself and management accountable for performance. The following table summarizes some of the key elements of our corporate governance framework.

Governance Highlights	
Annual election of all Directors	Separate Chairman of the Board and Independent Lead Director roles
Published Corporate Governance Guidelines	Published Global Code of Business Conduct applicable to our Board of Directors
Majority voting and resignation policy for uncontested Director elections	Board Committees are 100% comprised of independent Directors
Our Board of Directors includes two women	
Average age of our Director nominees is 61	Independent Directors meet regularly and frequently (at least four times per year) without management present
Director retirement is after reaching age 72	Robust stock ownership guidelines for Directors and executive officers
Each Committee of our Board of Directors has a published charter that is reviewed and discussed at least annually	All Directors and executive officers have met stock ownership guidelines
No shareholders rights plan	Annual Board and Committee evaluations
Each of our Director nominees attended 100% of the Board of Director meetings and 100% of his or her applicable Committee meetings during fiscal year 2018	Annual reviews of our Chief Executive Officer by all independent Directors
None of our Director nominees are overboarded four of our Director nominees do not sit on any other public company board of directors, four of our Director nominees sit on just one other public company board of directors and two of our Director nominees sit on two other public company boards of directors	70% of our Director nominees have a tenure of under 10 years. Director tenure of this year s Director nominees: 0-5 years: 40% 6-9 years: 30% ³10 years: 30%

Our Viewpoint on Social Responsibility is published annually, addressing our commitment to, and actions and oversight around, sustainability; governance, ethics and compliance; our people; the planet; and product stewardship.

Table of Contents

The table below highlights key aspects of our executive compensation program for fiscal year 2018. The table is not a substitute for, nor does it reflect, all of the information provided in our Compensation Discussion and Analysis and in the Compensation Tables presented later in this Proxy Statement.

Compensation Highlights	
Annual advisory vote on executive compensation with consistent high degree of approval	Anti-hedging and anti-pledging policy for Directors and executive officers
Claw-back policy to recover or withhold incentive-based compensation paid to executive officers	Executive compensation program with pay-for-performance structure aligned with The Win Strategy™
Chief Executive Officer s target compensation package is a mix of 10% fixed and 90% at risk	One-year minimum vesting requirement for restricted stock awards, restricted stock unit awards, unrestricted stock awards, grants of stock options, and stock appreciation rights, under our 2016 Omnibus Stock Incentive Plan
Average target compensation mix for Named Executive Officers other than our Chief Executive Officer is a mix of 21% fixed and 79% at risk	

Table of Contents

ITEM 1 ELECTION OF DIRECTORS

Shareholder approval is sought to elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Kevin A. Lobo, Candy M. Obourn, Joseph Scaminace, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams for a term that will expire at the Annual Meeting of Shareholders in 2019. Each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

Our Board of Directors has concluded that the nominees presented in this Item 1 Election of Directors collectively represent a highly-qualified and diverse group of individuals who will effectively serve the long-term interests of our business, our employees and our shareholders. Our Board of Directors believes that each nominee should serve on our Board of Directors for the coming year based on his or her record of effective past service on our Board of Directors and the specific experiences, qualifications, attributes and skills described in his or her biographical information presented in this Item 1 Election of Directors section.

Should any nominee become unable to accept nomination or election, the proxies will be voted for the election of another person as our Board of Directors may recommend. However, our Board of Directors has no reason to believe that this circumstance will occur.

NOMINEES FOR ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2019

LEE C. BANKS

Director since 2015

Age: 55

Committees: None

Mr. Banks has been our President and Chief Operating Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Banks is also a Director of Nordson Corporation.

Our Board of Directors believes that Mr. Banks will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as President and Chief Operating Officer and Executive Vice President and Operating Officer and in various operational leadership positions during his over 25-year career with us;

intimate, working knowledge of our day-to-day business, plans, strategies and initiatives;

present service on another public company board;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

Table of Contents

ROBERT G. BOHN

Director since 2010

Age: 65

Committees: Audit Committee

Human Resources and Compensation Committee

Now retired, Mr. Bohn was Chairman of the Board of Oshkosh Corporation (specialty vehicles and vehicle bodies manufacturing) from January 2000 to February 2011. Mr. Bohn is also a Director of Carlisle Companies, Inc. and The Manitowoc Company, Inc.

Our Board of Directors believes that Mr. Bohn will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of Oshkosh Corporation, a successful global industrial company of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Director since 2007

LINDA S. HARTY

Age: 58

Committees: Audit Committee (Chair)

Now retired, Ms. Harty was Treasurer of Medtronic plc (medical technology) from February 2010 to April 2017. Ms. Harty is also a Director of Wabtec Corporation and Lead Director of Syneos Health, Inc. (formerly INC Research Holdings, Inc.).

Our Board of Directors believes that Ms. Harty will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior finance and accounting leadership positions at Medtronic plc and other successful global companies of significant size;

present service on other public company boards;

qualification as an audit committee financial expert as defined in the federal securities laws;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Table of Contents

KEVIN A. LOBO

Director since 2013

Age: 53

Committees: Audit Committee

Mr. Lobo has been Chairman of the Board of Stryker Corporation (medical technology) since July 2014 and has been Chief Executive Officer, President and a Director since October 2012.

Our Board of Directors believes that Mr. Lobo will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior leadership positions at Stryker Corporation and other successful global companies of significant size;

present service on another public company board;

qualification as an audit committee financial expert as defined in the federal securities laws;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

CANDY M. OBOURN

Director since 2002

Age: 68

Committees: Human Resources and Compensation Committee (Chair)

Corporate Governance and Nominating Committee

Ms. Obourn has been Chairman of Isoflux Incorporated (coating technologies) since April 2012.

Our Board of Directors believes that Ms. Obourn will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

service as Chief Executive Officer and President of a coating technologies company, Chief Executive Officer and President of a health care products company and in senior leadership positions at other global companies of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Table of Contents

JOSEPH SCAMINACE

Director since 2004

Age: 65

Committees: Corporate Governance and Nominating Committee

Human Resources and Compensation Committee

Mr. Scaminace was a Director and Chief Executive Officer of OM Group, Inc. (metal-based specialty chemicals) from June 2005 to October 2015 and Chairman of the Board of OM Group from August 2005 to October 2015. Mr. Scaminace is also a Director of Cintas Corporation and The Cleveland Clinic Foundation.

Our Board of Directors believes that Mr. Scaminace will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of OM Group, Inc., and prior leadership positions at other global industrial companies of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

ÅKE SVENSSON

Director since 2010

Age: 66

Committees: Audit Committee

Mr. Svensson has been Chairman of the Association of Swedish Engineering Industries, and Board Member of the Confederation of Swedish Enterprise since May 2018. He was previously Chairman of Swedavia AB (transport infrastructure) from April 2016 to May 2018, and Director General of Swedish Engineering Industries from September 2010 to August 2016. Mr. Svensson serves on the Board of Business Sweden (export support organization), and was formerly a Director of Saab AB.

Our Board of Directors believes that Mr. Svensson will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and President of Saab AB, a successful European aerospace, defense and security company of significant size;

extensive knowledge of European aerospace, defense and security businesses and related issues and trends;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Table of Contents

JAMES R. VERRIER

Director since 2016

Age: 55

Committees: Audit Committee

Human Resources and Compensation Committee

Mr. Verrier has served as a Board Advisor to Borg Warner, Inc. (powertrain solutions) since August 1, 2018. He was previously Chief Executive Officer and Director of BorgWarner, Inc. from January 2013 until July 31, 2018, and President of BorgWarner from March 2012 until July 31, 2018.

Our Board of Directors believes that Mr. Verrier will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

service as Director, Chief Executive Officer and President of BorgWarner, Inc., a successful global automotive industry components and parts supplier of significant size, and a public company;

prior service on another public company board;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

JAMES L. WAINSCOTT

Director since 2009

Age: 61

Committees: Corporate Governance and Nominating Committee

(Chair and Lead Director)

Human Resources and Compensation Committee

Now retired, Mr. Wainscott was Chairman of the Board of AK Steel Holding Corporation (steel producer) from January 2006 to May 2016; and President, Chief Executive Officer and a Director of AK Steel Holding from October 2003 to January 2016.

Our Board of Directors believes that Mr. Wainscott will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as President, Chief Executive Officer and Chairman of the Board of AK Steel Holding Corporation, a successful global industrial company of significant size;

prior service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to effectively serve as our Lead Director and to otherwise work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Table of Contents

THOMAS L. WILLIAMS

Director since 2015

Age: 59

Committees: None

Mr. Williams has been our Chairman of the Board since January 2016; and our Chief Executive Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Williams is also a Director of Chart Industries, Inc.

Our Board of Directors believes that Mr. Williams will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Executive Vice President and Operating Officer and in various operational leadership positions during his 14-year career with us;

intimate, working knowledge of our day-to-day business, plans, strategies and initiatives;

present service on another public company board;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

Annual Elections; Majority Voting; No Cumulative Voting.

Our Code of Regulations provides for the annual election of our entire Board of Directors. Accordingly, each Director elected at this Annual Meeting of Shareholders will hold office until the next Annual Meeting of Shareholders and until his or her successor is elected.

Our Articles of Incorporation provide for a majority voting standard in the annual election of our Directors. Accordingly, at each Annual Meeting of Shareholders, each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate, unless the number of candidates exceeds the number of Directors to be elected. Shareholders are not able to cumulate votes in the election of Directors. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

New Elections and Retirements.

None in fiscal year 2018.

RECOMMENDATION REGARDING PROPOSAL 1:

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR

EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

Table of Contents

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

MEETINGS AND ATTENDANCE; EXECUTIVE SESSIONS.

During fiscal year 2018, there were seven meetings of our Board of Directors. Each Director attended at least 75% of the meetings held by our Board of Directors and the Committees of our Board of Directors on which he or she served.

We hold a regularly scheduled meeting of our Board of Directors in conjunction with our Annual Meeting of Shareholders. Directors are expected to attend the Annual Meeting of Shareholders absent an appropriate reason. All of the members of our Board of Directors at the time of our 2017 Annual Meeting of Shareholders attended that meeting.

In accordance with the listing standards of the New York Stock Exchange, our non-management Directors are scheduled to meet regularly in executive sessions without management and, if required, our independent Directors will meet at least once annually. Additional meetings of our non-management Directors may be scheduled from time to time when our non-management Directors determine that such meetings are desirable. Our non-management Directors met four times during fiscal year 2018.

NUMBER; CURRENT TERM; RELATIONSHIPS.

Our Board of Directors presently consists of 13 members. The current term of each member of our Board of Directors expires at our 2018 Annual Meeting of Shareholders. Assuming the election of all of the Director nominees, we expect our Board of Directors to consist of 10 members after the 2018 Annual Meeting of Shareholders. None of our Directors are related to each other and no arrangements or understandings exist pursuant to which any Director was selected as a Director or Director nominee.

DIRECTOR INDEPENDENCE.

Our Corporate Governance Guidelines require at least a majority of our Directors to be independent as defined in the listing standards established by the New York Stock Exchange. Our Board of Directors has also adopted standards for director independence, which are set forth in our Independence Standards for Directors.

We strongly favor a governance structure that includes an independent Board of Directors. Of the 13 current members of our Board of Directors, 11 are independent based on our Board of Directors consideration of the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. In addition, in fiscal year 2018, each of the Audit Committee, the Corporate Governance and Nominating Committee, the Finance Committee and the Human Resources and Compensation Committee of our Board of Directors was composed entirely of independent directors. As a result, our independent Directors directly oversee critical matters such as our executive compensation program for executive officers, our corporate governance guidelines, policies and practices, our corporate finance strategies and initiatives, the integrity of our financial statements and our internal controls over financial reporting.

Our Board of Directors has affirmatively determined that the following 11 individuals who currently serve as Directors are independent: Robert G. Bohn, Linda S. Harty, Robert J. Kohlhepp, Kevin A. Lobo, Klaus-Peter Müller, Candy M. Obourn, Joseph Scaminace, Wolfgang R. Schmitt, Åke Svensson, James R. Verrier and James L. Wainscott.

