

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 333-170781

Citius Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation
or organization)

27-3425913

(IRS Employer Identification No.)

11 Commerce Drive, First Floor, Cranford, NJ 07016

(Address of principal executive offices and zip code)

(908) 967-6677

(Registrant's telephone number, including area code)

63 Great Road, Maynard, MA 01754

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of August 10, 2016, there were 73,038,060 shares of common stock, \$0.001 par value, of the registrant issued and outstanding.

Citius Pharmaceuticals, Inc.

FORM 10-Q
TABLE OF CONTENTS
June 30, 2016

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION:</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets at June 30, 2016 and September 30, 2015</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit) for the Nine Months Ended June 30, 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2016 and 2015</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	27
<u>PART II. OTHER INFORMATION</u>	
<u>II.</u>	
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3. Defaults Upon Senior Securities</u>	28
<u>Item 4. Mine Safety Disclosures</u>	28
<u>Item 5. Other Information</u>	28
<u>Item 6. Exhibits</u>	29
<u>SIGNATURES</u>	30

EXPLANATORY NOTE

In this Quarterly Report on Form 10-Q, and unless the context otherwise requires the "Company," "we," "us" and "our" refer to Citius Pharmaceuticals, Inc. and its wholly owned subsidiaries, Citius Pharmaceuticals, LLC and Leonard-Meron Biosciences, Inc., taken as a whole.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements." Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors discussed from time to time in this report and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to:

- our ability to raise funds for general corporate purposes and operations, including our clinical trials;
- the commercial feasibility and success of our technology;
- our ability to recruit qualified management and technical personnel;
- the success of our clinical trials;
- our ability to obtain and maintain required regulatory approvals for our products; and
- the other factors discussed in the "Risk Factors" section and elsewhere in this report.

The foregoing list does not contain all of the risks and uncertainties. Any forward-looking statements speak only as of the date on which they are made, and except as may be required under applicable securities laws; we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the filing date of this report.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30, 2016</u>	<u>September 30, 2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,626,140	\$ 676,137
Prepaid expenses	394,428	60,000
Total Current Assets	<u>2,020,568</u>	<u>736,137</u>
Property and Equipment, Net of Accumulated Depreciation of \$4,108	<u>4,414</u>	<u>—</u>
Other Assets:		
Trademarks	—	5,401
Deposits	2,167	—
In-process research and development	19,400,000	—
Goodwill	1,586,796	—
Total Other Assets	<u>20,988,963</u>	<u>5,401</u>
Total Assets	<u>\$ 23,013,945</u>	<u>\$ 741,538</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 309,174	\$ 559,150
Accrued expenses	585,028	8,260
Accrued compensation	775,000	—
Accrued interest	26,322	—
Notes payable	172,970	—
Derivative warrant liability	2,947,601	738,955
Due to related party	37,637	70,386
Total Current Liabilities	<u>4,853,732</u>	<u>1,376,751</u>
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Preferred stock – \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock - \$0.001 par value; 90,000,000 shares authorized; 73,038,060 and 34,117,886 shares issued and outstanding at June 30, 2016 and September 30, 2015, respectively	73,038	34,118
Additional paid-in capital	32,833,828	8,371,218
Accumulated deficit	<u>(14,746,653)</u>	<u>(9,040,549)</u>
Total Stockholders' Equity (Deficit)	<u>18,160,213</u>	<u>(635,213)</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 23,013,945</u>	<u>\$ 741,538</u>

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
Revenues	\$ —	\$ —	\$ —	\$ —
Operating Expenses				
Research and development	381,119	415,531	1,009,975	1,174,892
General and administrative	1,464,551	194,651	2,515,069	705,580
Stock-based compensation – general and administrative	280,764	163,547	517,677	381,076
Total Operating Expenses	<u>2,126,434</u>	<u>773,729</u>	<u>4,042,721</u>	<u>2,261,548</u>
Operating Loss	<u>(2,126,434)</u>	<u>(773,729)</u>	<u>(4,042,721)</u>	<u>(2,261,548)</u>
Other Income (Expense), Net				
Interest income	782	298	800	2,953
Gain (loss) on revaluation of derivative warrant liability	(1,485,832)	(51,541)	(1,659,738)	272,147
Interest expense	(4,445)	—	(4,445)	(7,500)
Total Other Income (Expense), Net	<u>(1,489,495)</u>	<u>(51,243)</u>	<u>(1,663,383)</u>	<u>267,600</u>
Loss before Income Taxes	(3,615,929)	(824,972)	(5,706,104)	(1,993,948)
Income tax benefit	—	—	—	—
Net Loss	<u>\$ (3,615,929)</u>	<u>\$ (824,972)</u>	<u>\$ (5,706,104)</u>	<u>\$ (1,993,948)</u>
Net Loss Per Share - Basic and Diluted	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.12)</u>	<u>\$ (0.06)</u>
Weighted Average Common Shares Outstanding				
Basic and diluted	<u>72,663,518</u>	<u>32,312,729</u>	<u>48,057,337</u>	<u>31,161,596</u>

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE NINE MONTHS ENDED JUNE 30, 2016
(Unaudited)

	<u>Preferred Stock</u>	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>	
		<u>Shares</u>	<u>Amount</u>				
Balance, October 1, 2015	\$	—	34,117,886	\$ 34,118	\$ 8,371,218	\$ (9,040,549)	\$ (635,213)
Issuance of common stock in private placements, net of costs		—	9,616,668	9,616	4,219,508	—	4,229,124
Issuance of common stock for services		—	166,667	167	89,833	—	90,000
Issuance of common stock, warrants and stock options for acquisition		—	29,136,839	29,137	18,985,936	—	19,015,073
Reclassification of derivative warrant liability to additional paid-in capital		—	—	—	649,656	—	649,656
Stock-based compensation		—	—	—	517,677	—	517,677
Net loss		—	—	—	—	(5,706,104)	(5,706,104)
Balance, June 30, 2016	\$	—	73,038,060	\$ 73,038	\$32,833,828	\$ (14,746,653)	\$ 18,160,213

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Net loss	\$(5,706,104)	\$(1,993,948)
Adjustments to reconcile net loss to net cash used in operating activities:		
(Gain) loss on revaluation of derivative warrant liability	1,659,738	(272,147)
Stock-based compensation expense	517,677	381,076
Stock issued for services	90,000	—
Depreciation	671	—
Write-off of abandoned trademarks	5,401	—
Changes in operating assets and liabilities, net of effect of acquired business:		
Prepaid expenses	(313,884)	(5,918)
Accounts payable	(494,752)	228,168
Accrued expenses	(21,891)	(33,797)
Accrued compensation	160,000	—
Accrued interest	2,460	7,500
Due to related party	(32,749)	8,950
Net Cash Used In Operating Activities	<u>(4,133,433)</u>	<u>(1,680,116)</u>
Cash Flows From Investing Activities:		
Cash acquired in acquisition	255,748	—
Net Cash Provided By Investing Activities	<u>255,748</u>	<u>—</u>
Cash Flows From Financing Activities:		
Repayment of notes payable	(600,000)	—
Net proceeds from private placements	5,427,688	1,079,053
Net Cash Provided By Financing Activities	<u>4,827,688</u>	<u>1,079,053</u>
Net Change in Cash and Cash Equivalents	950,003	(601,063)
Cash and Cash Equivalents - Beginning of Period	<u>676,137</u>	<u>1,552,060</u>
Cash and Cash Equivalents - End of Period	<u>\$ 1,626,140</u>	<u>\$ 950,997</u>
Supplemental Disclosures Of Cash Flow Information and Non-cash Transactions:		
Interest paid	\$ 1,985	\$ —
Income taxes paid	\$ —	\$ —
Fair value of private placement warrants recorded as derivative warrant liability	\$ 1,198,564	\$ 538,051
Reclassification of derivative warrant liability to additional paid-in capital	\$ 649,656	\$ —
Conversion of promissory notes and accrued interest into common stock	\$ —	\$ 633,333

See Note 1 for supplemental cash flow information related to the acquisition of Leonard-Meron Biosciences, Inc.

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Citius Pharmaceuticals, Inc. ("Citius" or the "Company") is a specialty pharmaceutical company dedicated to acquiring, developing and commercializing cancer care and critical care drug products. The Company was founded as Citius Pharmaceuticals, LLC, a Massachusetts limited liability company, on January 23, 2007. On September 12, 2014, Citius Pharmaceuticals, LLC entered into a Share Exchange and Reorganization Agreement (the "Exchange Agreement"), with Citius Pharmaceuticals, Inc. (formerly Trail One, Inc.), a publicly traded company incorporated under the laws of the State of Nevada. Citius Pharmaceuticals, LLC became a wholly-owned subsidiary of Citius (see "Reverse Acquisition" below).

On March 30, 2016, Citius acquired Leonard-Meron Biosciences, Inc. ("LMB") as a wholly-owned subsidiary. LMB is a pharmaceutical company focused on the development and commercialization of critical care products with a concentration on anti-infectives (see "Acquisition of Leonard-Meron Biosciences, Inc." below).

The Company has one approved product, Suprenza (phentermine hydrochloride), which it licensed out for promotion in the United States, Canada and Mexico. On July 1, 2016, the Company announced that it was discontinuing Suprenza and was focusing on the Phase 3 development of Mino-Lok™, an antibiotic lock solution used to treat patients with catheter-related bloodstream infections, and the Phase 2b development of Hydro-Lido for hemorrhoids. Since its inception, the Company has devoted substantially all of its efforts to business planning, research and development, recruiting management and technical staff, and raising capital.

Citius is subject to a number of risks common to companies in the pharmaceutical industry including, but not limited to, risks related to the development by Citius or its competitors of research and development stage products, market acceptance of its products, competition from larger companies, dependence on key personnel, dependence on key suppliers and strategic partners, the Company's ability to obtain additional financing and the Company's compliance with governmental and other regulations.

Reverse Acquisition

On September 12, 2014, Citius completed a reverse acquisition transaction with Citius Pharmaceuticals, LLC, which became a wholly-owned subsidiary of Citius. As part of the reverse acquisition, the former members of Citius Pharmaceuticals, LLC received 21,625,219 shares of the Company's common stock in exchange for their interest in Citius Pharmaceuticals, LLC and, immediately after the transaction, owned 72% of the outstanding common stock. Immediately prior to the transaction, Citius had 5,000,000 shares of common stock outstanding. In connection with the Exchange Agreement, the Company completed the first closing of a Private Offering. Following the acquisition, Citius Pharmaceuticals, LLC began operating as a wholly-owned subsidiary of Citius Pharmaceuticals, Inc.