Among other things, our Board of Directors does not consider a Director to be independent unless it affirmatively determines that the Director has no material relationship with us either directly or as a partner, shareholder or officer of an organization that has a relationship with us. Our Board of Directors annually reviews and determines which of its members are independent based on the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. During the course of such review, our Board of Directors broadly considers all facts and circumstances which it deems relevant, including any commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships between us and any of our Directors. In fiscal year 2018, after considering the facts and circumstances applicable to each Director, our Board of Directors determined that the following relationships required further analysis to confirm that the following Directors were independent:

1. Each of Ms. Harty and Messrs. Lobo and Verrier served as an employee, officer and/or director of a company that has an existing customer or supplier relationship with us. Our Board of Directors further analyzed these relationships and found that none of these Directors receive any direct or indirect personal benefits as a result of these relationships, and that the amounts paid to or by us under such relationships fell significantly below the thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. Based on such further analyses, our Board of Directors affirmatively concluded that each of these Directors is independent.

2. Mr. Müller served as Chairman of the Supervisory Board of Commerzbank AG, with which we have a commercial banking relationship. Our Board of Directors further analyzed this relationship and found that Mr. Müller does not receive any direct or indirect personal benefits as a result of such relationship, and that the amount of our indebtedness to Commerzbank AG is insignificant when compared to the purchase and sale thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. We also do not have an exclusive banking relationship with Commerzbank AG in Germany or elsewhere. Based on such further analysis, our Board of Directors affirmatively concluded that Mr. Müller is independent.

CURRENT LEADERSHIP STRUCTURE.

Our Board of Directors currently employs a dual leadership structure. We have a Lead Director who is also the Chair of the Corporate Governance and Nominating Committee, and a Chairman of the Board, who is our Chief Executive Officer. Our Lead Director is elected solely by the independent members of our Board of Directors and holds a position separate and independent from our Chairman of the Board. Our Corporate Governance Guidelines provide that the Chair of the Corporate Governance and Nominating Committee is elected every five years.

The specific authorities, duties and responsibilities of our Lead Director are described in our Corporate Governance Guidelines. Among other things, our Lead Director presides over and supervises the conduct of all meetings of our independent Directors, calls meetings of our non-management, independent Directors, and prepares and approves all agendas and schedules for meetings of our Board of Directors.

Our Board of Directors believes that having a Lead Director who is elected by our independent Directors ensures that our Board of Directors will at all times have an independent Director in a leadership position. At the same time, our Board of Directors believes that it is important to maintain flexibility in its leadership structure to allow for a member of management to serve in a leadership position alongside the Lead Director if our Board of Directors determines that such a leadership structure best meets the then current needs of our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors has determined that this leadership structure is currently more efficient and effective than a structure which employs a single, independent Chairman of the Board. Our Board of Directors views this structure as one that ensures both independence in leadership and a balance of knowledge, power and authority. For example, our leadership structure employs both a Chairman of the Board who possesses an intimate, working knowledge of our day-to-day business, plans, strategies and initiatives, and a Lead Director who has a strong working relationship with our non-management, independent Directors. These two individuals combine and utilize their unique knowledge and perspectives to ensure that management and our independent Directors work together as effectively as possible. Among other things, our Chairman of the Board ensures that our Board of Directors addresses strategic issues that management considers critical, while our Lead Director ensures that our Board of Directors addresses strategic issues that our independent Directors consider critical.

Table of Contents

Our Board of Directors recognizes, however, that no single leadership model may always be appropriate. Accordingly, our Board of Directors regularly reviews its leadership structure to ensure that it continues to represent the most efficient and effective structure for our Board of Directors, our business, our employees and our shareholders.

Selection and Nomination Of Directors.

The Corporate Governance and Nominating Committee of our Board of Directors is responsible for identifying, evaluating and recommending potential Director candidates. The Corporate Governance and Nominating Committee utilizes a variety of methods for identifying and evaluating candidates. The Corporate Governance and Nominating Committee regularly reviews whether the size of our Board of Directors is appropriate and whether any vacancies on our Board of Directors are expected due to retirements or otherwise. In the event that any vacancies are anticipated or otherwise arise, the Corporate Governance and Nominating Committee will consider various potential candidates.

In evaluating proposed Director nominees, the Corporate Governance and Nominating Committee considers a variety of factors such as those described below under the caption Director Qualifications; Board Diversity. The Corporate Governance and Nominating Committee considers the entirety of each proposed candidate s credentials and all available information that may be relevant to the candidate s nomination. Following such consideration, the Corporate Governance and Nominating Committee may seek additional information regarding, and may request interviews with, any candidate it wishes to further pursue. Based upon all information reviewed and interviews conducted, the Corporate Governance and Nominating Committee collectively determines whether to recommend the candidate to our entire Board of Directors.

During fiscal year 2018, the Corporate Governance and Nominating Committee retained a third-party search firm to assist in identifying, evaluating and recommending potential Director candidates. Candidates may also be recommended by other third-party search firms and current members of our Board of Directors. In addition, the Corporate Governance and Nominating Committee will give appropriate consideration to qualified persons recommended by shareholders for nomination as Directors, provided that such recommendations comply with the procedures set forth under the caption Shareholder Recommendations for Director Nominees on page 81 of this Proxy Statement. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders on the same basis as candidates from other sources. The Corporate Governance and Nominating Committee generally will not, however, consider recommendations for Director nominees submitted by individuals who are not affiliated with us.

Director Qualifications; Board Diversity.

We believe that oversight from a highly-qualified and diverse Board of Directors is essential for the short-term and long-term success of our business. The size and scope of our global operations, markets, product offerings and employee base raise a wide range of issues. Consequently, we strive to attract and retain Directors who represent a broad range of backgrounds, educations, experiences, skills and viewpoints that will enable them to individually and collectively address the issues affecting our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors, through its Corporate Governance and Nominating Committee, diligently evaluates each Director and Director nominee and our Board of Directors as a whole to ensure that our Board of Directors has a complementary mix of qualified and diverse individuals designed to optimize the functioning and the decision-making and oversight roles of our Board of Directors and its Committees. Our Board of Directors does not have any formal policies with respect to Director qualifications or diversity. As a general matter, however, the Corporate Governance and Nominating Committee considers a broad range of factors such as judgment, skill, integrity, independence, possible conflicts of interest, experience with businesses and other organizations of comparable size or character, the interplay of the candidate s experience and approach to addressing business issues with the experience and approach of incumbent members of our Board of Directors and other new Director

Table of Contents

candidates, and the candidate s ability to effectively monitor and oversee the risks facing our business. More specifically, our Board of Directors seeks to identify nominees who have one or more of the following attributes:

- current or recent service as a Chief Executive Officer or in other senior executive positions at publicly-traded companies;
- significant experience in corporate strategy, manufacturing, sales and marketing, industrial and/or aerospace industries, international business, finance and accounting, technology and digital applications, and other key areas;
- ability to effectively monitor and oversee the most critical current risks facing our business;
- independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors; and/or
- other relevant skills, experiences and characteristics.

Our Corporate Governance Guidelines and our Global Code of Business Conduct also require each of our Directors to act with the commitment, integrity, honesty, judgment and professionalism necessary to serve the long-term interests of our Board of Directors, our business, our employees and our shareholders.

Risk Management.

Management and our Board of Directors and its Committees are collectively engaged in identifying, overseeing, evaluating and managing the material risks facing our business and ensuring that our strategies and objectives work to minimize such risks. Our Board of Directors has the ultimate responsibility to monitor the risks facing our business. Among other things, our Board of Directors reviews and discusses in detail, at least annually, our corporate strategy and annual operating plan, which cover significant strategic topics such as our key markets, operational priorities under The Win Strategy , strategic positioning, financial and operational outlooks, capital allocation, balance sheet strength, debt portfolio and positions, share repurchase activity, and dividend history and strategies.

Various members of our management are responsible for our day-to-day risk management activities, including members of our Human Resources, Internal Audit and Compliance, Legal, Tax, Risk Management, Treasury, Finance, and IT departments, and our internal Cyber Security Committee. Those individuals are charged with identifying, overseeing, evaluating and managing risks in their areas of responsibility and for ensuring that any significant risks are addressed with our Board of Directors or in the appropriate Committee of the Board. The Committees of our Board of Directors are each responsible for the various areas of risk oversight as described in the Committees of the Board of Directors section of this Proxy Statement. Management and the Chair of the applicable Committee ensure that any significant risks are reported to and addressed with the entire Board of Directors. Our Lead Director and the other Committee Chairs ensure that risk management is a recurring agenda item for meetings of our Board of Directors and its Committees.

Management and our Board of Directors and its Committees also engage outside advisors where appropriate to assist in the identification, oversight, evaluation and management of the risks facing our business. These outside advisors include our independent registered public accounting firm, external legal counsel and insurance providers, and the independent executive and non-employee Director compensation consultant retained by the Human Resources and Compensation Committee of our Board of Directors.

Our Board of Directors believes that its current level of independence, leadership structure and qualifications and diversity of its members facilitate the effective identification, oversight, evaluation and management of risk. Our Lead Director meets regularly with our other independent Directors without management to discuss current and potential risks and the means of mitigating those risks, and has the authority to direct and evaluate our risk management efforts.

Table of Contents

Management and our Board of Directors and its Committees view the risk management role of our Board of Directors and its Committees, and their relationship with management in the identification, oversight, evaluation and management of risk, as paramount to the short-term viability and long-term sustainability of our business. The ability to effectively monitor and oversee the most critical current risks facing our business is a key consideration for our Board of Directors and its Committees in identifying potential Director nominees and evaluating current Directors and Committee assignments.

COMMITTEES OF OUR BOARD OF DIRECTORS

BOARD COMMITTEES; COMMITTEE CHARTERS.

Our Board of Directors has established and delegated certain authorities and responsibilities to three committees: Human Resources and Compensation Committee, Corporate Governance and Nominating Committee, and Audit Committee. Our Board of Directors has adopted a written charter for each of these Committees, which charters are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these charters, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

During fiscal year 2018, our Board also maintained a separate Finance Committee, the members of which were Kevin A. Lobo (committee chair), Linda S. Harty, Robert J. Kohlhepp, Klaus-Peter Müller, and Åke Svensson. The Finance Committee met two times during fiscal year 2018. Effective July 1, 2018, our Board of Directors elected to eliminate the Finance Committee and reallocate its responsibilities among the Board of Directors and the Audit Committee.

All members of each Committee are independent under the listing standards of the New York Stock Exchange as well as our Independence Standards for Directors. Each Committee provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

Information about the respective Committee purposes, memberships and number of meetings are reflected in the following chart:

Standing Committee	Purpose	Members in FY2018	Meetings in FY2018
Human Resources & Compensation Committee	Oversight of our processes, plans and programs for compensation of executive officers and non-employee Directors, succession planning for executive officers, employee benefit, equity and incentive compensation plans, and other related matters.	C. Obourn* R. Bohn R. Kohlhepp J. Scaminace	5

		J. Verrier J. Wainscott	
Corporate Governance & Nominating Committee	Oversight of our corporate governance and other related matters.	J. Wainscott* K.P. Müller C. Obourn J. Scaminace W. Schmitt	3
Audit Committee	Oversight of our audit, compliance, and other related matters, including integrity of financial statements and financial reporting, accounting practices, legal and regulatory compliance, internal audit functions and processes, and independence, qualifications, and performance of the independent auditor.	L. Harty* (ACFE) R. Bohn K. Lobo (ACFE) W. Schmitt Å. Svensson J. Verrier	5

* Committee Chair

Table of Contents

Our Board of Directors has determined that each of Linda S. Harty, the Chair of the Audit Committee, and Kevin A. Lobo, a member of the Audit Committee, is an audit committee financial expert (designated in the above chart as ACFE) as defined in the federal securities laws.

Each of our Committees works with the applicable members of our Human Resources, Internal Audit and Compliance, Legal, Tax, Risk Management, Treasury, Finance, and IT departments and other management personnel to oversee and evaluate risks or concerns to each Committee.

The Human Resources and Compensation Committee.

As described on page 23 of this Proxy Statement, the Human Resources and Compensation Committee has duties and responsibilities with respect to the administration, oversight and determination of our executive compensation program. In addition, the Human Resources and Compensation Committee works with its independent executive compensation consultant and our Human Resources, Legal and other management personnel to oversee and evaluate risks arising from and relating to: our compensation policies and practices for all employees; our succession planning and talent development strategies and initiatives; and other human resources issues facing our business.

In particular, the Human Resources and Compensation Committee monitors any significant existing or potential risks arising from our compensation policies and practices for all employees through its oversight of an annual compensation risk review conducted by management and the Human Resources and Compensation Committee s independent executive compensation consultant. The results of this review are evaluated and discussed among management, the Human Resources and Compensation Committee and its independent executive compensation consultant and, if any significant risks are identified, the full Board of Directors. Based on the review conducted during fiscal year 2018, we do not believe that any risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on our business.

The annual compensation risk review begins with a global assessment of any plans or programs that could potentially encourage excessive risk-taking or otherwise present significant risks to our business. The review also surveys our individual business units to determine whether any of them carries a significant portion of our risk profile, structures compensation significantly different than others or is significantly more profitable than others. The review then evaluates whether the applicable plans and programs are likely to encourage excessive risk-taking or detrimental behavior, vary significantly from our risk-reward structure, or otherwise present significant risks to our business.

During our fiscal year 2018 compensation risk review, we also identified and evaluated various mechanisms that we currently have in place that may serve to mitigate any existing or potential risks arising from our compensation policies and practices, including the following:

- our executive officers and other management-level employees are compensated with a mix of annual and long-term incentives, fixed and at-risk compensation, cash and equity compensation, and multiple forms of equity compensation;

- compensation packages gradually become more focused on long-term, at-risk and equity compensation as our employees ascend to and through management-level positions;

our global compensation plans and programs generally utilize the same or substantially similar performance measures;

we use multiple performance measures to determine payout levels under certain elements of incentive compensation and different performance measures for our annual incentives as compared to our long-term incentives;

the performance of our employees is not evaluated or measured based solely on changes in our stock price;

- our incentive compensation programs generally limit payouts to a specified maximum, while those that do not are mitigated by other factors (e.g., stock appreciation rights are mitigated by long-term vesting periods and stock ownership guidelines);

- we do not offer guaranteed bonuses and all of our incentive compensation elements carry downside risk for participants;

- our executive officers are subject to specific stock ownership guidelines, a claw-back policy and provisions requiring forfeiture of certain elements of incentive compensation upon termination for cause;

- our compensation packages, including severance packages and supplemental pensions, are within market ranges;

- the Human Resources and Compensation Committee has the discretion to assess the quality of our results in our various performance measures and the risks taken to attain those results in approving final incentive payouts;

- our de-centralized organizational structure lessens the impact of any excessive risks taken by individual business units or operating groups; and

- our employees are evaluated, measured and assessed based on their compliance with our Global Code of Business Conduct and other internal policies and controls, and the extent to which they act in the best interests of our business and our shareholders.

During the annual compensation risk review, we also consider whether any changes to our compensation plans and programs may be necessary to further mitigate risk. The Human Resources and Compensation Committee did not make any such changes based on the results of our fiscal year 2018 review.

The Corporate Governance and Nominating Committee.

Among other things, the Corporate Governance and Nominating Committee is responsible for evaluating and recommending to our Board of Directors qualified nominees for election as Directors and qualified Directors for Committee membership, establishing evaluation procedures for the performance of our Board of Directors and its Committees, developing corporate governance guidelines and independence standards, and considering other matters pertaining to our corporate governance. In addition, the Corporate Governance and Nominating Committee works with our Legal and other management personnel to oversee and evaluate risks arising from:

- Director independence, qualifications and diversity issues;

- Board of Directors and Committee leadership, composition, function and effectiveness;

alignment of the interests of our shareholders with the performance of our Board of Directors;

compliance with applicable corporate governance rules and standards; and

other corporate governance issues and trends.

THE AUDIT COMMITTEE.

The Audit Committee of our Board of Directors is our standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Each Director who is a member of our Audit Committee is independent, as defined in our Independence Standards for Directors and in compliance with the independence standards applicable to audit committee members under the New York Stock Exchange listing standards and under the federal securities laws.

Table of Contents

Among other things, the Audit Committee is responsible for appointing, compensating, retaining, and overseeing our independent registered public accounting firm and evaluating its independence, approving all audit and non-audit engagements with our independent registered public accounting firm, and reviewing our annual and quarterly financial statements, internal and independent audit plans, the results of such audits and the adequacy of our internal control structure.

In addition, the Audit Committee works with our Internal Audit and Compliance, Legal, Tax, Treasury and Finance departments and other management personnel to oversee and evaluate risks, including major financial, tax, strategic, and operational risk exposures and risks related to compliance with legal and regulatory requirements, and significant litigation and claims.

The Audit Committee also meets privately at each of its meetings with representatives from our independent registered public accounting firm and our Vice President Internal Audit and Compliance.

Table of Contents

OTHER GOVERNANCE MATTERS

Review and Approval of Transactions with Related Persons.

The Charter of the Corporate Governance and Nominating Committee provides that the Corporate Governance and Nominating Committee is responsible for considering questions of possible conflicts of interest of Directors and executive officers and for making recommendations to prevent, minimize or eliminate such conflicts of interest. Our Global Code of Business Conduct provides that our Directors, officers, employees and their spouses and other close family members must avoid interests or activities that create any actual or potential conflict of interest. These restrictions cover, among other things, interests or activities that result in receipt of improper personal benefits by any person as a result of his or her position as our Director, officer, employee or as a spouse or other close family member of any of our Directors, officers or employees. Our Global Code of Business Conduct also requires our Directors, officers and employees to promptly disclose any potential conflicts of interest to our Corporate Compliance Office. We also require that each of our executive officers and Directors complete a detailed annual questionnaire that requires, among other things, disclosure of any transactions with a related person meeting the minimum threshold for disclosure under the relevant Securities and Exchange Commission, or SEC, rules. All responses to the annual questionnaires are reviewed and analyzed by our legal counsel and, as necessary or appropriate, presented to the Corporate Governance and Nominating Committee for analysis, consideration and, if appropriate, approval.

The Corporate Governance and Nominating Committee will consider the following in determining if any transaction presented should be approved, ratified or rejected:

- the nature of the related person s interest in the transaction;
- the material terms of the transaction;
- the importance of the transaction to the related person and to us;
- whether the transaction would impair the judgment or the exercise of the fiduciary obligations of any Director or executive officer;
- the possible alternatives to entering into the transaction;
- whether the transaction is on terms comparable to those available to third parties; and
- the potential for an actual or apparent conflict of interest.

During fiscal year 2018, we reviewed the annual questionnaires and determined that no potential related-party transactions exist. This review included a detailed evaluation of the transactions reviewed and analyzed by our Board of Directors in determining Director independence as described in the Director Independence section beginning on page 10. Based on management s review and analysis, no potential related-party transactions were presented to the

Corporate Governance and Nominating Committee for analysis, consideration or approval.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, Directors and beneficial owners of more than 10% of our Common Shares to file initial stock ownership reports and reports of changes in ownership with the SEC. SEC regulations require that we are furnished with copies of these reports. Based solely on a review of these reports and written representations from our executive officers and Directors, we believe that there was compliance with all such filing requirements for fiscal year 2018, except that (i) Yoon Michael Chung, former Vice President E-Business, IoT & Services, inadvertently filed one late Form 4, to report the sale of 3,950 common shares owned outright, during fiscal year 2018, and (ii) Lee C. Banks, President and Chief Operating Officer, inadvertently filed one late Form 4, to report the disposition of 16,171 shares which were withheld to satisfy tax obligations.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary Fiscal Year 2018.

Objectives and Philosophies of the Executive Compensation Program.

Refreshed in 2015, The Win Strategy™ has been the foundation of our business and has represented the unified vision of our employees worldwide since it was first introduced in 2001. The Win Strategy™ defines the key goals, operational priorities and metrics used to profitably grow our business. We are confident that a worldwide focus on The Win Strategy™ will maximize the long-term value of our shareholders investments by helping us to realize top-quartile performance among our competitors and peers and steady appreciation of our stock price.

The Win Strategy™ also provides the means by which we can measure and reward success. In fact, the objective of our executive compensation program is to encourage and reward performance that implements the strategies and advances the goals of The Win Strategy™. The program is designed to:

- align the financial interests of our executive officers and our shareholders by encouraging and rewarding our executive officers for performance that achieves or exceeds significant financial and operational performance goals and by holding them accountable for results;

- encourage and reward our executive officers for experience, expertise, level of responsibility, continuity of leadership, leadership qualities, advancement, individual accomplishment and other significant contributions to the enhancement of shareholder value and to the success of our business;

- attract, retain and motivate highly-talented and ethical individuals at all levels who are focused on the long-term success of our business and who are equipped, motivated and poised to lead and manage our business presently and in the future;

- offer compensation that keeps us competitive with companies that compete with us for talented employees and shareholder investment;

- promote accountability by providing executive officers an optimal mix of cash and equity compensation, allocating a greater proportion of the compensation for executive officers, as compared to other employees, to elements that are dependent on the performance of our business; and

- maintain a level of flexibility sufficient to adjust for trends and changes in the continuously evolving global business and regulatory environment.

Categories and Elements of Executive Compensation.

Our executive compensation program covers all compensation paid to our executive officers. Our executive officers include, among others, our Chief Executive Officer, our Chief Financial Officer and the three other most highly compensated executive officers identified in the Summary Compensation Table for Fiscal Year 2018 on page 48, which we refer to as the Named Executive Officers.

Table of Contents

Our executive compensation program offers the categories and elements of compensation identified in the following table. Each element of compensation is more specifically defined and described in the Elements of Executive Compensation section of this Compensation Discussion and Analysis beginning on the page indicated in the table.

Category of Compensation	Element(s) of Compensation	Defined/Described Beginning on:
Base Salaries	Base Salaries	Page 30
Annual Cash Incentive Compensation	Target Incentive Bonuses	Page 31
	General RONA Bonuses	Page 33
	Converted RONA Bonuses	Page 33
	PGI Plan	Page 35
Long-Term Incentive Compensation	LTIP Awards	Page 36
	Stock Incentives	Page 38
Employee Benefits	Various	Page 39
Executive Perquisites	Various	Page 45

Pay-for-Performance Structure, Key Financial Metrics and Impact on Compensation Payouts.

Our executive compensation program is structured to ensure that a significant portion of the compensation for executive officers is dependent upon the performance of our business. This pay-for-performance structure drives the program to achieve its objective to encourage and reward performance that implements the strategies and advances the goals of The Win Strategy™. Our program is also structured to ensure that the compensation for our executive officers is not overly weighted toward annual cash incentive compensation and does not otherwise have the potential to threaten long-term shareholder value by promoting unnecessary or excessive risk-taking by our executive officers. The Allocation of Executive Compensation section beginning on page 26 describes our policies and practices for allocating executive compensation among the various categories and elements.

To illustrate, the chart below shows the mix of fixed and at-risk annual and long-term and cash and equity compensation represented by base salaries and the elements of annual cash incentive compensation and long-term incentive compensation for the Named Executive Officers. The percentages of total compensation reflected in this chart were calculated using each Named Executive Officer s fiscal year 2018 base salary, target annual cash incentive compensation and target long-term incentive compensation.

Table of Contents

Emphasis on Sustained Performance

The Elements of Executive Compensation section beginning on page 30 provides detailed discussion and analysis as to how each element of compensation encourages and rewards performance that implements the strategies and advances the goals of The Win Strategy™. Our compensation structure includes both fixed and at-risk compensation as noted above, the various cash and equity elements of which may be depicted generally as follows:

* General RONA and Converted RONA

We provide base salaries, employee benefits and executive perquisites primarily to ensure that our executive compensation program remains competitive to attract, retain and motivate the individuals needed to implement and advance our strategies and goals. In addition, as illustrated in the following table, we provide each element of annual cash incentive compensation and each element of long-term incentive compensation primarily to encourage and reward performance that implements and advances The Win Strategy , in particular our

Table of Contents

strategies and goals relating to financial performance and profitable growth, aligning such elements with our performance in certain key financial metrics that we use to measure the overall performance of our business.