Accounting principles generally accepted in the United States generally require that a company whose security holders retain the majority voting interest in the combined business be treated as the acquirer for financial reporting purposes. The acquisition was accounted for as a reverse acquisition whereby Citius Pharmaceuticals, LLC was deemed to be the accounting acquirer. Accordingly, the historical consolidated financial statements are those of Citius Pharmaceuticals, LLC as the accounting acquirer. The post-merger combination of Citius Pharmaceuticals, Inc. and Citius Pharmaceuticals, LLC is referred to throughout these notes to consolidated financial statements as the "Company." As the accounting acquirer, Citius Pharmaceuticals, LLC did not acquire any tangible assets from Citius and did not assume any liabilities of Citius. This transaction is not considered a business combination because Citius, the non-operating public corporation, did not meet the definition of a business. Instead, this transaction is considered to be a capital transaction of Citius Pharmaceuticals, LLC and is equivalent to the issuance of shares by Citius Pharmaceuticals, LLC for the net assets of Citius accompanied by a recapitalization.

In connection with the reverse acquisition, Citius Pharmaceuticals, LLC adopted the fiscal year end of Citius, thereby changing our fiscal year end from December 31 to September 30.

Acquisition of Leonard-Meron Biosciences, Inc.

On March 30, 2016, the Company acquired all of the outstanding stock of Leonard-Meron Biosciences, Inc. ("LMB") by issuing 29,136,839 shares of its common stock. As of March 30, 2016, the stockholders of LMB received approximately 41% of the issued and outstanding common stock of the Company. In addition, the Company converted the outstanding common stock warrants of LMB into 3,645,297 common stock warrants of the Company and converted the outstanding common stock options of LMB into 1,158,770 common stock options of the Company.

The Company acquired tangible assets consisting of cash of \$255,748, prepaid expenses of \$20,544, property and equipment of \$5,085, deposits of \$2,167, and identifiable intangible assets of \$19,400,000 related to in-process research and development. The Company assumed accounts payable of \$244,776, accrued expenses of \$598,659, accrued compensation of \$615,000, accrued interest of \$23,862, and notes payable of \$772,970. Accordingly, the net assets acquired amounted to \$17,428,277.

The fair value of LMB's net assets acquired on the date of the acquisition, based on management's analysis of the fair value of the 29,136,839 shares of the Company's common stock issued for LMB's outstanding stock, the 3,645,297 Company common stock warrants issued for LMB's outstanding common stock warrants, and the vested portion of the 1,158,770 Company common stock options issued for LMB's outstanding common stock options was \$19,015,073. The fair value of the common stock issued was estimated at \$17,482,093, the fair value of the warrants issued was estimated at \$1,071,172 and the fair value of the vested options was estimated at \$461,808.

The Company recorded goodwill of \$1,586,796 for the excess of the purchase price of \$19,015,073 over the net assets acquired of \$17,428,277.

In-process research and development represents the value of LMB's leading drug candidate which is an antibiotic solution used to treat catheter-related bloodstream infections (Mino-Lok™). Goodwill represents the value of LMB's industry relationships and its assembled workforce. In-process research and development and goodwill will not be amortized but will be tested at least annually for impairment. The purchase price allocation is preliminary and is subject to adjustment for future events.

Unaudited pro forma operating results, assuming the acquisition of LMB had been made as of October 1, 2014, are as follows:

	Nine Months Ended	
	June 30,	
	2016	2015
Revenues	\$ —	\$ —
Net loss	<u>\$ (8,959,053)</u>	<u>\$ (4,659,479)</u>
Net loss per share – basic and diluted	<u>\$ (0.13)</u>	<u>\$ (0.08)</u>

Basis of Presentation and Summary of Significant Accounting Policies

Basis of Preparation — As a result of the reverse acquisition, the accompanying consolidated financial statements include the operations of Citius Pharmaceuticals, LLC (the accounting acquirer). The accompanying consolidated financial statements also include the operations of Citius Pharmaceuticals, Inc. (formerly Trail One, Inc.) since the September 12, 2014 reverse acquisition and the operations of Leonard-Meron Biosciences, Inc. ("LMB") since the March 30, 2016 acquisition. All significant inter-company balances and transactions have been eliminated in consolidation.

All share and per share amounts presented in these consolidated financial statements reflect the one-for-one exchange ratio of Citius Pharmaceuticals, LLC member interests to common shares in the reverse acquisition.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, without being audited, pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary to make the financial statements not misleading have been included. Operating results for the nine months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015 filed with the Securities and Exchange Commission, and the Company's Form 8-K for the March 30, 2016 acquisition of Leonard-Meron Biosciences, Inc. filed with the Securities and Exchange Commission.

There have been no recently issued accounting pronouncements that have had or are expected to have a material impact on the Company's consolidated financial statements.

Use of Estimates — Our accounting principles require our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Estimates having relatively higher significance include the accounting for acquisitions, stock-based compensation, valuation of warrants, and income taxes. Actual results could differ from those estimates.

Net Loss per Common Share — Basic net loss per share of common stock has been computed by dividing net loss by the weighted average number of shares outstanding during the period. Diluted net loss per share of common stock has been computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding during such period. In a net loss period, options, warrants and convertible securities are anti-dilutive and therefore excluded from diluted loss per share calculations.

2. GOING CONCERN UNCERTAINTY AND MANAGEMENT'S PLAN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company experienced negative cash flows from operations of \$4,133,433 and \$1,680,116 for the nine months ended June 30, 2016 and 2015, respectively. At June 30, 2016, the Company had a working capital deficit of \$2,833,164. The Company has no revenue and has relied on proceeds from equity transactions and debt to finance its operations. At June 30, 2016, the Company had limited capital to fund its operations. This raises substantial doubt about the Company's ability to continue as a going concern.

The Company plans to raise capital through equity financings from outside investors as well as raise additional funds from existing investors. There is no assurance, however, that the Company will be successful in raising the needed capital and, if funding is available, that it will be available on terms acceptable to the Company.

The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of the above uncertainty.

3. BUSINESS AGREEMENTS

Alpex Pharma S.A.

On June 12, 2008, the Company entered into a collaboration and license agreement (the "Alpex Agreement") with Alpex Pharma S.A. ("Alpex"), in which Alpex granted the Company an exclusive right and license to use certain Alpex intellectual property in order to develop and commercialize orally disintegrating tablet formulations of pharmaceutical products in United States, Canada and Mexico. In addition, Alpex manufactures Suprenza, the Company's commercialized pharmaceutical product, on a contract basis. The agreement was amended on November 15, 2011 as part of an Amendment and Coordination Agreement (see the "Three-Party Agreement" below).

Under the terms of the Alpex Agreement, as amended by the Three-Party Agreement dated November 15, 2011 (see below), Alpex is entitled to a payment per tablet manufactured and a percentage of all milestone, royalty and other payments received by the Company from Prenzamax, LLC, pursuant to a sublicense agreement (see below). A milestone is generally understood as a completion of specific defined task towards the completion of a project or performance of a contract. For example, pursuant to the Company's agreement with Alpex, the Company is required to pay Alpex for the completion of certain tasks including, but not limited to, the development of the analytical methods, formulations and filings of the NDA. In addition, under the terms of the Alpex Agreement, Alpex retained the right to use the clinical data generated by the Company to file for regulatory approval and market Suprenza in the rest of the world. In the event that Alpex has such sales, Alpex will pay the Company a percentage royalty on net sales, as defined ("Alpex Revenue"). No milestone, royalty or other payments were earned or received by the Company through June 30, 2016 except for the reimbursement of regulatory fees under the Three-Party Agreement.

On July 1, 2016, the Company announced that it notified the Food and Drug Administration ("FDA") and Alpex that it was discontinuing Suprenza.

Prenzamax, LLC

On November 15, 2011, the Company entered into an exclusive license agreement (the "Sublicense Agreement") with Prenzamax, LLC ("Prenzamax"), in which the Company granted Prenzamax and its affiliates the exclusive right to commercialize Suprenza in the United States. Prenzamax is an affiliate of Akrimax, a related party (see Note 7) and was formed for the specific purpose of managing the Sublicense Agreement. Under the terms of the Sublicense Agreement, Prenzamax is to pay the Company a percentage of the product's EBITDA, as defined ("Profit Share Payments"). In addition, Prenzamax is to reimburse the Company directly for certain development costs. These payments are to commence once Prenzamax has achieved profitability, as defined in the Sublicense Agreement. Further, under the terms of the Sublicense Agreement, Prenzamax is required to share in the royalty payment due to Alpex under the Alpex Agreement. In addition, Prenzamax is entitled to a percentage of the Alpex Revenue received by the Company. The Company has not been reimbursed for any development costs nor has it earned any royalty payments through June 30, 2016.

On July 1, 2016, the Company announced that it notified Prenzamax that it was discontinuing Suprenza.

Three-Party Agreement

On November 15, 2011, the Company, Alpex and Prenzamax entered into the Three-Party Agreement wherein the terms of the Alpex Agreement were modified and Prenzamax and the Company agreed to each pay a portion of certain regulatory filing fees for as long as Prenzamax is purchasing Suprenza from Alpex pursuant to the Three-Party Agreement. During the three months ended March 31, 2016, the Company received \$292,575 from Alpex as reimbursement for regulatory filing fees that were previously expensed during the three months ended December 31, 2015. The reimbursement was recorded as a reduction of research and development expenses.

On July 1, 2016, the Company announced that it notified Alpex and Prenzamax that it was discontinuing Suprenza.

Patent and Technology License Agreement

LMB has a patent and technology license agreement with Novel Anti-Infective Therapeutics, Inc., ("NAT") to develop and commercialize Mino-Lok™ on an exclusive, worldwide (except for South America), sub licensable basis. LMB expensed a one-time license fee of \$350,000 during the year ended May 31, 2014. LMB will pay an annual maintenance fee of \$30,000 that increases over five years to \$90,000, until commercial sales of a product subject to the license. LMB will also pay annual royalties on net sales of licensed products, with royalties ranging from the mid-single digits to the low double digits. In limited circumstances in which the licensed product is not subject to a valid patent claim and a competitor is selling a competing product, the royalty rate is in the low-single digits. After a commercial sale is obtained, LMB must pay minimum aggregate annual royalties that increase in subsequent years. LMB must also pay NAT up to \$1,050,000 upon achieving specified regulatory and sales milestones. Finally, LMB must pay NAT a specified percentage of payments received from any sub licensees.