The following table shows the behaviors, key financial metrics and fiscal year 2018 results driven by each element of at-risk compensation provided to the Named Executive Officers.

Element of Compensation	Encourages executive officers to maximize...	By focusing on various key business strategies, such as...	Fiscal year 2018 results...
RONA Bonuses (General and Converted)	return on net assets	strategic pricing and procurement, innovative products, system solutions and strong distribution	Our return on consolidated net assets was above target.
Target Incentive Bonuses	free cash flow	continuous improvement in net income, lean initiatives, inventory controls, collection of receivables, control of payables and capital expenditures, and the ability to finance dividends, acquisitions and product innovations	Our operating cash flows were $1.6 billion or 11.2% of sales, resulting in a free cash flow margin of 9.46%.*
Profitable Growth Incentive Plan**	sales growth (organic and through acquisitions)	profitable and sustainable sales growth	The Profitable Growth Incentive Plan multiplier was applied to Mr. Malone s General RONA Bonus with the effect of increasing his General RONA Bonus payout by approximately

			30%.
LTIP Awards	long-term revenue growth, earnings per share growth, and growth in average return on invested capital	product innovation, on-time delivery of quality products, value-added services and systems, strategic procurement of goods and services, lean operations, strategic pricing and profitable growth	Our results for average return on invested capital and revenue growth were between the median and top quartile performance levels, and results for EPS growth were at top quartile, resulting in a payout at 175% of target.
Stock Incentives	our stock price	sustained profitable growth and financial and operational performance that contribute to appreciation of our stock price	Our average daily closing per share stock price was $177.39 in fiscal year 2018, as compared to $139.35 in fiscal year 2017.

* Free cash flow margin is calculated as disclosed on page 32.

** Officer participation on our Profitable Growth Incentive Plan is limited to our operating group presidents; as such, Mr. Malone (Vice President and President Filtration Group) is the only Named Executive Officer who was subject to the Profitable Growth Incentive Plan in fiscal year 2018.

Highlights and Significant Changes to Executive Compensation Program during Fiscal Year 2018.

We continue to maintain several long-standing compensation practices that we believe contribute to good corporate governance, including our claw-back policy described on page 29, our stock ownership guidelines described on page 30, our hedging, pledging and other stock ownership restrictions described on page 30, and our annual compensation risk review described beginning on page 15. In fiscal year 2018, after review and consideration of peer data and our annual plan for free cash flow margin, the Human Resources and Compensation Committee approved updated free cash flow payout thresholds for our Target Incentive Bonuses of 5% for a 50% payout, 8% for a 100% payout, and 11% for a 200% payout, all as more fully described on page 32.

ADMINISTRATION, OVERSIGHT AND DETERMINATION OF EXECUTIVE COMPENSATION.

Human Resources and Compensation Committee.

The Human Resources and Compensation Committee, which we refer to in this Compensation Discussion and Analysis as the Committee, consists solely of independent directors and has various duties and responsibilities with respect to the administration, oversight and determination of executive compensation. As described in the Committee s Charter, which is posted and available on the Corporate Governance page of our investor relations website at www.phstock.com, these duties and responsibilities include:

- working with our management establishing our executive compensation program and philosophies and overseeing their development and implementation;

- reviewing and approving the performance and compensation of our Chief Executive Officer and our other executive officers; and

- performing other duties and responsibilities assigned by our Board of Directors.

The Committee also retains the discretion to authorize periodic compensation adjustments due to promotions or increases in the responsibilities of our executive officers.

In fulfilling its duties and responsibilities, the Committee seeks periodic input, advice and recommendations from various sources, including our Board of Directors, our executive officers and the Committee s independent executive compensation consultant. The Committee is not bound by that input or advice or those recommendations. The Committee at all times exercises independent discretion in its executive compensation decisions.

Board of Directors.

Our Board of Directors approves all incentive compensation plans and equity-based plans reviewed and recommended by the Committee and all other plans and programs which, by their terms, require approval of our Board of Directors. Our Board of Directors does not authorize or approve any other specific executive compensation matters. Our Board of Directors oversees the Committee s activities and performance, including the identification, evaluation and monitoring of risks arising from our compensation policies and practices, and reviews all material information relating to executive compensation matters approved by the Committee. This oversight ensures that the Committee fulfills its duties and responsibilities and that the executive compensation program is reasonable and appropriate, meets its objectives and effectively serves the interests of our business and our shareholders.

Executive Officers.

Our executive officers also play a role in the administration, oversight and determination of executive compensation. At the beginning of each fiscal year, each executive officer sets annual performance goals for his or her direct reports, which may include other executive officers. The performance goals are designed to promote

Table of Contents

individual performance consistent with the strategies and goals of The Win Strategy™. Throughout the fiscal year, each executive officer s performance is reviewed and evaluated against his or her performance goals. At the end of the fiscal year, each executive officer conducts a final performance review for each of his or her direct reports. Based on those reviews, our executive officers, other than our Chief Executive Officer, recommend any annual compensation adjustments and awards for their executive officer direct reports to our Chief Executive Officer.

Our Chief Executive Officer similarly reviews and evaluates his direct reports, which include each of the other Named Executive Officers except for Mr. Malone who is reviewed and evaluated by Mr. Banks. Our Chief Executive Officer also reviews and evaluates the recommendations made with respect to all of our other executive officers and makes any modifications that he deems appropriate. Our Chief Executive Officer then recommends to the Committee annual compensation adjustments and awards for all of our executive officers other than himself.

Our Chief Executive Officer, our Chief Operating Officer, our Executive Vice President Human Resources & External Affairs and our Secretary attend all meetings of the Committee other than appropriate executive sessions, and neither our Chief Executive Officer nor our Chief Operating Officer attends any meetings relating to his performance or compensation. Our executive officers prepare and provide to the Committee tally sheets for certain executive officers, which are used by the Committee to understand and measure the performance and effectiveness of our annual cash incentive compensation and long-term incentive compensation. Our executive officers also periodically consult with and assist the Committee in calculating incentive compensation payouts, establishing and monitoring performance goals and addressing other appropriate executive compensation matters.

Compensation Consultants and Benchmarking.

The Committee regularly monitors, reviews and evaluates our executive compensation program to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective. The Committee engages Mercer Human Resource Consulting, an independent human resources and compensation consulting firm, which we refer to as Mercer, to assist the Committee in its monitoring, review and evaluation and to otherwise provide assistance and guidance to the Committee on executive officer and director compensation matters. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, Inc. The Committee first engaged Mercer in fiscal year 2009 following a robust procurement process involving multiple consulting firms. Mercer emerged from that process as the Committee s provider of choice based on its level of expertise and financial and strategic fit. Mercer reports directly to the Committee and attends all meetings of the Committee. The Committee has sole authority for the appointment, removal, replacement, compensation and oversight of Mercer and its affiliates for executive officer and director compensation matters.

Mercer provides a wide range of executive officer and director compensation consulting services for the Committee. Mercer prepares and provides to the Committee a comprehensive annual review of base salaries, target annual cash incentive compensation, target long-term incentive compensation and target total cash and direct compensation for all of our executive officers. Mercer uses this annual review to advise the Committee with respect to the effectiveness and competitiveness of our executive compensation program. The Committee considers this annual review when establishing compensation levels and otherwise to ensure that our executive compensation program remains competitive and effective.

Mercer prepares the annual review by using proxy statement data and surveys published by leading human resources and compensation consultants to conduct market analyses of base salaries, target annual bonuses, target long-term incentive compensation and target total cash and direct compensation offered to executives of other diversified industrial companies with revenues and market values comparable to ours, which we refer to as the Peer Group. Mercer also uses broader market data on companies outside of the Peer Group to the extent that it is available and appropriate.

Table of Contents

The Committee regularly reviews and, when necessary or advisable, updates the Peer Group to make sure that it consists of companies which directly compete with us for talented employees and shareholder investment and that it otherwise represents a meaningful group of peers. In evaluating the Peer Group companies, the Committee looks for companies in the Diversified Industrials industry/sector with similar characteristics and business strategies to ours. The Peer Group for fiscal year 2018 consisted of the following companies:

Caterpillar Inc.	Eaton Corporation plc	Ingersoll-Rand plc
Colfax Corporation	Emerson Electric Co.	ITT Corporation
Cummins Inc.	Flowserve Corporation	Johnson Controls International plc
Danaher Corporation		

See Notes to Unaudited Condensed Consolidated Financial Statements.

CORMEDIX INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	Cumulative Period from July 28, 2006 (Inception) through March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(16,713,291)	$ (1,247,051)	$(72,079,622)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	1,415,244	(17,923)	5,359,618
Stock issued in connection with license agreements	-	-	6,613,718
Stock issued in connection with consulting agreement	-	-	158,262
Warrants issued in connection with license agreements	-	-	76,574
Amortization of deferred financing costs	-	81,396	2,407,399
Amortization of debt discount	-	328,761	6,312,768
Loss on foreign currency transactions	7,638	-	7,638
Loss on issuance of convertible notes, warrants and preferred stock	89,590	-	1,035,482
Loss on extinguishment of convertible notes	-	-	1,459,661
Revaluation of derivative liability	13,681,569	-	14,045,488
Non-cash charge for beneficial conversion feature	-	-	1,137,762
Non-cash interest expense	-	-	3,048,131
Expenses paid on behalf of the Company satisfied through the issuance of notes	-	-	51,253
Depreciation	2,446	543	64,649
Changes in operating assets and liabilities:			
Restricted cash	(76)	-	(220,662)
Trade receivables	(11,813)	-	(14,092)
Inventory	16,288	-	(63,733)
Prepaid expenses and other current assets	10,456	(14,074)	(226,792)
Security deposits	-	-	(13,342)
Accounts payable	117,511	262,926	1,025,821
Accrued expenses and accrued interest	(44,156)	(11,097)	682,749
Accrued interest, related party	-	-	(16,175)
Deferred rent	(695)	(1,232)	6,563
Net cash used in operating activities	(1,429,289)	(617,751)	(29,140,882)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment	-	-	(97,392)
Net cash used in investing activities	-	-	(97,392)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable to related parties, net	-	-	3,063,484
Proceeds from senior convertible notes, net	-	-	14,650,088

Proceeds from senior convertible notes, related party, net	-	-	686,250
Proceeds from Series C-1 preferred stock, net	-	-	1,463,439
Proceeds from Series C-2 preferred stock, related party, net	-	-	1,463,439
Proceeds from Series C-3 preferred stock, net	743,884	-	743,884
Proceeds from Series C-3 preferred stock, related party	575,000	-	575,000
Proceeds from exercise of warrants	-	-	60,000
Proceeds from exercise of stock options	213,650	-	216,050
Proceeds from Galenica, Ltd. promissory note	-	-	1,000,000
Payments for deferred financing costs	(2,366)	(25,000)	(1,677,666)
Repayment of amounts loaned under related party notes	-	-	(1,981,574)
Proceeds from sale of equity securities	6,723,248	533,000	18,213,518
Repurchase of outstanding warrants	-	(33,000)	(33,000)
Proceeds from receipt of stock subscriptions and issuances of common stock	-	-	4,827
Net cash provided by financing activities	8,253,416	475,000	38,447,739

See Notes to Unaudited Condensed Consolidated Financial Statements.