4. NOTES PAYABLE

Promissory Notes

In November 2013, the Company issued two promissory notes (the "Promissory Notes") to two existing investors in aggregate total principal amount of \$600,000. The Promissory Notes accrued interest at 5.00% per annum and were due at the earliest of (1) December 19, 2014, (2) the occurrence of an event of default as defined in the Promissory Notes, (3) an initial installment of \$100,000 principal amount, to each investor, upon the receipt by the Company of a minimum \$6,500,000 in aggregate proceeds under any financing transaction, (4) a second installment of \$100,000 principal amount, to each investor, upon the receipt by the Company of a minimum \$8,500,000 in aggregate proceeds under any financing transaction, and (5) a third installment of \$100,000 principal amount, to each investor, upon the receipt by the Company of a minimum \$10,000,000 in aggregate proceeds under any financing transaction. On December 31, 2014, the note holders requested conversion of the outstanding \$600,000 Promissory Notes and accrued interest of \$33,333 into 1,055,554 shares of common stock at a conversion price of \$0.60 per share.

Notes Payable – Related Parties

On March 30, 2016, the Company assumed \$772,970 of demand notes payable in the acquisition of LMB. The principal balance of the notes payable to our Chairman, Leonard Mazur, was \$760,470 and the principal balance of the notes payable to our Chief Executive Officer, Myron Holubiak, was \$12,500. Notes with a principal balance of \$704,000 accrue interest at 4.0% per annum and notes with a principal balance of \$68,970 accrue interest at 12% per annum. In April 2016, \$600,000 of 4.0% demand notes payable and accrued interest of \$1,985 was repaid to Leonard Mazur.

Interest Expense

Interest expense on notes payable was \$4,445 for the three and nine months ended June 30, 2016, and related to the demand notes payable assumed in the acquisition of LMB. Interest expense notes payable for the three and nine months ended June 30, 2015 was \$0 and \$7,500, respectively, and related to the promissory notes issued to two existing investors.

5. DERIVATIVE WARRANT LIABILITY

Derivative financial instruments are recognized as a liability on the consolidated balance sheet and measured at fair value. At June 30, 2016 and September 30, 2015, the Company had outstanding warrants to purchase 5,508,334 shares and 3,037,037 shares, respectively, of its common stock that are considered to be derivative instruments since the agreements contain "down round" provisions whereby the exercise price of the warrants is subject to adjustment in the event that the Company issues common stock for less than \$0.60 per share within one-year of the original issuance of the warrants (see Note 6).

The Company performs valuations of the warrants using the Black-Scholes option pricing model which value was also compared to a Binomial Option Pricing Model for reasonableness. This model requires input of assumptions including the risk-free interest rates, volatility, expected life and dividend rates and has also considered the likelihood of "down round" financings. Selection of these inputs involves management's judgment and may impact net income. Due to our limited operating history and limited number of sales of our common stock, we estimate our volatility based on a number of factors including the volatility of comparable publicly traded pharmaceutical companies. The volatility factor used in the Black-Scholes option pricing model has a significant effect on the resulting valuation of the derivative liabilities on our balance sheet. The volatility calculated at June 30, 2016 was 62%. We used a risk-free interest rate of 1.01%, estimated lives of 4.00 to 4.82 years, which are the remaining contractual lives of the warrants subject to "down round" provisions, and no dividends to our common stock. The volatility calculated at September 30, 2015 was 57%. We used a risk-free interest rate of 1.37%, estimated lives of 4.47 to 4.96 years, which are the remaining contractual lives of the warrants subject to "down round" provisions, and no dividends to our common stock.

On March 20, 2016, anti-dilution rights related to warrants to purchase 500,000 shares of common stock expired which resulted in a reclassification from derivative warrant liability to additional paid-in capital of \$114,308. During the three months ended June 30, 2016, anti-dilution rights related to warrants to purchase 1,645,371 shares of common stock expired which resulted in a reclassification from derivative warrant liability to additional paid-in capital of \$535,348.

The table below presents the changes in the derivative warrant liability, which is measured at fair value on a recurring basis and classified as Level 3 in the fair value hierarchy:

	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Derivative warrant liability, beginning of period	\$ 738,955	\$ 1,450,943
Fair value of warrants issued	1,198,564	538,051
Total realized/unrealized losses (gains) included in net loss ⁽¹⁾	1,659,738	(272,147)
Reclassification of liability to additional paid-in capital	(649,656)	—
Derivative warrant liability, end of period	<u>\$ 2,947,601</u>	<u>\$ 1,716,847</u>

(1) Included in gain (loss) on revaluation of derivative warrant liability in the Condensed Consolidated Statement of Operations.

None of the warrants issued to purchase 3,645,297 shares of common stock in connection with the acquisition of LMB contain "down round" provisions.

6. COMMON STOCK, STOCK OPTIONS AND WARRANTS

Private Offering

In 2014, the Company entered into an investment banking agreement to raise up to \$5.1 million and issue up to 8,500,000 Units described below. The agreement contemplated a Reverse Acquisition with a public company. As of December 31, 2013, the Company capitalized as deferred offering costs a \$25,000 retainer for legal costs associated with this offering. The \$25,000 retainer was charged to additional paid-in capital on completion of the first closing of the offering.

On September 12, 2014, the Company sold 3,400,067 Units for a purchase price of \$0.60 per Unit for gross proceeds of \$2,040,040. Each Unit consists of one share of common stock and one five-year warrant (the "Investor Warrants") to purchase one share of common stock at an exercise price of \$0.60, (the "Private Offering"). The exercise price of the Investor Warrants was subject to adjustment, for up to one year, if the Company issues common stock at a price lower than the exercise price, subject to certain exceptions. The Investor Warrants will be redeemable by the Company at a price of \$0.001 per Investor Warrant at any time subject to the conditions that (i) the common stock has traded for twenty (20) consecutive trading days with a closing price of at least \$1.50 per share with an average trading volume of 50,000 shares per day and (ii) the Company provides 20 trading days prior notice of the redemption and the closing price of the common stock is not less than \$1.17 for more than any 3 days during such notice period and (iii) the underlying shares of common stock are registered.

The Placement Agent was paid a commission of ten percent (10%) and a non-accountable expense allowance of three percent (3%) of the funds raised in the Private Offering. As a result of the foregoing arrangement, the Placement Agent was paid commissions and expenses of \$265,206. In addition, the Company issued to the Placement Agent and their designees five-year warrants (the "Placement Agent Unit Warrants") to purchase 680,013 Units at an exercise price of \$0.60 per Unit. The Placement Agent Unit Warrants are exercisable on a cash or cashless basis with respect to purchase of the Units, and will be exercisable only for cash with respect to warrants received as part of the Units. The exercise price of the warrants underlying the Placement Agent Unit Warrants was subject to weighted-average adjustment, for up to one year, if the Company issues common stock at a price lower than the exercise price, subject to certain exceptions.

In addition, the Placement Agent was issued warrants to purchase 1,000,000 shares of common stock exercisable for cash at \$0.60 per share for investment banking services provided in connection with the transaction (the "Placement Agent Share Warrants"). Other cash expenses related to the private placement totaled \$169,000. The Placement Agent may, while the Placement Agent Unit Warrants are outstanding, appoint one person to the Board of Directors, and designate one person who may attend meetings of the Board of Directors as an observer. On November 2, 2015, the Placement Agent waived its right to appoint a person to the Board of Directors.

In connection with the Private Offering, the Company entered into a Registration Rights Agreement pursuant to which the Company is required to file a registration statement (the "Registration Statement"), registering for resale all shares of common stock (i) included in the Units; and (ii) issuable upon exercise of the Investor Warrants. The Company has agreed to use its reasonable efforts to cause the Registration Statement to be filed no later than 60 days after the completion of the Private Offering (the "Filing Deadline"), and to have the Registration Statement declared effective within 180 days of the Filing Deadline. On May 12, 2016, the Company announced that it had completed the final phase of the Private Offering. Any holders of the shares of common stock removed from the Registration Statement as a result of a Section 415 comment from the SEC shall be included in a subsequent registration statement the Company will file no later than six months after the prior registration statement (or such other period as permitted by SEC rules). The Company filed the Registration Statement on September 11, 2015 and it was declared effective on January 21, 2016.

[Table of Contents](#)

During the year ended September 30, 2015, the Company sold an additional 2,837,037 Units for a purchase price of \$0.54 per Unit and 200,000 Units for a purchase price of \$0.60 per Unit for gross proceeds of \$1,652,000. Each Unit consists of one share of common stock and one Investor Warrant (see description above). There was no placement agent for the 2015 private placements and other cash expenses related to the placements were \$142,507. In connection with these placements, the Company credited \$741,058 to stockholders' equity (deficit) and \$768,435 to derivative warrant liability.

During the nine months ended June 30, 2016, the Company sold an additional 4,350,001 Units for a purchase price of \$0.54 per Unit and 266,667 Units for a purchase price of \$0.60 per Unit for gross proceeds of \$2,509,000. Each Unit consists of one share of common stock and one Investor Warrant (see description above). There was no placement agent for these private placements and other cash expenses related to the placements were \$81,312. In connection with these placements, the Company credited \$1,229,124 to stockholders' equity (deficit) and \$1,198,564 to derivative warrant liability.

On March 22, 2016, the Company sold 5,000,000 shares of common stock at \$0.60 per share to its Chairman of the Board, Leonard Mazur, for gross proceeds of \$3,000,000. There were no expenses related to this placement.

Stock Options

On September 12, 2014, the Board of Directors adopted the 2014 Stock Incentive Plan (the "2014 Plan") and reserved 13,000,000 shares of common stock for issuance to employees, directors and consultants. On September 12, 2014, the stockholders approved the plan. Pursuant to the 2014 Plan, the Board of Directors (or committees and/or executive officers delegated by the Board of Directors) may grant stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and cash-based awards. As of June 30, 2016, there were options to purchase an aggregate of 6,658,770 shares of common stock outstanding under the 2014 Plan and 6,341,230 shares available for future grants.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. Due to its limited operating history and limited number of sales of its Common Stock, the Company estimated its volatility in consideration of a number of factors including the volatility of comparable public companies. The Company uses historical data, as well as subsequent events occurring prior to the issuance of the consolidated financial statements, to estimate option exercises and employee terminations within the valuation model. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption. The expected term of stock options granted, all of which qualify as "plain vanilla," is based on the average of the contractual term (generally 10 years) and the vesting period. For non-employee options, the expected term is the contractual term.

A summary of option activity under the 2014 Plan as of June 30, 2016 and the changes during the nine months then ended is presented below:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2015	3,900,000	\$ 0.47	8.94 years	\$ 297,000
Granted	1,600,000	\$ 0.67		
Assumed in acquisition	1,158,770	\$ 0.07		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding at June 30, 2016	6,658,770	\$ 0.45	8.46 years	\$ 2,927,666
Exercisable at June 30, 2016	3,886,125	\$ 0.40	8.21 years	\$ 1,898,119

[Table of Contents](#)

On September 12, 2014, the Board of Directors granted stock options to purchase 3,300,000 shares of common stock at an exercise price of \$0.45 per share. The weighted average grant-date fair value of the options was estimated at \$0.34 per share. These options vest over three years and have a term of 10 years.

On April 1, 2015, the Board of Directors granted stock options to purchase 100,000 shares of common stock at an exercise price of \$0.60 per share. The weighted average grant-date fair value of the options was estimated at \$0.16 per share. These options vested immediately and have a term of 5 years. On June 1, 2015, the Board of Directors granted stock options to purchase 500,000 shares of common stock at an exercise price of \$0.60 per share. The weighted average grant-date fair value of the options was estimated at \$0.27 per share. These options vest over three years and have a term of 10 years.

In October 2015, the Company appointed two new directors. Each director received an option to purchase 400,000 shares of the Company's common stock at an exercise price of \$0.54 per share in consideration for their services as members of the Company's Board of Directors. The weighted average grant-date fair value of the options was estimated at \$0.28 per share. These options vest over 14 months and have a term of 10 years.

On March 30, 2016, the Company assumed stock options to purchase 1,158,770 shares of common stock in connection with the acquisition of LMB. The LMB option holders received stock options to purchase 1,068,241 shares at an exercise price of \$0.001 per share and 90,529 shares at an exercise price of \$0.91 per share. Pursuant to the original grants, options to purchase 72,423 shares were immediately vested and options to purchase 1,086,347 shares vest over three years. The March 30, 2016 estimated fair value of the stock options was \$670,242. The fair value of the vested options was estimated at \$461,808 and has been included in the purchase price of LMB. The March 30, 2016 fair value of the unvested options was estimated at \$208,434 per share and will be expensed over the remaining vesting period of the options. These options all had original terms of 10 years.

On June 23, 2016, the Board of Directors granted stock options to four directors. Each director received an option to purchase 200,000 shares of the Company's common stock at an exercise price of \$0.80 per share in consideration for their services as members of the Company's Board of Directors. The weighted average grant-date fair value of the options was estimated at \$0.44 per share. These options vest in full on June 23, 2017 and have a term of 10 years.

Stock-based compensation expense for the three months ended June 30, 2016 and 2015 was \$280,764 and \$163,547, respectively. Stock-based compensation expense for the nine months ended June 30, 2016 and 2015 was \$517,677 and \$381,076, respectively.

At June 30, 2016, unrecognized total compensation cost related to unvested awards of \$831,020 is expected to be recognized over a weighted average period of 1.04 years.

Warrants

The Company has reserved 17,059,095 shares of common stock for the exercise of outstanding warrants. Because the Company does not have sufficient authorized shares to cover all share-settleable instruments, the Company evaluated the potential for additional derivative liability accounting and the impact was not considered material. The following table summarizes the warrants outstanding at June 30, 2016:

	<u>Exercise price</u>	<u>Number</u>	<u>Expiration Dates</u>
Investor Warrants	\$ 0.60	3,400,067	September 12, 2019
Placement Agent Unit Warrants	0.60	680,013	September 12, 2019
Warrants underlying Placement Agent Unit Warrants	0.60	680,013	September 12, 2019
Placement Agent Share Warrants	0.60	1,000,000	September 12, 2019
Investor Warrants	0.60	2,145,371	March 19, 2020 – June 26, 2020
Investor Warrants	0.60	891,666 (1)	July 2, 2020 – September 14, 2020
Investor Warrants	0.60	583,334 (1)	November 5, 2020 – November 20, 2020
Investor Warrants	0.60	2,133,334 (1)	January 7, 2021 – March 21, 2021
Investor Warrants	0.60	1,900,000 (1)	April 15, 2021 – April 25, 2021
LMB Warrants	0.41	1,352,266	June 12, 2019 - March 2, 2021
LMB Warrants	0.66	122,319	September 30, 2019 - January 8, 2020
LMB Warrants	1.38	265,814	November 3, 2019 - March 6, 2020
LMB Warrants	0.50	1,108,249	August 18, 2020 – March 14, 2021
LMB Warrants	0.91	796,649	March 24, 2022 – April 29, 2022
		<u>17,059,095</u>	

(1) Fair value of these warrants are included in the derivative warrant liability

On March 30, 2016, the Company granted warrants to purchase 3,645,297 shares of common stock in connection with the acquisition of LMB. The warrants have exercise prices between \$0.41 and \$1.38 per share. All warrants were vested at March 30, 2016. The fair value of the warrants was estimated at \$1,071,172 and has been included in the purchase price of LMB. The warrants have remaining terms between 2.95 and 5.83 years.

At June 30, 2016, the weighted average remaining life of all of the outstanding warrants is 3.96 years, all warrants are exercisable, and the aggregate intrinsic value for the warrants outstanding was \$4,999,440.

7. RELATED PARTY TRANSACTIONS

The Company's headquarters were previously located in Maynard, MA in the office space of a company affiliated through common ownership. In connection with the March 30, 2016 acquisition of LMB, the Company changed its principal executive offices to Cranford, New Jersey. The Company did not record any revenue or expense related to the use of the Maynard, MA office space as management has determined the usage to be immaterial and the affiliate has not charged for the usage.

As of June 30, 2016 and September 30, 2015, the Company owed \$37,637 and \$70,386, respectively, to a company affiliated through common ownership for the expenses the related party paid on the Company's behalf and services performed by the related party.

Our Chairman of the Board, Leonard Mazur, is the cofounder and Vice Chairman of Akrimax Pharmaceuticals, LLC ("Akrimax"), a privately held pharmaceutical company specializing in producing cardiovascular and general pharmaceutical products (see Note 3).

Our Chairman of the Board, Leonard Mazur, and our Chief Executive Officer, Myron Holubiak, are co-founders and significant shareholders in LMB. In connection with the acquisition of LMB, our Chairman purchased an additional 5,000,000 shares of the Company.

8. EMPLOYMENT AND CONSULTING AGREEMENTS

Employment Agreements

The Company entered into a three year employment agreement with its Chief Executive Officer, Leonard Mazur, effective September 12, 2014. Upon expiration, the agreement automatically renews for successive periods of one-year. The agreement requires the Company to pay base compensation plus incentives over the employment term plus severance benefits upon the occurrence of certain events as described in the agreement. Under the agreement, Leonard Mazur was granted options to purchase 3,300,000 shares of common stock. On March 30, 2016, in connection with the acquisition of LMB, Leonard Mazur resigned as Chief Executive Officer but will continue to serve as Chairman of the Board under the current employment agreement.

On March 30, 2016, in connection with the acquisition of LMB, the Company entered into a three year employment agreement with Myron Holubiak to serve as Chief Executive Officer. Upon expiration, the agreement automatically renews for successive periods of one-year. The agreement requires the Company to pay base compensation plus incentives over the employment term plus severance benefits upon the occurrence of certain events as described in the agreement.

The Company has employment agreements with certain other employees that require the Company to pay base compensation plus incentives over the employment term plus severance benefits upon the occurrence of certain events as described in the agreement.

Consulting Agreements

Effective September 1, 2014, the Company entered into three consulting agreements. Two of the agreements are for financial consulting services including accounting, preparation of financial statements and filings with the SEC. The third agreement is for financing activities, product development strategies and corporate development. The agreements may be terminated by the Company or the consultant with 90 days written notice.

Consulting expense under the agreements for the three months ended June 30, 2016 and 2015 was \$93,000 and \$87,000, respectively. Consulting expense under the agreements for the nine months ended June 30, 2016 and 2015 was \$367,000 and \$261,000, respectively. Consulting expense for each of the three months ended June 30, 2016 and 2015 includes \$12,000 paid to a financial consultant who is a stockholder of the Company. Consulting expense for each of the nine months ended June 30, 2016 and 2015 includes \$36,000 paid to a financial consultant who is a stockholder of the Company. In addition, one financial consulting services agreement provides for the grant of options to purchase 500,000 shares of common stock contingent upon approval by the Board of Directors. The options were granted on June 1, 2015.

9. OPERATING LEASE

LMB leases office space in Cranford, New Jersey at a monthly rental rate of \$2,167 pursuant to an agreement which currently expires on July 31, 2016. LMB is in the process of extending the agreement.

10. SUBSEQUENT EVENTS

The Company plans to hold its Annual Meeting of Stockholders on September 15, 2016. At the meeting the stockholders will be asked to (1) elect seven directors to serve until the 2017 Annual Meeting of Stockholders, (2) ratify the selection of our independent registered public accounting firm, (3) approve an increase in the number of shares of authorized common stock from 90,000,000 shares to 200,000,000 shares, (4) grant the Board of Directors the authority to effect a reverse stock split of the common stock by a ratio of not less than 1-for-8 and not more than 1-for-20 during the next year, and (5) approve a change in the state of incorporation of the Company to Delaware from Nevada.

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 for the nine months ended June 30, 2016 should be read together with our unaudited consolidated financial statements and related notes included elsewhere in this report and in conjunction with the audited financial statements of Citius Pharmaceuticals, Inc. included in our Annual Report on Form 10-K for the year ended September 30, 2015 and the Form 8-K for the March 30, 2016 acquisition of Leonard-Meron Biosciences, Inc. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Please see "Cautionary Note Regarding Forward-Looking Statements."

Historical Background

Citius Pharmaceuticals, Inc. ("Citius" or the "Company") is a specialty pharmaceutical company dedicated to acquiring, developing and commercializing cancer care and critical care drug products. On September 12, 2014, we acquired Citius Pharmaceuticals, LLC as a wholly-owned subsidiary.

Citius Pharmaceuticals, LLC was founded in Massachusetts in January 2007. Activities since Citius Pharmaceuticals, LLC's inception through June 30, 2016 were devoted primarily to the development and commercialization of therapeutic products for large and growing markets using innovative patented or proprietary formulations and novel drug delivery technology.

On March 30, 2016, the Company acquired all of the outstanding stock of Leonard-Meron Biosciences, Inc. ("LMB") by issuing 29,136,839 shares of its common stock. As of March 30, 2016, the stockholders of LMB received approximately 41% of the issued and outstanding common stock of the Company. In addition, the Company converted the outstanding common stock warrants of LMB into 3,645,297 common stock warrants of the Company and converted the outstanding common stock options of LMB into 1,158,770 common stock options of the Company.