6

CORMEDIX INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	Cumulative Period from July 28, 2006 (Inception) through March 31, 2014
Foreign exchange effect on cash	(8,622)		(20,067)
NET INCREASE (DECREASE) IN CASH	6,815,505	(142,751)	9,189,398
CASH – BEGINNING OF PERIOD	2,373,893	835,471	-
CASH – END OF PERIOD	$9,189,398	$ 692,720	$9,189,398
Cash paid for interest	$ 465	$ 26,938	$ 136,954
Supplemental Disclosure of Non-Cash Financing Activities:			
Conversion of notes payable and accrued interest to common stock, fair value	$-	$ -	$20,665,889
Exchange of convertible notes to preferred stock	$-	$ -	$1,119,340
Conversion of preferred stock to common stock	$2,447,384	$ -	$3,049,489
Conversion of accounts payable and accrued expenses to preferred stock	$645,458	$ -	$645,458
Reclassification of derivative liability to equity	$6,235,398	$ -	$6,235,398
Reclassification of deferred financing fees to additional paid-in capital	$-	$ -	$148,014
Stock issued to technology finders and licensors	$-	$ -	$155
Warrants issued to placement agent	$-	$ -	$854,608
Debt discount on senior convertible notes	$-	$ -	$6,312,768
Dividend, including beneficial conversion feature	$27,150	$ 309,944	$411,458
Accrued deferred financing cost	$-	$ -	$33,169
Accrued private placement expenses	$-	$ 25,867	$25,867

See Notes to Unaudited Condensed Consolidated Financial Statements.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization, Business and Basis of Presentation:

Organization and Business:

CorMedix Inc. ("CorMedix," "we" or the "Company") was incorporated in the State of Delaware on July 28, 2006. CorMedix is a development-stage company that seeks to in-license, develop and commercialize therapeutic products for the treatment of cardiorenal and infectious diseases, including the dialysis and non-dialysis areas. The Company is in the process of transitioning from a development stage to a commercial pharmaceutical and medical device company. As of the date of this report, the Company has in-licensed all of the product candidates in its pipeline. The Company formed a wholly-owned subsidiary, CorMedix Europe GmbH, in 2013.

Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of such interim results. Interim operating results are not necessarily indicative of results that may be expected for the full year ending December 31, 2014 or for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company which are included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 31, 2014. The accompanying condensed balance sheet as of December 31, 2013 has been derived from the audited financial statements included in such Form 10-K.

The Company's primary activities since incorporation have been organizational activities, including recruiting personnel, acquiring licenses for its pharmaceutical product candidates, performing business and financial planning, performing research and development, establishing office facilities, seeking regulatory approval for its products, and raising funds through the issuance of debt and common stock.

To date, the Company has not generated significant revenues and, accordingly, the Company is considered to be in the development stage. For the three months ended March 31, 2014 and the period from July 28, 2006 (inception) to March 31, 2014, the Company incurred net losses of $16,713,291 and $72,079,622, respectively. The Company has a stockholders' deficiency as of March 31, 2014 of $3,729,021. Management believes that the Company's existing cash will be sufficient to meet the Company's operating needs to fund its research and development, as well as its operations in general into 2015. The Company's continued operations will depend on whether it is able to generate substantial revenue from the sale of Neutrolin and on its ability to raise additional capital through various potential sources, such as equity and/or debt financings, strategic relationships, or out-licensing of its products, until it achieves profitability, if ever. However, the Company can provide no assurances that such financing or strategic relationships will be available on acceptable terms, or at all. The Company expects to incur additional expenses as it continues to commercialize Neutrolin in Europe and other foreign markets and seeks FDA approval of Neutrolin® in the U.S.

8

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 — Summary of Significant Accounting Policies:

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and CorMedix Europe GmbH, a wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents:

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are structurally sound. The Company maintains its cash and cash equivalents in bank deposit and other interest bearing accounts, the balances of which, at times, may exceed federally insured limits.

Foreign Currency:

The consolidated financial statements are presented in U.S. Dollars ("USD"), the reporting currency of the Company. For the financial statements of the Company's foreign subsidiary, whose functional currency is the EURO, foreign currency asset and liability amounts, if any, are translated into USD at end-of-period exchange rates. Foreign currency income and expenses are translated at average exchange rates in effect during the year. Translation gains and losses are included in other comprehensive loss.

Geographic Information:

The Company reported revenues for the three months ended March 31, 2014 and the period from July 28, 2006 (inception) to March 31, 2014 of $12,203 and $14,204, respectively, all of which was attributable to its European operations, which are based in Germany. Of the Company's $33,574 of net property and equipment at March 31, 2014, $1,954 was located in the United States, with the remainder located in Germany.

Restricted Cash:

The Company has invested in a twelve-month 0.14% certificate of deposit held by the bank as collateral for a letter of credit in connection with the Company's purchase of raw materials due to be delivered in the next twelve months. The certificate of deposit will terminate without penalties once the transaction covered by the letter of credit is completed. The certificate of deposit is recorded on the consolidated balance sheets as restricted cash.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Prepaid Expenses:

Prepaid expenses consist of payments made in advance to vendors relating to service contracts for clinical trial development, manufacturing, preclinical development and insurance policies. These advanced payments are amortized to expense either as services are performed or over the relevant service period using the straight-line method.

Inventories:

Inventories are valued at the lower of cost or market on a first in, first out basis. Inventories consist of raw materials (including labeling and packaging), work-in-process, and finished goods, if any, for the Neutrolin product.

Revenue Recognition:

CorMedix recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements ("SAB 101"), as amended by SAB No. 104, Revenue Recognition ("SAB 104") and Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, Revenue Recognition ("ASC 605").

CorMedix's product Neutrolin received its CE Mark in Europe in July 2013 and product shipments to dialysis centers began in December 2013. Orders are processed through a distributor; however, Neutrolin is drop-shipped via a pharmacy directly to the ordering dialysis center. The distributor then remits payment to the Company upon collection from the customer. In accordance with SAB 101 and SAB 104, the Company recognizes revenue from product sales when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. The Company recognizes net sales upon shipment of product to the dialysis centers.

Loss per common share:

Basic loss per common share excludes any potential dilution and is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. However, since their effect is anti-dilutive, the Company has excluded potentially dilutive shares. The following potentially dilutive shares have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive.

	Three Months Ended	
	March 31, 2014	March 31, 2013
Convertible notes	-	3,782,857
Series A non-voting convertible preferred stock	-	287,324
Series B non-voting convertible preferred stock	454,546	-
Series C non-voting convertible preferred stock	3,500,000	-
Series D non-voting convertible preferred stock	1,148,000	-

Series E non-voting convertible preferred stock	1,104,280	-
Shares underlying outstanding warrants	11,571,233	8,610,665
Shares underlying outstanding stock options	3,804,000	3,298,297
Total	21,582,059	15,979,143

10

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Compensation:

Stock-based compensation cost, net of expected forfeitures, granted to employees, officers and directors is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period on a straight-line basis.

The Company accounts for stock options granted to non-employees on a fair value basis using the Black-Scholes option pricing method. The non-cash charge to operations for non-employee options with service vesting is revalued at the end of each reporting period based upon the change in the fair value of the options and amortized to consulting expense over the related vesting period. For stock options granted to non-employees with vesting contingent upon various performance metrics, the Company used the guidelines in accordance with FASB ASC No. 505-50, Equity-Based Payments to Non-Employees. For options having performance conditions that are outside of the control of the non-employee, the cost to be recognized is the lowest aggregate fair value prior to the achievement of the performance condition, even if the Company believes it is probable that the performance condition will be achieved.

During the three months ended March 31, 2014 and 2013, options to purchase an aggregate of 900,000 and 1,400,000 shares of common stock, respectively, were granted to the Company’s employees, officers, directors and consultants.

Embedded Derivative Liabilities and Warrant Liabilities:

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks; however, the Company has certain financial instruments that contain embedded derivatives. The Company evaluates all its financial instruments to determine if those instruments or any potential embedded components of those instruments qualify as derivatives that need to be separately accounted for in accordance with FASB ASC 815, “Derivatives and Hedging”. Embedded derivatives satisfying certain criteria are recorded at fair value at issuance and marked-to-market at each balance sheet date with the change in the fair value recorded as income or expense. In addition, upon the occurrence of an event that requires the derivative liability to be reclassified to equity, the derivative liability is revalued to fair value at that date.

The Company accounts for stock warrants as either equity instruments or derivative liabilities depending on the specific terms of the warrant agreement. Stock warrants that allow for cash settlement or provide for modification of the warrant exercise price are accounted for as derivative liabilities. The changes in fair value of the warrant liabilities are re-measured at each balance sheet date and recorded as income or expense.

Note 3 — Stockholders’ Equity:

Common Stock

In March 2014, the Company sold an aggregate of 2,960,000 units in a registered direct offering at a purchase price of $2.50 per unit. Each unit consisted of one share of the Company’s common stock and 0.35 of a warrant, each to purchase one share of the Company’s common stock. The warrants have an exercise price of $3.10 per share, are exercisable commencing six months from the date of issuance, and have a term of five years from the date of exercisability. However, a holder is prohibited from exercising a warrant if, as a result of such exercise, the holder, together with its affiliates, would own more than 3.99% or 4.99%, at the holder's election, of the total number of shares of the Company's common stock then issued and outstanding. The Company received net proceeds of $6,723,248.

During the quarter ended March 31, 2014, stock options to purchase 275,000 shares of the Company's common stock were exercised resulting in gross proceeds of $213,650 to the Company.

During the quarter ended March 31, 2014, an aggregate of 140,000 shares of the Series C-1 non-voting preferred stock were converted into 1,400,000 shares of the Company's common stock.

During the quarter ended March 31, 2014, warrants to purchase 887,292 shares of the Company's common stock were exercised on a cashless basis resulting in the issuance of 751,689 shares of the Company's common stock.

Preferred Stock

In January 2014, the Company sold to various investors 200,000 shares of Series C-3 preferred stock, together with warrants to purchase up to an aggregate of 1,000,000 shares of common stock, for aggregate gross proceeds of $2,000,000. The Series C-3 preferred stock and the related warrants were sold together at a price of $10.00 per share for each share of Series C-3 preferred stock. The Series C-3 preferred stock has rights, privileges and terms that are identical to the Company's Series C-1 and C-2 non-voting convertible preferred stock. Each share of Series C-3 preferred stock is convertible into 10 shares of common stock at any time at the holder's option at a conversion price of $1.00 per share. However, the holder is prohibited from converting Series C-3 preferred stock into shares of common stock if, as a result of such conversion, the holder, together with its affiliates, would own more than 9.99% of the total number of shares of the Company's common stock then issued and outstanding. The warrants are exercisable one year after issuance, have an exercise price of $1.25 per share, subject to adjustment, and a term of five years from the date they are first exercisable. However, a holder is prohibited from exercising a warrant if, as a result of such exercise, the holder, together with its affiliates, would own more than 4.99% or 9.99%, at the holder's election, of the total number of shares of the Company's common stock then issued and outstanding. Included in this financing is the settlement of an aggregate amount of $645,458 in accruals and payables owed to ND Partners, the Company's CEO for his 2013 salary, and a consultant. The Company received net proceeds of $1,318,884.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Due to the existence of downround provisions, the conversion features of the Series C-3 stock and the associated warrants are liability classified and are valued using a Monte Carlo simulation model. On the issuance date, the estimated value of the conversion features and warrants was $1,398,158 and $655,574, respectively.

In January 2014, outstanding Series C-1 preferred stock of 140,000 shares was converted into 1,400,000 shares of the Company's common stock which resulted in the reclassification of the derivative liability to equity in the amount of $2,447,384.

In February 2014, the downround protection of Series C-2 and Series C-3 preferred stock was eliminated pursuant to its terms, resulting in the reclassification of the derivative liability to equity in the amount of $6,235,398.

The Company used a Monte Carlo simulation model to separately value the conversion options associated with the preferred stock instruments and the warrants issued in connection with the preferred stock. A summary of the key assumptions used in the Monte Carlo models are as follows:

Stock price – Due to the historical volatility of the stock price, a one month volume-weighted average stock price was used as of each valuation date.

Conversion/redemption strike price – These assumptions incorporate both the initial contractual conversion price as well as subsequent downward adjustments (wherever applicable) based on management's estimate of the probabilities of additional future financings that would include a stock price or conversion price that is lower than the then existing conversion price.