In connection with the acquisition, the Company acquired tangible assets consisting of cash of \$255,748, prepaid expenses of \$20,544, property and equipment of \$5,085, deposits of \$2,167, and identifiable intangible assets of \$19,400,000 related to in-process research and development. The Company assumed accounts payable of \$244,776, accrued expenses of \$598,659, accrued compensation of \$615,000, accrued interest of \$23,862 and notes payable of \$772,970. The fair value of LMB's net assets acquired on the date of the acquisition, based on management's analysis of the fair value of the 29,136,839 shares of the Company's common stock issued for LMB's outstanding stock, the 3,645,297 Company common stock warrants issued for LMB's outstanding common stock warrants, and the 1,158,770 Company common stock options issued for LMB's outstanding common stock options was \$19,015,073. The Company recorded goodwill of \$1,586,796 for the excess of the purchase price over the net assets acquired.

In-process research and development represents the value of LMB's leading drug candidate, which is an antibiotic solution used to treat catheter-related bloodstream infections. Goodwill represents the value of LMB's industry relationships and its assembled workforce. In-process research and development and goodwill will not be amortized, but will be tested at least annually for impairment. The purchase price allocation is preliminary and is subject to adjustment for future events.

Through June 30, 2016, the Company has devoted substantially all of its efforts to product development, raising capital, building infrastructure through strategic alliances and coordinating activities relating to its first commercial product Suprenza. On July 1, 2016, the Company announced that it was discontinuing Suprenza and was focusing on the Phase 3 development of Mino-Lok™, an antibiotic lock solution used to treat patients with catheter-related bloodstream infections, and the Phase 2b development of Hydro-Lido for hemorrhoids. The Company has not yet realized any revenues from its planned principal operations.

Accounting principles generally accepted in the United States require that a company whose security holders retain the majority voting interest in the combined business be treated as the acquirer for financial statement reporting purposes. The acquisition of Citius Pharmaceuticals, LLC was accounted for as a "Reverse Acquisition" whereby Citius Pharmaceuticals, LLC was deemed to be the accounting acquirer. The historical financial statements of Citius Pharmaceuticals, LLC are presented as our historical financial statements. The historical fiscal year end of Citius Pharmaceuticals, LLC was December 31. In connection with the Reverse Acquisition, we adopted the fiscal year end of Citius Pharmaceuticals, Inc. thereby changing our fiscal year end from December 31 to September 30. The following analysis of our results of operations reflects the accounting treatment required as a result of the Reverse Acquisition and the operations of LMB since the March 30, 2016 acquisition.

Business Agreements

Patent and Technology License Agreement

On May 14, 2014, LMB entered into a patent and technology license agreement with Novel Anti-Infective Therapeutics, Inc., ("NAT") to develop and commercialize Mino-Lok™ on an exclusive, worldwide (except for South America), sub licensable basis. LMB expensed a one-time license fee of \$350,000 during the year ended May 31, 2014. LMB will pay an annual maintenance fee of \$30,000 that increases over five years to \$90,000, until commercial sales of a product subject to the license. LMB will also pay annual royalties on net sales of licensed products, with royalties ranging from the mid-single digits to the low double digits. In limited circumstances in which the licensed product is not subject to a valid patent claim and a competitor is selling a competing product, the royalty rate is in the low-single digits. After a commercial sale is obtained, LMB must pay minimum aggregate annual royalties that increase in subsequent years. LMB must also pay NAT up to \$1,050,000 upon achieving specified regulatory and sales milestones. Finally, LMB must pay NAT a specified percentage of payments received from any sub licensees.

Suprenza Business Agreements

On June 12, 2008, the Company entered into a collaboration and license agreement (the "Alpex Agreement") with Alpex Pharma S.A. ("Alpex"), in which Alpex granted the Company an exclusive right and license to use certain Alpex intellectual property in order to develop and commercialize orally disintegrating tablet formulations of pharmaceutical products in United States, Canada and Mexico. In addition, Alpex manufactures Suprenza, the Company's commercialized pharmaceutical product, on a contract basis. The agreement was amended on November 15, 2011 as part of an Amendment and Coordination Agreement (see the "Three-Party Agreement" below).

Under the terms of the Alpex Agreement, as amended by the Three-Party Agreement dated November 15, 2011 (see below), Alpex is entitled to a payment per tablet manufactured and a percentage of all milestone, royalty and other payments received by the Company from Prenzamax, LLC, pursuant to a sublicense agreement (see below). A milestone is generally understood as a completion of specific defined task towards the completion of a project or performance of a contract. For example, pursuant to the Company's agreement with Alpex, the Company is required to pay Alpex for the completion of certain tasks including, but not limited to, the development of the analytical methods, formulations and filings of the NDA. In addition, under the terms of the Alpex Agreement, Alpex retained the right to use the clinical data generated by the Company to file for regulatory approval and market Suprenza in the rest of the world. In the event that Alpex has such sales, Alpex will pay the Company a percentage royalty on net sales, as defined ("Alpex Revenue"). No milestone, royalty or other payments have been earned or received by the Company through June 30, 2016 except for the reimbursement of regulatory fees under the Three-Party Agreement.

On November 15, 2011, the Company entered into an exclusive license agreement (the "Sublicense Agreement") with Prenzamax, LLC ("Prenzamax"), in which the Company granted Prenzamax and its affiliates the exclusive right to commercialize Suprenza in the United States. Prenzamax is an affiliate of Akrimax, a related party and was formed for the specific purpose of managing the Sublicense Agreement. Under the terms of the Sublicense Agreement, Prenzamax is to pay the Company a percentage of the product's EBITDA, as defined ("Profit Share Payments"). In addition, Prenzamax is to reimburse the Company directly for certain development costs. These payments are to commence once Prenzamax has achieved profitability, as defined in the Sublicense Agreement. Further, under the terms of the Sublicense Agreement, Prenzamax is required to share in the royalty payment due to Alpex under the Alpex Agreement. In addition, Prenzamax is entitled to a percentage of the Alpex Revenue received by the Company.

The Company has not been reimbursed for any development costs nor has it earned any Profit Share Payments through June 30, 2016.

On November 15, 2011, the Company, Alpex and Prenzamax entered into the Three-Party Agreement wherein the terms of the Alpex Agreement were modified and Prenzamax and the Company agreed to each pay a portion of certain regulatory filing fees for as long as Prenzamax is purchasing Suprenza from Alpex pursuant to the Three-Party Agreement. During the three months ended March 31, 2016, the Company received \$292,575 from Alpex as reimbursement for regulatory filing fees that were previously expensed during the three months ended December 31, 2015. The reimbursement was recorded as a reduction of research and development expenses.

On July 1, 2016, the Company announced that it notified the Food and Drug Administration ("FDA"), Alpex and Prenzamax that it was discontinuing Suprenza.

RESULTS OF OPERATIONS

Three months ended June 30, 2016 compared with the three months ended June 30, 2015

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Revenues	\$ —	\$ —
Operating expenses:		
Research and development	381,119	415,531
General and administrative	1,464,551	194,651
Stock-based compensation	280,764	163,547
Total operating expenses	<u>2,126,434</u>	<u>773,729</u>
Operating loss	(2,126,434)	(773,729)
Interest income	782	298
Loss on revaluation of derivative warrant liability	(1,485,832)	(51,541)
Interest expense	(4,445)	—
Net loss	<u>\$ (3,615,929)</u>	<u>\$ (824,972)</u>

Revenues

We did not generate any revenues for the three months ended June 30, 2016 and 2015. Beginning in May 2012, our strategic sales and marketing partner, Prenzamax, generated revenues from the sale of Suprenza, our first commercial product. Under the partnering agreement, we were not entitled to any revenues during the three months ended June 30, 2016 and 2015. On July 1, 2016, the Company announced that it was discontinuing Suprenza and was focusing on the Phase 3 development of Mino-Lok™, an antibiotic lock solution used to treat patients with catheter-related bloodstream infections, and the Phase 2b development of Hydro-Lido for hemorrhoids.

Research and Development Expenses

For the three months ended June 30, 2016, research and development expenses were \$381,119 as compared to \$415,531 during the three months ended June 30, 2015. The \$34,412 decrease in 2016 was primarily due to the \$199,052 in costs incurred by LMB on the development of Mino-Lok™ offset by a decrease of \$233,464 in costs incurred in the development of our product for the treatment of hemorrhoids. In addition, at June 30, 2016, LMB had prepaid expenses of \$294,259 related to the manufacturing of clinical supplies for the Phase 3 development of Mino-Lok™. We are actively seeking to raise additional capital in order to fund our research and development efforts.

General and Administrative Expenses

For the three months ended June 30, 2016, general and administrative expenses were \$1,464,551 as compared to \$194,651 during the three months ended June 30, 2015. The \$1,269,900 increase in 2016 was primarily due to the acquisition of LMB which resulted in increased compensation costs, increased consulting fees incurred for financing activities and corporate development services, and increased investor relations fees.

Stock-based Compensation Expense

For the three months ended June 30, 2016, stock-based compensation expense was \$280,764 as compared to \$163,547 for the three months ended June 30, 2015. The \$280,764 expense for the three months ended June 30, 2016 includes the expenses for our Chairman's options, an option granted to a consultant, options granted to two directors (including our current Chief Executive Officer) and options granted in connection with the acquisition of LMB. The \$163,547 expense for the three months ended June 30, 2015 was due to the stock options granted to our Chairman in connection with his employment agreement and stock options granted to two consultants.

Other Income (Expense)

Interest income earned on our cash balances was \$782 for the three months ended June 30, 2016 compared to \$298 for the three months ended June 30, 2015.

Loss on revaluation of derivative warrant liability for the three months ended June 30, 2016 was \$1,485,832 compared to \$51,541 for the three months ended June 30, 2015. The fair value of the derivative warrant liability fluctuates with changes in our stock price, volatility, remaining lives of the warrants, and interest rates. The loss for the three months ended June 30, 2016 was primarily due to the increase in the fair value of our stock from \$0.60 per share at March 31, 2016 to \$0.89 per share at June 30, 2016. The loss for the three months ended June 30, 2015 was primarily due to the increase in volatility used to calculate the fair value of our derivative warrant liability from 53% at March 31, 2015 to 57% at June 30, 2015.

Interest expense on the notes payables acquired in the acquisition of LMB was \$4,445 for the three months ended June 30, 2016. There was no interest expense for the three months ended June 30, 2015.

Net Loss

For the three months ended June 30, 2016, we incurred a net loss of \$3,615,929 compared to a net loss for the three months ended June 30, 2015 of \$824,972. The \$2,790,957 increase in the net loss was primarily due to the \$1,434,291 increase in the loss on the revaluation of derivative warrant liability and the \$1,269,900 increase in general and administrative expenses.

Nine months ended June 30, 2016 compared with the nine months ended June 30, 2015

	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Revenues	\$ —	\$ —
Operating expenses:		
Research and development	1,009,975	1,174,892
General and administrative	2,515,069	705,580
Stock-based compensation	517,677	381,076
Total operating expenses	4,042,721	2,261,548
Operating loss	(4,042,721)	(2,261,548)
Interest income	800	2,953
Gain (loss) on revaluation of derivative warrant liability	(1,659,738)	272,147
Interest expense	(4,445)	(7,500)
Net loss	\$(5,706,104)	\$(1,993,948)

Revenues

We did not generate any revenues for the nine months ended June 30, 2016 and 2015. Beginning in May 2012, our strategic sales and marketing partner, Prenzamax, generated revenues from the sale of Suprenza, our first commercial product. Under the partnering agreement, we were not entitled to any revenues during the nine months ended June 30, 2016 and 2015. On July 1, 2016, the Company announced that it was discontinuing Suprenza and was focusing on the Phase 3 development of Mino-Lok™, an antibiotic lock solution used to treat patients with catheter-related bloodstream infections, and the Phase 2b development of Hydro-Lido for hemorrhoids.

Research and Development Expenses

For the nine months ended June 30, 2016, research and development expenses were \$1,009,975 as compared to \$1,174,892 during the nine months ended June 30, 2015. The \$164,917 decrease in 2016 was primarily due to the reimbursement of \$292,575 from AlpeX for regulatory filing fees offset by the increase in costs incurred by LMB for the development of Mino-Lok™. In addition, at June 30, 2016, LMB had prepaid expenses of \$294,259 related to the manufacturing of clinical supplies for the Phase 3 development of Mino-Lok™. We are actively seeking to raise additional capital in order to fund our research and development efforts.

General and Administrative Expenses

For the nine months ended June 30, 2016, general and administrative expenses were \$2,515,069 as compared to \$705,580 during the nine months ended June 30, 2015. The \$1,809,489 increase in 2016 was primarily due to the acquisition of LMB which resulted in increased compensation costs, increased consulting fees incurred for financing activities and corporate development services, and increased investor relations fees.

Stock-based Compensation Expense

For the nine months ended June 30, 2016, stock-based compensation expense was \$517,677 as compared to \$381,076 for the nine months ended June 30, 2015. The \$517,677 expense for the nine months ended June 30, 2016 includes the expenses for our Chairman's options, an option granted to a consultant, options granted to two directors (including our current Chief Executive Officer) and options granted in connection with the acquisition of LMB. The \$381,076 expense for the nine months ended June 30, 2015 was due to the stock options granted to our Chairman in connection with his employment agreement and options granted to two consultants.

Other Income (Expense)

Interest income earned on our cash balances was \$800 for the nine months ended June 30, 2016 compared to \$2,953 for the nine months ended June 30, 2015.

Gain (loss) on revaluation of derivative warrant liability for the nine months ended June 30, 2016 was \$(1,659,738) compared to \$272,147 for the nine months ended June 30, 2015. The fair value of the derivative warrant liability fluctuates with changes in our stock price, volatility, remaining lives of the warrants, and interest rates. The loss for the nine months ended June 30, 2016 was primarily due to the increase in the fair value of our stock from \$0.54 per share at September 30, 2015 to \$0.89 per share at June 30, 2016. The gain for the nine months ended June 30, 2015 was primarily due to the decrease in the fair value of our stock from \$0.60 per share at September 30, 2014 to \$0.54 per share at June 30, 2015.

Interest expense was \$4,445 and \$7,500 for the nine months ended June 30, 2016 and 2015, respectively. Interest expense for the nine months ended June 30, 2016 related to the demand notes payable assumed in the acquisition of LMB. For the nine months ended June 30, 2015, interest expense related to promissory notes issued to two existing investors. The decrease in interest expense was due to the December 31, 2014 conversion of the outstanding \$600,000 Promissory Notes and accrued interest of \$33,333 into 1,055,554 shares of common stock at a conversion price of \$0.60 per share.

Net Loss

For the nine months ended June 30, 2016, we incurred a net loss of \$5,706,104 compared to a net loss for the nine months ended June 30, 2015 of \$1,993,948. The \$3,712,156 increase in the net loss was primarily due to the \$1,809,489 increase in general and administrative expenses and the \$1,931,885 change in the gain (loss) on revaluation of derivative warrant liability.

LIQUIDITY AND CAPITAL RESOURCES

Going Concern Uncertainty and Working Capital

Citius has incurred operating losses since inception and incurred a net loss of \$5,706,104 for the nine months ended June 30, 2016. At June 30, 2016, Citius had an accumulated deficit of \$14,746,653. Citius' net cash used in operations during the nine months ended June 30, 2016 was \$4,133,433.

As of June 30, 2016, Citius had a working capital deficit of \$2,833,164. The working capital deficit was attributable to the operating losses incurred by the Company since inception offset by our capital raising activities. At June 30, 2016, Citius had cash and cash equivalents of \$1,626,140 available to fund its operations. The Company's primary sources of cash flow since inception have been from financing activities. During the nine months ended June 30, 2016, the Company received net proceeds of \$5,427,688 from the issuance of equity. During the year ended September 30, 2015 and the nine months ended September 30, 2014, the Company received net proceeds of \$1,509,493 and \$1,680,834, respectively, from the issuance of equity. Our primary uses of operating cash were for product development and commercialization activities, regulatory expenses, employee compensation, consulting fees, legal and accounting fees, insurance and travel expenses.

On September 12, 2014, the Company sold 3,400,067 units ("Units") for a purchase price of \$0.60 per Unit for gross proceeds of \$2,040,040 and net proceeds of \$1,630,834. Each Unit consists of one share of common stock and one five-year warrant (the "Investor Warrants") to purchase one share of common stock at an exercise price of \$0.60, (the "Private Offering"). The exercise price of the Investor Warrants is subject to adjustment, for up to one year, if the Company issues common stock at a price lower than the exercise price, subject to certain exceptions. The Investor Warrants will be redeemable by the Company at a price of \$0.001 per Investor Warrant at any time subject to the conditions that (i) the common stock has traded for twenty (20) consecutive trading days with a closing price of at least \$1.50 per share with an average trading volume of 50,000 shares per day and (ii) the Company provides 20 trading days prior notice of the redemption and the closing price of the common stock is not less than \$1.17 for more than any 3 days during such notice period and (iii) the underlying shares of common stock are registered.

On December 31, 2014, the note holders requested conversion of \$600,000 in Promissory Notes and accrued interest of \$33,333 into 1,055,554 shares of common stock at a conversion price of \$0.60 per share.

Between March 19, 2015 and September 14, 2015, the Company sold an additional 2,837,037 Units for a purchase price of \$0.54 per Unit and 200,000 Units for a purchase price of \$0.60 per Unit for gross proceeds of \$1,652,000.

During the nine months ended June 30, 2016, the Company sold an additional 4,350,001 Units for a purchase price of \$0.54 per Unit and 266,667 Units for a purchase price of \$0.60 per Unit for gross proceeds of \$2,509,000.

On March 22, 2016, the Company sold 5,000,000 shares of common stock at \$0.60 per share to its Chairman of the Board, Leonard Mazur, for gross proceeds of \$3,000,000.

We expect that we will have sufficient funds to continue our operations for the next three to six months. We plan to raise additional capital in the future to support our operations. There is no assurance, however, that we will be successful in raising the needed capital or that the proceeds will be received in a timely manner to fully support our operations.

Derivative Warrant Liability

The FASB ASC 815-40: *Derivatives and Hedging-Contracts in Entity's Own Equity* requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of ASC 815-40, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period. The 3,400,067 Investor Warrants, the 680,013 warrants underlying the placement agent's Unit warrants and the 1,000,000 warrants issued for investment banking services in the Private Offering on September 12, 2014 were separately accounted for as liabilities at issuance. In addition, the 7,653,705 Investor Warrants issued between March 19, 2015 and April 25, 2016 were accounted for as liabilities at issuance. The warrants are classified as liabilities because the exercise price of the warrants is subject to adjustment in the event that the Company issues common stock for less than \$0.60 per share within one-year of the original issuance of the warrants. The 2015 and 2016 private placements did not result in an adjustment of the exercise price.

The Company performs valuations of the warrants issued in the Private Offering using a probability weighted Black-Scholes Pricing Model which value was compared to a Binomial Option Pricing Model for reasonableness. The model uses market-sourced inputs such as underlying stock prices, risk-free interest rates, volatility, expected life and dividend rates and has also considered the likelihood of "down-round" financings. Selection of these inputs involves management's judgment and may impact net income. Due to our limited operating history and limited number of sales of our Common Stock, we estimate our volatility based on a number of factors including the volatility of comparable publicly traded pharmaceutical companies. The volatility calculated at June 30, 2016 was 62%. We used a risk-free interest rate of 1.01% and estimated lives of 4.00 to 4.82 years, which are the remaining contractual lives of the warrants. The volatility factor used in the Black-Scholes Pricing Model and the changes in the fair value of our common stock have a significant effect on the resulting valuation of the derivative liabilities on our balance sheet. The volatility calculated at September 30, 2015 was 57%. We used a risk-free interest rate of 1.37% and estimated lives of 4.47 to 4.96 years, which are the remaining contractual lives of the warrants.

On September 12, 2015, anti-dilution rights related to warrants to purchase 5,080,080 shares of common stock expired which resulted in a reclassification from derivative warrant liability to additional paid-in capital of \$1,148,328. During the nine months ended June 30, 2016, anti-dilution rights related to warrants to purchase 2,145,371 shares of common stock expired which resulted in a reclassification from derivative warrant liability to additional paid-in capital of \$649,656.

Inflation

Our management believes that inflation has not had a material effect on our results of operations.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of revenues and expenses recorded during the reporting periods. We base our estimates on historical experience, where applicable and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

Our critical accounting policies and use of estimates are discussed in, and should be read in conjunction with, the annual consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015 as filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Our Chief Executive Officer and Principal Financial Officer ("CEO"), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of June 30, 2016. In designing and evaluating disclosure controls and procedures, we recognize that any disclosure controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objective. As of June 30, 2016, based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls, the CEO concluded that our disclosure controls and procedures were not effective. In our assessment of the effectiveness of internal control over financial reporting as of June 30, 2016, we determined that control deficiencies existed that constituted material weaknesses, as described below:

- 1) lack of documented policies and procedures;
- 2) the financial reporting function is carried out by consultants; and
- 3) ineffective separation of duties due to limited staff.