Volatility – The Company used a weighted average of 1) the historical volatility of the stock of CorMedix for approximately three-years, 2) the volatility used for prior period valuations 3) the volatilities of comparable companies (provided by the management) from the date product approval is received to the various valuation dates. Then, appropriate weights were applied to these data points to arrive at the weighted average historical volatility. The concluded volatility is assumed to remain constant for all the valuation dates.

Term – Although the preferred Series C, D and E instruments do not have a specified contracted life, the Company has assumed a five year life from the date of inception for the purpose of the valuations, indicating that these instruments would expire in October 2018 at which point the holder would convert the investments into equity.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Risk-free Rate – The US Treasury Bond Rate with a term approximating the term of the instrument was used as the risk-free interest rate in the valuation.

Credit adjusted discount rate – Management believes that its debt, if rated, would be equivalent to Moody's C rated bonds or lower.

Dividend rate - Management does not expect to pay any dividends during the term of the hybrid instrument.

Stock Options

During the three months ended March 31 2014, the Company granted to its officers and directors ten-year non-qualified stock options under the 2013 Plan, covering an aggregate of 900,000 shares of the Company's common stock with an exercise price of $2.02 per share. Of these options, 750,000 vested on the date of grant and the remaining 150,000 options vest one year after the grant date.

During the three months ended March 31, 2014, total compensation expense for stock options issued to employees, directors, officers and consultants was $1,415,244. For the three months ended March 31, 2013 compensation expense was $70,764 offset by the reversal of $88,687 of previously recognized expense related to stock options forfeited and for the period from July 28, 2006 (inception) to March 31, 2014, compensation expense recorded was $5,359,618.

The Company records compensation expense associated with stock options and other forms of equity compensation using the Black-Scholes option-pricing model and the following assumptions:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Expected Term	5 – 9.75 years	5 years
Volatility	96% - 113%	118% - 131%
Dividend yield	0.0%	0.0%
Risk-free interest rate	1.51% - 2.88%	0.81% - 1.96%

The Company estimated the expected term of the stock options granted based on anticipated exercises in future periods. The expected term of the stock options granted to consultants is based upon the contractual terms established within agreements with the Company. Given the Company's short period of publicly-traded stock history, management's estimate of expected volatility is based on the average expected volatilities of a sampling of five companies with similar attributes to the Company, including: industry, stage of life cycle, size and financial leverage. The Company will continue to analyze the expected stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available. The expected dividend yield of 0.0% reflects the Company's current and expected future policy for dividends on the Company's common stock. To determine the risk-free interest rate, the Company utilized the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected term of the Company's awards. The Company has experienced forfeitures of stock options issued to its former officers, board member and employees. Consistent with its historical forfeiture experience, the Company has applied a forfeiture rate of approximately 32% and 39% to calculate stock option expense for the three month periods ended March 31, 2014 and 2013, respectively. The Company will continue to evaluate the estimated forfeiture rate derived from previous forfeitures of officers, directors and employees and may adjust the forfeiture rate based upon actual forfeitures that may occur in the future.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A summary of the Company's stock options activity and related information is as follows:

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,453,630	$ 1.06	2,135,630	$ 1.26
E Exercised	(275,000)	$ 0.78	-	-
F Forfeited	-	-	(237,333)	$ 1.61
E Expired	(274,630)	$ 3.16	-	-
Granted	900,000	$ 2.05	1,400,000	$ 0.90
Outstanding at end of period	3,804,000	$ 1.16	3,298,297	$ 1.08
Options exercisable	2,765,000	$ 1.19	878,297	$ 1.91
Expected to vest	706,520	$ 1.08	1,476,200	$ 0.78
Weighted-average fair value of options granted during the period		$ 1.49		$ 0.77

The weighted average remaining contractual life of stock options outstanding and expected to vest at March 31, 2014 is 8.56 years. The weighted average remaining contractual life of stock options exercisable at March 31, 2014 is 8.31 years. The aggregate intrinsic value is calculated as the difference between the exercise prices of the underlying options and the quoted closing price of the common stock of the Company at March 31, 2014 for those options that have an exercise price below the quoted closing price. As of March 31, 2014, the aggregate intrinsic value of stock options exercised and outstanding is $415,350 and $5,127,540, respectively.

As of March 31, 2014, the total compensation expense related to non-vested options not yet recognized totaled $651,299. The weighted-average vesting period over which the total compensation expense related to non-vested options not yet recognized at March 31, 2014 was approximately 0.73 years.

Warrants

The following table is the summary of warrants outstanding at March 31, 2014:

	Number of Warrants	Exercise Price	Expiration Date
Issued to co-placement agents in connection with previous convertible note financings	18,250	7.84	10/29/2014
Issued in connection with 2009 private placement	503,034	3.4375	10/29/2014
Issued in connection with IPO	4,043,569	3.4375	3/24/2015
Issued to IPO underwriters that, if exercised, would result in the issuance of an additional 4,812 shares of common stock and warrants to purchase an additional	4,812	3.90	

2,406 shares of common stock			3/24/2015
Issued in connection with September 20, 2012 sale of convertible notes	1,687,500	0.40	9/20/2017
Issued to placement agent in connection with September 20, 2012 sale of convertible notes	795	0.40	9/20/2017
Issued in connection with November 13, 2012 sale of convertible notes	25,000	0.40	11/13/2017
Issued in connection with February 2013 sale of Series A convertible preferred stock	400,000	1.50	2/19/2018
Issued in connection with license agreement amendment	125,000	1.50	4/11/2018
Issued in connection with July 2013 sale of Series B convertible preferred stock	227,273	1.50	7/30/2018
Issued in connection with May 2013 sale of convertible notes, which funded in July 2013	1,000,000	1.00	5/30/2019
Issued in connection with October 2013 sale of Series C-1 and Series C-2 convertible preferred stock	1,500,000	1.25	10/22/2019
Issued in connection with January 2014 sale of Series C-3 convertible preferred stock	1,000,000	1.25	1/8/2020
Issued in connection with March 2014 sale of common stock	1,036,000	3.10	9/10/2019
Total warrants outstanding at March 31, 2014	11,571,233		

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 — Fair Value Measurements:

The fair value of the Company's cash and accounts payable at March 31, 2014 approximate their carrying values due to the relative liquidity and/or short-term nature of these instruments. As defined by ASC Topic 820, "Fair Value Measurements and Disclosures," ("ASC 820"), fair value measurements and disclosures establish a fair value hierarchy that prioritizes fair value measurements based on the type of inputs used for the various valuation techniques (market approach, income approach and cost approach). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets, such as interest rates and yield curves that are observable at commonly-quoted intervals; and

Level 3 - unobservable inputs that reflect the Company's own assumptions, as there is little, if any, related market activity.

The following table presents the fair value hierarchy, carrying amounts and fair values of the Company's derivative liabilities measured at fair value on a recurring basis as of March 31, 2014. There were no derivative liabilities measured at fair value on a recurring basis at March 31, 2013.

	Fair Value Hierarchy Level	Fair Value	Increase in Fair Value
Series C non-voting preferred stock conversion option	3	$-	$5,257,295
Series D non-voting preferred stock conversion option	3	2,715,484	1,813,858
Series E non-voting preferred stock conversion option	3	2,346,083	1,610,465
Warrants issued in connection with convertible debt	3	2,121,842	1,460,973
Warrants issued in connection with Series C non-voting preferred stock	3	5,177,914	3,538,978
Total		$12,361,323	$13,681,569

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company's derivative liabilities are classified as Level 3. Changes in the unobservable input values would likely cause material changes in the fair value of the Company's Level 3 derivative liabilities. Significant unobservable inputs are implied volatilities. Significant increases (decreases) in implied volatilities in isolation would result in a significantly higher (lower) fair value measurement. The Company reviews these valuations and the changes in the fair value measurements for reasonableness.

The table below sets forth a summary of changes in the fair value of the Company's Level 3 derivative liabilities related to the non-voting preferred stock and warrants for the period ended March 31, 2014.

Balance at beginning of year	$5,308,804
Additions to derivative liabilities	2,053,732
Conversion of convertible preferred stock to common stock	(2,447,384)
Reclassification from derivative liabilities to equity	(6,235,398)
Change in fair value of derivative liabilities	13,681,569
Balance at end of period	$12,361,323

Note 5 — Commitments and Contingencies:

In February 2007, Geistlich Söhne AG für Chemische Industrie, Switzerland, or Geistlich, filed an opposition against the Sodemann patent covering our Neutrolin product candidate which is owned by ND Partners, LLC and licensed to the Company pursuant to the License and Assignment Agreement between the Company and ND Partners LLC. The opposition against the Sodemann patent that was filed at the head office of the European Patent Office in Munich, Germany, was for lack of inventiveness in the use of citric acid and a pH value in the range of 4.5 to 6.5 with having the aim to provide an alternative lock solution through having improved anticoagulant characteristics compared to the lock solutions described in the Lehner patent. In June 2008 the opposition division at the European Patent Office held oral proceedings and rejected the opposition by Geistlich and maintained the patent as granted. On August 27, 2008, Geistlich appealed the court's ruling, alleging the same arguments as presented during the opposition proceedings. The Company filed a response to the appeal of Geistlich on March 25, 2009 where it requested a dismissal of the appeal and to maintain the patent as granted. On October 10, 2012, the Company became aware that the Board of Appeals of the European Patent Office issued, on September 4, 2012, a summons for oral proceedings. On November 28, 2012, the Board of Appeals of the European Patent Office held oral proceedings and verbally upheld the Sodemann patent covering Neutrolin, but remanded the proceeding to the opposition division as the lower court to consider restricting certain of the Sodemann patent claims. The Company received the Appeals Board final written decision on March 28, 2013 which was consistent with the oral proceedings. In a letter dated September 30, 2013, the Company was notified that the opposition division of the European Patent Office reopened the proceedings before the first instance again, and has given their preliminary non-binding opinion that the patent as amended during the appeal proceedings fulfils the requirements of Clarity, Novelty, and Inventive Step, and invited the parties to provide their comments and/or requests by February 10, 2014. The Company filed its response on February 3, 2014 to request that the patent be maintained as amended during the appeal proceedings. Geistlich did not provide any filing by February 10, 2014; however, the Board of the European Patent Office opposition division has granted Geistlich an extension to respond by the end of July 2014 because its representative did not receive the September 30, 2013 letter due to a change of address. The Company intends to continue to vigorously defend the patent in a restricted form. However, the Company can provide no assurances regarding the outcome of this matter.

CORMEDIX INC.
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Navinta LLC, a U.S.-based Active Pharmaceutical Ingredient (“API”) developer, provides API manufacturing (manufactured in India at an FDA-compliant facility) and a Drug Master File for CRMD003, pursuant to a supply agreement dated December 7, 2009 (the “Navinta Agreement”). The Navinta Agreement provides that Navinta will supply taurolidine (the API for Neutrolin) to the Company on an exclusive worldwide basis in the field of the prevention and treatment of human infection and/or dialysis so long as the Company purchased a minimum of $350,000 of product from Navinta by December 30, 2010, which the Company achieved, and following the Company’s first commercial sale of a product incorporating taurolidine, purchases a minimum of $2,250,000 of product on an annual basis for five years. The Company is also required to make certain cash payments to Navinta upon the achievement of certain sales-based milestones. The maximum aggregate amount of such payments, assuming achievement of all milestones, is $1,975,000. The Navinta Agreement has a term of five years, but may be terminated by either party upon 30 days written notice.