In light of the conclusion that our internal controls over financial reporting were ineffective as of June 30, 2016, we have applied procedures and processes as necessary to ensure the reliability of our financial reporting in regards to this quarterly report on Form 10-Q. Accordingly, the Company believes, based on its knowledge, that: (i) this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the periods covered by this report; and (ii) the financial statements, and other financial information included in this quarterly report, fairly present in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in this quarterly report.

Changes in Internal Control Over Financial Reporting

On June 23, 2016, the Company added an additional independent director. The Board of Directors currently consists of seven directors including five independent directors. On June 23, 2016, the Board of Directors established an Audit and Risk Committee, a Compensation Committee, and a Nominating and Governance Committee. There were no other changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There has been no change in the Company's risk factors since the Company's Form 10-K filed with the SEC on December 14, 2015.

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

In April 2016, the Company sold an additional 1,850,000 Units for a purchase price of \$0.54 per Unit and 50,000 Units for a purchase price of \$0.60 per unit for gross proceeds of \$1,029,000.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On June 23, 2016, the Board adopted a Compensation Committee Charter, an Audit and Risk Committee Charter, and a Nominating and Governance Committee Charter. The Compensation Committee Charter, Audit and Risk Committee Charter, and Nominating and Governance Committee Charter may be viewed at the Company's website at www.citiuspharma.com.

Item 6. Exhibits

All references to registrant's Forms 8-K, 10-K and 10-Q include reference to File No. 333-170781

10.1	2014 Stock Incentive Plan.*
10.2	Form of Citius 2014 Stock Incentive Plan Nonqualified Stock Option.*
31.1	Certification of the Principal Executive and Financial Officer pursuant to Exchange Act Rule 13a-14(a).*
32.1	Certification of the Principal Executive and Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*
EX-101.INS	XBRL INSTANCE DOCUMENT
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

* Filed herewith.

SIGNATURES

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

CITIUS PHARMACEUTICALS, INC.

Date: August 15, 2016

By: /s/ Myron Holubiak
Myron Holubiak
Chief Executive Officer,
Principal Executive Officer and Principal
Financial Officer

CITIUS PHARMACEUTICALS, INC.
2014 STOCK INCENTIVE PLAN
(effective September 12, 2014, subject to stockholder approval)

1 General

1.1 Purpose. The purposes of the Citius Pharmaceuticals, Inc. 2014 Stock Incentive Plan (the "Plan") is to promote the interests of Citius Pharmaceuticals, Inc. (the "Company") and the stockholders of the Company by providing (i) executive officers and other employees of the Company and its Subsidiaries (as defined below), (ii) certain advisors who perform services for the Company and its Subsidiaries and (iii) non-employee members of the Board of Directors of the Company (the "Board") with appropriate incentives and rewards to encourage them to enter into and continue in the employ and service of the Company and to acquire a proprietary interest in the long-term success of the Company, as well as to reward the performance of these individuals in fulfilling their personal responsibilities for long- range and annual achievements.

1.2 Effective Date and Term. The Plan will become effective upon the date it is approved by the stockholders of the Company (the "Effective Date"). Unless terminated earlier by the Committee, the Plan will expire on the tenth (10th) anniversary of the Effective Date.

1.3 Definitions. Capitalized terms in the Plan, unless defined elsewhere in the Plan, shall be defined as set forth below:

162(m) Term. The term "162(m) Term" means the period starting on the date when the Company's stockholders first approve this Plan and ending on the date of the first meeting of the Company's stockholders that occurs in the fifth year following the year in which the Company's stockholders first approve this Plan.

1934 Act. The term "1934 Act" shall mean the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder and any successor thereto.

Affiliated Company. The term "Affiliated Company" means any company, partnership, association, organization or other entity controlled by, controlling or under common control with the Company.

Award. The term "Award" means any award or benefit granted under the Plan, including, without limitation, Options, SARs, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards and Cash-Based Awards.

Award Agreement. The term "Award Agreement" means a written Award grant agreement under the Plan.

Cash-Based Award. The term "Cash-Based Award" means a right or other interest granted to an Eligible Grantee under Section 4.2(vi) of the Plan that may be denominated or payable in cash, other than an Award pursuant to which the amount of cash is determined by reference to the value of a specific number of shares of Stock. For the avoidance of doubt, dividend equivalents constitute Cash-Based Awards.

Change of Control. The term "Change of Control" shall be deemed to occur if and when:

- (i) any person, including a "person" as such term is used in Section 14(d)(2) of the 1934 Act (a "Person"), is or becomes a beneficial owner (as such term is defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities;
- (ii) individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;
- (iii) all or substantially all of the assets of the Company are sold, transferred or distributed, or the Company is dissolved or liquidated; or
- (iv) a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Transaction") is consummated, in each case, with respect to which the stockholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than 50% of the combined voting power of the Company or other corporation resulting from such Transaction in substantially the same respective proportions as such stockholders' ownership of the voting power of the Company immediately before such Transaction.

Notwithstanding the foregoing or any other provision of this Plan, the term Change of Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

Committee. The term "Committee" means the committee of the Board described in Section 2 hereof and any sub-committee established by such Committee pursuant to Section 2.4.

Covered Employee. The term "Covered Employee" means an Employee who is, or who is anticipated to become, between the time of grant and payment of the Award, a "covered employee," as such term is defined in Section 162(m)(3) of the Code (or any successor section thereof).

Disability. The term "Disability" means "Disability" as defined in any Award Agreement to which the Grantee is a party.

Eligible Grantee. The term "Eligible Grantee" shall mean any Employee, Non-Employee Director or Key Advisor, as determined by the Committee in its sole discretion.

Employee. The term "Employee" means an active employee of the Company or a Subsidiary, but excluding any person who is classified by the Company or a Subsidiary as a "contractor" or "consultant," no matter how characterized by the Internal Revenue Service, other governmental agency or a court, or any employee who is not actively employed, as determined by the Committee. Any change of characterization of an individual by the Internal Revenue Service or any court or government agency shall have no effect upon the classification of an individual as an Employee for purposes of this Plan, unless the Committee determines otherwise.

Fair Market Value. For purposes of determining the "Fair Market Value" of a share of Stock as of any date, the "Fair Market Value" as of that date shall be, unless otherwise determined by the Committee, the closing sale price during regular trading hours of the Stock on the immediately preceding date on the principal securities market in which shares of Stock is then traded; or, if there were no trades on that date, the closing sale price during regular trading hours of the Stock on the first trading day prior to that date. If the Stock is not publicly traded at the time a determination of Fair Market Value is required to be made hereunder, the determination of such amount shall be made by the Committee in such manner as it deems appropriate.

Grantee. The term "Grantee" means an Employee, Non-Employee Director or Key Advisor of the Company or a Subsidiary who has been granted an Award under the Plan.

ISO. The term "ISO" means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

Key Advisor. The term "Key Advisor" means a consultant or other key advisor who performs services for the Company or a Subsidiary.

Non-Employee Director. The term "Non-Employee Director" means a member of the Board who is not an Employee.

NQSO. The term "NQSO" means any Option that is not designated as an ISO, or which is designated by the Committee as an ISO but which subsequently fails or ceases to qualify as an ISO.

Option. The term "Option" means a right, granted to an Eligible Grantee under Section 4.2(i), to purchase shares of Stock. An Option may be either an ISO or an NQSO.

Other Stock-Based Award. The term "Other Stock-Based Award" means a right or other interest granted to an Eligible Grantee under Section 4.2(v) of the Plan that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, including but not limited to (i) unrestricted Stock awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan, and (ii) a right granted to an Eligible Grantee to acquire Stock from the Company containing terms and conditions prescribed by the Committee.

Performance Goals. The term "Performance Goals" means performance goals based on the attainment by the Company or any Subsidiary of the Company or any Affiliated Company (or any division or business unit of any such entity), or any two or more of the foregoing, of performance goals pre-established by the Committee in its sole discretion, based on one or more of the following criteria (if applicable, such criteria shall be determined in accordance with generally accepted accounting principles ("GAAP") or based upon the Company's GAAP financial statements): (i) the attainment of certain target levels of, or a specified percentage increase in, revenues, earnings, income before taxes and extraordinary items, net income, operating income, earnings before income tax, earnings before interest, taxes, depreciation and amortization or a combination of any or all of the foregoing; (ii) the attainment of certain target levels of, or a percentage increase in, after-tax or pre-tax profits including, without limitation, that attributable to continuing and/or other operations; (iii) the attainment of certain target levels of, or a specified increase in, operational cash flow; (iv) the achievement of a certain level of, reduction of, or other specified objectives with regard to limiting the level of increase in, all or a portion of, the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of such cash balances and/or other offsets and adjustments as may be established by the Committee; (v) earnings per share or the attainment of a specified percentage increase in earnings per share or earnings per share from continuing operations; (vi) the attainment of certain target levels of, or a specified increase in return on capital employed or return on invested capital; (vii) the attainment of certain target levels of, or a percentage increase in, after-tax or pre-tax return on stockholders' equity; (viii) the attainment of certain target levels of, or a specified increase in, economic value added targets based on a cash flow return on investment formula; (ix) the attainment of certain target levels in, or specified increases in, the fair market value of the shares of the Company's common stock; (x) the growth in the value of an investment in the Company's common stock; (xi) the attainment of a certain level of, reduction of, or other specified objectives with regard to limiting the level in or increase in, all or a portion of controllable expenses or costs or other expenses or costs; (xii) gross or net sales, revenue and growth of sales revenue (either before or after cost of goods, selling and general administrative expenses, research and development expenses and any other expenses or interest); (xiii) total stockholder return; (xiv) return on assets or net assets; (xv) return on sales; (xvi) operating profit or net operating profit; (xvii) operating margin; (xviii) gross or net profit margin; (xix) cost reductions or savings; (xx) productivity; (xxi) operating efficiency; (xxii) working capital; or (xxiii) market share; (xxiv) customer satisfaction; (xxv) workforce diversity; (xxvi) results of clinical trials; (xxvii) acceptance of a new drug application by a regulatory body; (xxviii) regulatory body approval for commercialization of a product; (xxix) launch of a new drug; (xxx) completion of out-licensing, in-licensing or disposition of product candidates or other acquisition or disposition projects; and (xxxi) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board. Subject to the limitations in Section 4.2, the Committee in its sole discretion may designate additional business criteria on which the Performance Goals may be based or adjust, or modify or amend the aforementioned business criteria. The relative weights of the criteria that comprise the Performance Goals shall be determined by the Committee in its sole discretion. In establishing the Performance Goals for a performance period, the Committee may establish different Performance Goals for individual Grantees or groups of Grantees. Subject to the limitations in Section 4.2(ix)(d), the Committee in its sole discretion shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary of the Company or any Affiliated Company or the financial statements of the Company or any Subsidiary of the Company or any Affiliated Company, in response to changes in applicable laws or regulations, including changes in generally accepted accounting principles or practices, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business, as applicable. Performance Goals may include a threshold level of performance below which no Award will be earned, a level of performance at which the target amount of an Award will be earned and a level of performance at which the maximum amount of the Award will be earned.