Note 6 — Related Party Transactions:

In January 2014, the following related parties participated in the private placement of Series C-3 preferred stock and warrants to purchase the Company’s common stock at an exercise price of $1.25 per share. Each share of Series C-3 preferred stock is convertible into 10 shares of common stock at a conversion price of $1.00 per share. All terms are the same as other investors in the private placement (see Note 3 – Stockholders’ Equity):

		Amount	Number of Series C-3 Preferred Stock	Number of Warrants
Gary A. Gelbfish	Chairman of the Board	$ 500,000	50,000	250,000
Randy Milby	CEO and Director	$ 237,000	23,700	118,500
MW Bridges LLC, an entity for which Randy Milby is Managing Partner		$ 23,000	1,300	6,500
Steven W. Lefkowitz	Interim CFO and Director	$ 45,000	4,500	22,500
Wade Capital Corporation Money Purchase Plan, an entity for which Steven W. Lefkowitz has voting and investment control		$ 30,000	3,000	15,000

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our 2013 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or the SEC, on March 31, 2014.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “will,” “plan,” “project,” “seek,” “s “would,” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included in this quarterly report on Form 10-Q and in our most recent annual report on Form 10-K, as well as any amendments thereto, as filed with the SEC and which are incorporated herein by reference. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

CorMedix Inc. and Subsidiary (referred to herein as “we,” “us,” “our” and the “Company”), is a development stage company, in the process of transitioning to a commercial pharmaceutical and medical device company. We seek to in-license, develop and commercialize therapeutic products for the treatment of cardiorenal and infectious diseases, including the dialysis and non-dialysis areas. As of the date of this report, we have in-licensed all of the product candidates in our pipeline.

We have the worldwide rights to develop and commercialize our product candidates, CRMD003 (Neutrolin®) and CRMD004 that we believe address potentially large market opportunities in the instances in which a central venous catheter is used, such as hemodialysis, intensive care units, oncology and total parenteral nutrition patients.

Our primary product is CRMD003 (Neutrolin) for the prevention of catheter related infections in the dialysis and non-dialysis markets, which we believe addresses a medical need and a potentially large market opportunity. Neutrolin is a liquid formulation designed to prevent central venous catheter infection as well as catheter obstruction, also referred to as maintenance of catheter patency, in central venous catheters, which we initially plan for use in hemodialysis catheters.

During the third quarter of 2011, we received a notice from the FDA that Neutrolin had been assigned to the CDER for review as a drug rather than a device. As a result of this, and given our limited resources, we decided to change our business strategy and focus the majority of our resources on the research and development of Neutrolin, rather than CRMD004 and to seek regulatory and commercialization approval for Neutrolin in Europe through a CE Mark application rather than pursue FDA approval at that time.

In July 2013, we received CE Mark approval for Neutrolin. We began the commercial launch of Neutrolin for the prevention of catheter-related bloodstream infections, or CRBI, and maintenance of catheter patency in hemodialysis patients in Europe in the fourth quarter of 2013.

We have four pillars to our Neutrolin strategy: (i) successfully launch the product in Germany; (ii) expand the product into additional applications; (iii) expand sales into other foreign countries; and (iv) apply for and receive marketing approval and launch the product in the United States.

In late 2013, we met with the FDA to determine the pathway for U.S. approval of Neutrolin, which will entail at least one Phase III clinical trial in hemodialysis catheters and potentially one Phase III clinical trial in another indication.

Our other product candidate is CRMD004, which is the gel formulation of Neutrolin that we may develop for a variety of indications that include but are not limited to the treatment of wounds, skin infections, the prevention of catheter exit site infections and, based on the gel's thixotropic properties which cause it to liquefy under pressure/kinetic energy, as a follow-on to our Neutrolin catheter lock solution. CRMD004 is currently in the pre-clinical stage of development.

Since our inception, we have had no substantial revenue from product sales. Our operations to date have been primarily limited to organizing and staffing, licensing product candidates, developing clinical trials for our product candidates, establishing manufacturing for our product candidates, performing business and financial planning, performing research and development, seeking regulatory approval for our products and maintaining and improving our patent portfolio. We have funded our operations primarily with debt and equity financings. We have generated significant losses to date, and we expect to incur increases in our cash used in operations as we continue to commercialize Neutrolin in Europe and other foreign markets and seek FDA approval of Neutrolin in the U.S. As of March 31, 2014, we had a deficit accumulated during the development stage of $72,491,080. We are unable to predict the extent of any future losses or when we will become profitable, if at all.

Financial Operations Overview

Revenue

We have not generated substantial revenue since our inception. If the commercialization for Neutrolin in Europe is successful and our product development efforts in the United States result in clinical success, regulatory approval and successful commercialization, we could generate revenue from sales or licenses of any such products.

We recognize revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements (SAB 101), as amended by SAB No. 104, Revenue Recognition (SAB 104) and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, Revenue Recognition (ASC 605).

Our product Neutrolin received CE Mark in Europe in July 2013 and product shipments to dialysis centers began in December 2013. Orders are processed through a distributor; however, Neutrolin is drop-shipped via a pharmacy directly to the ordering dialysis center. The distributor then remits payment to us upon collection from the customer. In accordance with SAB 101 and SAB 104, we recognize revenue from product sales when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. We recognize net sales upon shipment of product to the dialysis centers.

Research and Development Expense

Research and development, or R&D, expense consists of: (i) internal costs associated with our development activities; (ii) payments we make to third party contract research organizations, contract manufacturers, investigative sites, and consultants; (iii) technology and intellectual property license costs; (iv) manufacturing development costs; (v) personnel related expenses, including salaries, stock–based compensation expense, benefits, travel and related costs for the personnel involved in drug development; (vi) activities relating to regulatory filings and the advancement of our product candidates through preclinical studies and clinical trials; and (vii) facilities and other allocated expenses, which include direct and allocated expenses for rent, facility maintenance, as well as laboratory and other supplies. All R&D is expensed as incurred.

Conducting a significant amount of development is central to our business model. Through March 31, 2014, we incurred $24.8 million in R&D expenses since our inception in July 2006. Product candidates in later-stage clinical development generally have higher development costs than those in earlier stages of development, primarily due to the significantly increased size and duration of the clinical trials. We plan to increase our R&D expenses for the foreseeable future in order to complete development of Neutrolin in the U.S.

The following table summarizes the percentages of our R&D expenses related to our two most advanced product candidates and other projects. The percentages summarized in the following table reflect payments directly attributable to each development candidate, which are tracked on a project basis. A portion of our internal costs, including indirect costs relating to our product candidates, are not tracked on a project basis and are allocated based on management's estimate.

	Three Months Ended March 31,				Period from July 28, 2006 (Inception) through March 31, 2014	
	2014		2013			
CRMD001	0	%	0	%	43	%
CRMD003	98	%	92	%	54	%
CRMD004	2	%	8	%	3	%

The process of conducting pre-clinical studies and clinical trials necessary to obtain FDA and foreign approval is costly and time consuming. The probability of success for each product candidate and clinical trial may be affected by a variety of factors, including, among others, the quality of the product candidate's early clinical data, investment in the program, competition, manufacturing capabilities and commercial viability. In addition, development timelines, probability of success and development costs vary widely. As a result of these uncertainties, the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates.

Our current focus on commercializing Neutrolin in Europe may impact our other development efforts and timelines. We intend to seek U.S. approval of Neutrolin for the prevention of CRBI and maintenance of catheter patency in the United States which we expect to entail at least one Phase III trial in hemodialysis catheters and one

Phase III trial in another indication, based on guidance from the FDA. We will need and plan to raise additional funds at a later date to fully complete the development of Neutrolin in the U.S. as well as to pursue development of any other product candidates.

Selling, General and Administrative Expense

Selling, general and administrative, or SG&A, expense include costs related to commercial personnel, medical education professionals, marketing and advertising, salaries and other related costs, including stock-based compensation expense, for persons serving in our executive, sales, finance and accounting functions. Other SG&A expense includes facility-related costs not otherwise included in R&D expense, promotional expenses, costs associated with industry and trade shows, and professional fees for legal services and accounting services. We expect that our SG&A expenses will increase due to marketing of our Neutrolin product in Europe, and as a result of the reporting obligations applicable to public companies. From our inception on July 28, 2006 through March 31, 2014, we incurred $18.8 million of SG&A expense.

Loss on Issuance of Preferred Stock and Warrants

As discussed in Note 3, we issued preferred stock during the quarter ended March 31, 2014. The loss on the issuance of preferred stock represents the difference on the issuance date between the combined fair value of the conversion option and the warrants, and the proceeds that were settled net of all fees and expenses related to the issuance.

Change in Fair Value of Conversion Option and Warrants

The change in the value of conversion option and warrants represents the change in the fair value of the preferred stock conversion option and the change in the fair value of warrants that are recorded at fair value on a recurring basis under generally accepted accounting principles. This includes any reductions in fair value resulting from the redemption or conversion of the preferred stock and the exercise of warrants.

Other Income (Expense)

Other income consists mainly of federal research grants awarded and research and development tax refunds, net of application fees. From our inception on July 28, 2006 through March 31, 2014, we recorded $0.4 million of other income, net of application fees and related filing costs.

Interest Income

Interest income consists of interest earned on our cash and cash equivalents.

Results of Operations

Three months ended March 31, 2014 compared to three months ended March 31, 2013

Cost of Sales. Cost of sales was $81,026 for the three months ended March 31, 2014 compared to zero in the same period last year. Cost of sales for the three months ended March 31, 2014 are primarily comprised of costs associated with transitioning Neutrolin to new labels and packaging of $44,705, management of our contract manufacturer of $16,602, on-going stability testing of $16,581 and other costs of $3,138. The costs associated with transitioning Neutrolin to new labels and packaging are not expected to repeat in subsequent periods, while the stability testing is expected to continue until 2015. Direct material costs related to product sold during the three months ended March 31, 2014 were minimal because the cost of the product that had been purchased from our contract manufacturer prior to the receipt of the CE Mark and is now being sold had been previously charged to research and development expense.

Research and Development Expense. R&D expense was $353,018 for the three months ended March 31, 2014, an increase of $97,983, from $255,035 for the three months ended March 31, 2013. The increase was attributable to non-cash stock-based compensation expense of $227,983 and costs related to development of Neutrolin in the U.S. and label expansion work for Neutrolin in the European Union, or EU of $84,146, offset by decreases in costs related to the development of Neutrolin in the EU of $214,715, due to the receipt of the CE Mark approval for Neutrolin.

Selling, General and Administrative Expense. SG&A expense was $2,512,709 for the three months ended March 31, 2014, an increase of $1,960,968 from $551,741 for the three months ended March 31, 2013. The increase was primarily attributable to non-cash stock-based compensation expense of $1,205,184 and costs related to the launch and commercialization of Neutrolin in the EU of $501,807 and increases in accounting and legal fess of $172,342.

Loss on Issuance of Preferred Stock and Warrants. The loss on the issuance of preferred stock and warrants represents the difference on the issuance date between the combined fair value of the conversion option and the warrants of $2,053,932, and the combined proceeds received and liabilities settled, net of all issuance-related fees and expenses of $1,964,342.

Change in Fair Value of Convertible Notes, Preferred Stock and Warrants. The change in the value of convertible notes, preferred stock and warrants of $13,681,569 consists of increases in the fair value of preferred stock and warrants between December 31, 2013 and March 31, 2014 of $8,681,618 and $4,999,951, respectively. The change in the fair value of the preferred stock includes the combined changes in (i) the fair value of the converted and redeemed amounts between December 31, 2013 and the relevant conversion and redemption dates and (ii) the change in fair value of the preferred stock between December 31, 2013 and March 31, 2014. The change in fair value of the warrants is the difference between the fair value at December 31, 2013 and March 31, 2014.

Other Income (Expense). Other income (expense) for the period ended March 31, 2014 increased by $7,638 as compared to the same period last year due to the foreign currency loss.

Interest Income. Interest income was $521 for the three months ended March 31, 2014, an increase of $393, from $128 for the three months ended March 31, 2013. The increase was attributable to having a higher interest-bearing cash balance during the first quarter of 2014 compared to the first quarter of 2013.

Interest Expense. Interest expense was $465 for the three months ended March 31, 2014 as compared to $440,403 for the same period last year. The interest expense for the three months ended March 31, 2013 consisted primarily of a beneficial conversion feature charge of $328,761 related to the senior convertible notes and warrants issued in 2012, amortization of deferred financing fees of $81,396 and accrued interest of $30,245 related to the senior convertible notes.

Liquidity and Capital Resources

Sources of Liquidity

As a result of our cost of sales, R&D and SG&A expenditures and the lack of substantial product sales revenue, we have not been profitable and have generated operating losses since we were incorporated in July 2006. We received CE Mark approval in July 2013 and launched our product in the EU in December 2013. Prior to our initial public offering, or IPO, we had funded our operations principally with $14,364,973 in convertible notes sold in private placements and $625,464 in related party notes, which were also convertible. All of our convertible notes were automatically converted into 1,237,293 shares of common stock and 2,338,576 units (comprised of 4,677,152 shares of common stock and 2,841,603 warrants at an exercise price of $3.4375). We received net proceeds of $10,457,270 from the IPO, after deducting underwriting discounts, commissions and offering expenses payable by us upon the closing of the IPO on March 30, 2010. Additionally, we received approximately $490,000 from Federal grants under the Qualifying Therapeutic Discovery Project program, approximately $775,000 from the sale of our unused net operating losses through the State of New Jersey's Economic Development Authority Technology Business Tax Certificate Transfer Program and approximately $35,000 from qualified R&D expenditures refunded to us through the New York State Department of Taxation and Finance under the Qualifying Emerging Technology Incentive Program.

Since the IPO, we have completed the following financings:

In 2012, we sold a total of 1,324 units, each unit consisting of (i) a one-year $1,000 aggregate principal amount 9% senior convertible note, convertible into shares of common stock, at a conversion price of $0.35 per note, and (ii) a five-year redeemable warrant to purchase 2,500 shares of common stock at an initial exercise price of $0.40 per share. We received gross proceeds of $1,324,000 or net proceeds of approximately $1,095,600 from the private placement. The notes issued matured in 2013 and an aggregate of $924,000 of the notes was converted to common stock and $400,000 of the notes was exchanged for Series D convertible preferred stock during the year ended December 31, 2013.

In 2013, we sold 761,429 shares of our Series A non-voting convertible preferred stock and a warrant to purchase up to 400,000 shares of our common stock for gross proceeds of $533,000 in February; we sold $1,500,000 of convertible notes and warrants to purchase up to 750,000 shares of our common stock in May; we sold 454,546 shares of Series B non-voting convertible preferred stock and a warrant to purchase up to 227,273 shares of our common stock for gross proceeds of $500,000 in July; and we sold 150,000 shares of our Series C-1 and 150,000 shares of our Series C-2 non-voting convertible preferred stock and warrants to purchase up to 1,500,000 shares of our common stock for gross proceeds of $3,000,000 in October. Also in October 2013, we exchanged $400,000 in principal amount of September 2012 convertible notes for 57,400 shares of our Series D non-voting convertible preferred stock and also exchanged $750,000 in principal amount of May 2013 convertible notes for 53,537 shares of our Series E non-voting convertible preferred stock. All of the Series A and Series C-1 non-voting convertible preferred stock were converted to common stock.

In January 2014, we sold 200,000 shares of our Series C-3 non-voting convertible preferred stock and warrants to purchase up to 1,000,000 shares of our common stock for net cash proceeds of $1,318,884 and accounts payable and accrued expenses of $645,458.

In March 2014, we sold 2,960,000 units, each unit consisted of one share of our common stock and 0.35 of a warrant to purchase one share of our common stock, for gross proceeds of $7,400,000. We received net proceeds of $6,723,248.

Net Cash Used in Operating Activities

Net cash used in operating activities was $1,429,289 for the three months ended March 31, 2014. The net loss of $16,713,291 for the three months ended March 31, 2014 was higher than cash used in operating activities by $15,284,002. The difference is attributable primarily to revaluation of preferred stock and warrants of $13,681,569, non-cash stock-based compensation of $1,415,244 and loss on issuance of preferred stock of $89,590.

Net Cash Used in Investing Activities

There was no cash used in investing activities for the three months ended March 31, 2014 and 2013.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $8,253,416 for the three months ended March 31, 2014 as compared to $475,000 for the same period last year. The increase was attributable to the net proceeds from the sale of common stock of $6,723,248 and Series C-3 preferred stock of $1,318,884, and exercise of stock options of $213,650. In comparison for the same period last year, we received gross proceeds from the sale of Series A preferred stock of $533,000 offset by repurchase of outstanding warrants of $33,000 and deferred financing costs of $25,000.

Funding Requirements

Our total cash on hand as of March 31, 2014 was $9,189,398, compared to $2,373,893 at December 31, 2013. Because our business does not generate positive operating cash flow, we may need to raise additional capital before we exhaust our current cash resources in order to continue to fund our commercialization of Neutrolin and our research and development, as well as to fund operations generally. Our continued operations will depend on whether we are able generate substantial revenue from the sale of Neutrolin or raise additional funds through various potential sources, such as equity or debt financing, strategic relationships, out-licensing or distribution arrangements of our products. Through March 31, 2014, all of our financing has been through equity financing, issuance of convertible notes, issuance of preferred stock, our 2010 IPO, previous debt financings and our receipt of a total of approximately $490,000 from Federal grants under the Qualifying Therapeutic Discovery Project program, a total of approximately $775,000 from the sale of our unused net operating losses through the State of New Jersey's Economic Development Authority Technology Business Tax Certificate Transfer Program and approximately $35,000 from the State of New York's Research and Development Tax Credit Program, net of application fees.

Based on our cash resources at March 31, 2014, our expectations on product sales and our current plan of expenditure on continuing development of Neutrolin, we believe that we have sufficient capital to fund our operations into 2015, but will need additional financing thereafter until we can achieve profitability, if ever. If we are unable to raise additional funds when needed, we may not be able to market our products as planned or continue development and regulatory approval of our products, or we could be required to delay, scale back or eliminate some or all of our research and development programs. Each of these alternatives would likely have a material adverse effect on our business.

We expect to continue to fund operations from cash on hand and through either capital raising sources as previously described, which may be dilutive to existing stockholders, or through generating revenues from the licensing of our products or strategic alliances. We plan to seek additional debt and/or equity financing, but can provide no assurances that such financing will be available on acceptable terms, or at all. Moreover, the incurrence of indebtedness in connection with a debt financing would result in increased fixed obligations and could also result in covenants that would restrict our operations. Our actual cash requirements may vary materially from those now planned, however, because of a number of factors including the changes in the focus and direction of our research and development programs, the acquisition and pursuit of development of new product candidates, competitive and technical advances, costs of commercializing any of our product candidates, and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights.

While we expect to grow product sales substantially, we may not generate significant product sales revenue for 2014. In the absence of such revenue, we would experience continuing operating cash flow losses. We expect to incur increases in our cash used in operations over the next several quarters as we continue to commercialize Neutrolin and seek FDA approval of Neutrolin in the U.S.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While our significant accounting policies are more fully described in our annual report on Form 10-K filed with the SEC on March 31, 2014, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

Stock-Based Compensation

We account for stock options according to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 718, "Compensation — Stock Compensation" ("ASC 718"). Under ASC 718, share-based compensation cost is measured at grant date, based on the estimated fair value of the award, and is recognized as expense net of expected forfeitures, over the employee's requisite service period on a straight-line basis.

We account for stock options granted to non-employees on a fair value basis using the Black-Scholes option pricing method in accordance with ASC 718. The non-cash charge to operations for non-employee options with vesting are revalued at the end of each reporting period based upon the change in the fair value of the options and amortized to expense over the related vesting period.

For the purpose of valuing options and warrants granted to our directors, officers, employees and consultants during the quarter ended March 31, 2014, we used the Black-Scholes option pricing model. For the purpose of valuing performance based options granted to non-employees during the quarter ended March 31, 2014, we used the guidelines in accordance with FASB ASC No. 505-50 ("ASC 505"), "Equity-Based Payments to Non-Employees", of which if the performance condition is outside of the control of the non-employee, the cost to be recognized is the lowest aggregate fair value prior to the achievement of the performance condition, even if we believe it is probable that the performance condition will be achieved. To determine the risk-free interest rate, we utilized the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected term of our awards. We estimated the expected term of the options granted based on anticipated exercises in future periods. The expected dividend yield reflects our current and expected future policy for dividends on our common stock. The expected stock price volatility for our stock options was calculated by examining historical volatilities for publicly traded industry peers, since we do not have any trading history for our common stock. We will continue to analyze the expected stock price volatility and expected term assumptions as more historical data for our common stock becomes available. We have experienced forfeitures of stock options issued to our former employees, officers, directors and board members. Stock compensation expense is recognized by applying the expected forfeiture rate during the vesting period to the fair value of the award. We will continue to evaluate the estimated forfeiture rate derived from previous forfeitures of employees, directors and officers and may adjust the forfeiture rate based on actual forfeitures that may occur in the future.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), as amended by SAB No. 104, "Revenue Recognition" ("SAB 104") and FASB ASC 605, "Revenue Recognition" ("ASC 605"). Our product Neutrolin received its CE Mark in Europe in July 2013 and shipment of product to the dialysis centers began in December 2013. In accordance with SAB 101 and SAB 104, we recognize revenue from product sales when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. We recognize net sales upon shipment of product to the dialysis centers.

Embedded Derivative Liabilities and Warrant Liabilities

We do not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks; however, we do have certain financial instruments that contain embedded derivatives. We evaluate all our financial instruments to determine if those instruments or any potential embedded components of those instruments qualify as derivatives that need to be separately accounted for in accordance with FASB ASC 815, “Derivatives and Hedging”. Embedded derivatives satisfying certain criteria are recorded at fair value at issuance and marked-to-market at each balance sheet date with the change in the fair value recorded as income or expense. In addition, upon the occurrence of an event that requires the derivative liability to be reclassified to equity, the derivative liability is revalued to fair value at that date.

We account for stock warrants as either equity instruments or derivative liabilities depending on the specific terms of the warrant agreement. Stock warrants that allow for cash settlement or provide for modification of the warrant exercise price are accounted for as derivative liabilities. The changes in fair value of the warrant liabilities are re-measured at each balance sheet date and recorded as income or expense.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 4. Controls and Procedures.

As previously reported in our Annual Report of Form 10-K for the year ended December 31, 2013, we have identified a material weakness in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) related to our limited finance staff and the resulting ineffective management review over financial reporting, coupled with increasingly complex accounting treatments associated with our financing activities and European expansion. We have taken initial measures to remediate this weakness by increasing internal review processes, in addition to the previously established accounting oversight committee, which is comprised of members of our senior management and third party GAAP advisor. We expect to be able to add to our finance staff in 2014 as we build our infrastructure, which we believe will remediate this weakness. However, we cannot be assured that this weakness will be remediated or that other material weaknesses will not be discovered.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed only to provide reasonable assurance that information to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. As of the end of the period covered by this report, our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures, and as a result of the material weakness described above, our management, including our principal executive officer and principal financial officer, have concluded that our disclosure controls and procedures were not effective as of March 31, 2014 to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure. As noted above, management is taking steps to improve the internal review process, to add accounting support, and is committed to the remediation of the material weakness.

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2014, there were no changes in our internal control over financial reporting, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Form 10-Q:

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from CorMedix Inc. Form 10-Q for the quarter ended March 31, 2013 (restated), formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at March 31, 2013 (restated) and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 (restated) and 2012, and for the Cumulative Period from July 28, 2006 (inception) through March 31, 2013 (restated), (iii) Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three months ended March 31, 2013 (restated), (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 (restated) and 2012, and for the Cumulative Period from July 28, 2006 (inception) through March 31, 2013 (restated), and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.**

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

SIGNATURES

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

CORMEDIX INC.

Date:	May 15, 2014	By:	/s/ Randy Milby	
			Name:	Randy Milby
			Title:	Chief Executive Officer (Principal Executive Officer)

Date:	May 15, 2014	By:	/s/ Steven Lefkowitz	
			Name:	Steven Lefkowitz
			Title:	Interim Chief Financial Officer (Principal Financial and Accounting Officer)

28

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following materials from CorMedix Inc. Form 10-Q for the quarter ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at March 31, 2013 (restated) and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 (restated) and 2012, and for the Cumulative Period from July 28, 2006 (inception) through March 31, 2013 (restated), (iii) Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three months ended March 31, 2013 (restated), (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 (restated) and 2012, and for the Cumulative Period from July 28, 2006 (inception) through March 31, 2013 (restated), and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.**

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.