Restricted Stock. The term "Restricted Stock" means an Award of shares of Stock to an Eligible Grantee under Section 4.2(iii) that may be subject to certain restrictions and to a risk of forfeiture. Stock issued upon the exercise of Options or SARs is not "Restricted Stock" for purposes of the plan, even if subject to post-issuance transfer restrictions or forfeiture conditions. When Restricted Stock vests, it ceases to be "Restricted Stock" for purposes of the Plan.

Restricted Stock Unit. The term "Restricted Stock Unit" means a right granted to an Eligible Grantee under Section 4.2(iv) to receive Stock or cash at the end of a specified deferral period, which right may be conditioned on the satisfaction of specified performance or other criteria.

Retirement. The term "Retirement" means any termination of employment or service as an Employee, Non-Employee Director or Key Advisor as a result of retirement in good standing under the rules of the Company or a Subsidiary, as applicable, then in effect.

Rule 16b-3. The term "Rule 16b-3" means Rule 16b-3, as from time to time in effect promulgated by the Securities and Exchange Commission under Section 16 of the 1934 Act, including any successor to such Rule.

Stock. The term "Stock" means shares of the common stock, par value \$0.001 per share, of the Company.

Stock Appreciation Right or SAR. The term "Stock Appreciation Right" or "SAR" means the right, granted to an Eligible Grantee under Section 4.2(ii), to be paid an amount measured by the appreciation in the Fair Market Value of Stock from the date of grant to the date of exercise of the right.

Subsidiary. The term "Subsidiary" means any present or future subsidiary corporation of the Company within the meaning of Section 424(f) of the Code, and any present or future business venture designated by the Committee in which the Company has a significant interest, including, without limitation, any subsidiary corporation in which the Company has at least a 50% ownership interest, as determined in the discretion of the Committee.

2 Administration

2.1 Committee. The authority to manage the operation of and administer the Plan shall be vested in a committee (the "Committee") in accordance with this Section 2. The Committee shall be selected by the Board, and shall consist solely of two or more members of the Board who are non-employee directors within the meaning of Rule 16b-3 and are outside directors within the meaning of Code Section 162(m). Unless otherwise determined by the Board, the Company's Compensation Committee shall be designated as the "Committee" hereunder. If the Board, at any time, consists of only one member, such sole member may take all actions granted to the Committee hereunder.

2.2 Powers of the Committee. The Committee's administration of the Plan shall be subject to the following:

- (i) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Grantees those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, and to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards;
- (ii) The Committee will have the authority and discretion to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any Award Agreement made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan;
- (iii) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons; and
- (iv) In managing the operation of and administering the Plan, the Committee shall take action in a manner that conforms to the articles of incorporation and by-laws of the Company, and applicable state corporate law.

2.3 Prohibition Against Repricing. Notwithstanding any provision of the Plan to the contrary, in no event shall any action be taken under the Plan that constitutes a Repricing of any Option or SAR granted under the Plan, or of any option or stock appreciation right granted under the any other plan of the Company or of an acquired company, except with approval of the stockholders of the Company.

2.4 Delegation of Authority. To the extent not inconsistent with applicable law, the rules of the NASDAQ Stock Market or other provisions of the Plan, the Committee may, at any time, allocate all or any portion of its responsibilities and powers to any one or more of its members or, with respect to Awards made to Employees other than executive officers, the Chief Executive Officer, including without limitation, the power to designate Grantees hereunder and determine the amount, timing and terms of Awards hereunder. Any such allocation or delegation may be revoked by the Committee at any time.

2.5 Indemnification. Each person who is or shall have been a member of the Committee, or the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken in good faith or failure to act in good faith under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall be in addition to any other rights of indemnification or elimination of liability to which such persons may be entitled under the Company's articles of incorporation or by-laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

3 Available Shares of Stock Under the Plan

3.1 Shares Available for Awards. Subject to the adjustments described below, the maximum number of shares of Stock reserved for the grant of Awards under the Plan shall be 13,000,000. Of the maximum number of shares of Stock reserved for the grant of Awards under the Plan, no more than 3,000,000 of such shares may be issued pursuant to stock-settled Awards other than Options (that is, Restricted Stock, Restricted Stock Units, SARs, Performance Awards, Other Stock-Based Awards and dividend equivalent Awards, in each case to the extent settled in shares of Common Stock).

3.2 Forfeited, Cancelled and Expired Awards. Awards granted under the Plan that are forfeited, expire or are canceled or settled without issuance of Stock shall not count against the maximum number of shares that may be issued under the Plan as set forth in Section 3.1 and shall be available for future Awards under the Plan. Notwithstanding the foregoing, any and all Stock that is (i) withheld or tendered in payment of an Option exercise price; (ii) withheld by the Company to satisfy any tax withholding obligation; (iii) covered by a SAR (to the extent that it is settled in Stock, without regard to the number of shares of Stock that are actually issued to the Grantee upon exercise); (iv) withheld by the Company to satisfy any debt or other obligation owed to the Company or any Subsidiary, and (v) any fractional shares of Common Stock that are cancelled pursuant to the Plan, shall be considered issued pursuant to the Plan and shall not be added to the maximum number of shares of Stock that may be issued under the Plan as set forth in Section 3.1. but not limited to a change in the number of shares of Stock outstanding, on account of (i) any stock dividend, stock split, reverse stock split or any similar equity restructuring, or (ii) any combination or exchange of equity securities, merger, consolidation, recapitalization, reorganization, or divestiture or any other similar event affecting the Company's capital structure, to reflect such change in the Company's capital structure, the Committee shall make appropriate equitable adjustments to the maximum number of shares of Stock that may be issued under the Plan as set forth in Section 3.1. In the event of any extraordinary dividend, divestiture or other distribution (other than ordinary cash dividends) of assets to stockholders, or any transaction or event described above, to the extent necessary to prevent the enlargement or diminution of the rights of Grantees, the Committee shall make appropriate equitable adjustments to the number or kind of shares subject to an outstanding Award, the exercise price applicable to an outstanding Award, and/or a Performance Goals. Any adjustments under this Section 3.3 shall be consistent with Section 409A or 424 of the Code, to the extent applicable, and made in a manner that does not adversely affect the exemption provided pursuant to Rule 16b-3 or qualification under Section 162(m) of the Code, to the extent each may be applicable. The Company shall give each Grantee notice of an adjustment to an Award hereunder and, upon notice, such adjustment shall be final, binding and conclusive for all purposes. Notwithstanding the foregoing, the Committee shall decline to adjust any Award made to a Participant if such adjustment would violate applicable law.

3.4 Fractional Shares. The Company shall not be obligated to issue any fractional shares of Stock in settlement of Awards granted under the Plan. Except as otherwise provided in an Award Agreement or determined by the Committee, (i) the total number of shares issuable pursuant to the exercise, vesting or earning of an Award shall be rounded down to the nearest whole share, and (ii) no fractional shares shall be issued. The Committee may, in its discretion, determine that a fractional share shall be settled in cash.

4 Awards

4.1 General. The term of each Award shall be for such period as may be determined by the Committee, subject to the limitations set forth below. Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or any Subsidiary of the Company upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Stock, or other property. In addition to the foregoing, the Committee may impose on any Award or the exercise thereof, at the date of grant, such additional terms and conditions not inconsistent with the provisions of the Plan, including, but not limited to forfeiture and clawback provisions, as the Committee shall determine; provided, however, that any such terms and conditions shall not be inconsistent with Section 409A of the Code.

4.2 Types of Awards. The Committee is authorized to grant the Awards described in this Section 4.2, under such terms and conditions as deemed by the Committee to be consistent with the purposes of the Plan. Such Awards may be granted with value and payment contingent upon Performance Goals. Each Award shall be evidenced by an Award Agreement containing such terms and conditions applicable to such Award as the Committee shall determine.

(i) *Options.* The Committee is authorized to grant Options to Grantees on the following terms and conditions:

- a. Type of Award. The Award Agreement evidencing an Option shall designate the Option as either an ISO or an NQSO, as determined in the discretion of the Committee. At the time of the grant of Options, the Committee may place restrictions on the exercisability or vesting of Options that shall lapse, in whole or in Goals shall relate to periods of performance of at least one fiscal year.
- b. Exercise Price. The exercise price of each Option granted under this Section 4.2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option is granted; provided, however, that the exercise price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant of the Award. No dividends or dividend equivalents will be paid on shares of Stock subject to an Option.
- c. Exercise. Upon satisfaction of the applicable conditions relating to vesting and exercisability, as determined by the Committee and set forth in the Award Agreement, and upon provision for the payment in full of the exercise price and applicable taxes due, the Grantee shall be entitled to exercise the Option and receive the number of shares of Stock issuable in connection with the Option exercise provided, however, that no Option may be exercised more than ten years after its grant date. Except as set forth in Section 4.3, no NQSO granted hereunder may be exercised after the earlier of (A) the expiration of the NQSO or (B) unless otherwise provided by the Committee in an Award Agreement, ninety days after the severance of an NQSO holder's employment or service with the Company or any Subsidiary. The shares issued in connection with the Option exercise may be subject to such conditions and restrictions as the Committee may determine, from time to time. An Option may be exercised by any method as may be permitted by the Committee from time to time, including but not limited to any "net exercise" or other "cashless" exercise method.
- d. Restrictions Relating to ISOs. In addition to being subject to the terms and conditions of this Section 4.2(i), ISOs shall comply with all other requirements under Section 422 of the Code. Accordingly, ISOs may be granted only to Eligible Grantees who are employees (as described in Treasury Regulation Section 1.421-7(h)) of the Company or of any "Parent Corporation" (as defined in Code Section 424(e)) or of any "Subsidiary Corporation" (as defined in Code Section 424(f)) on the date of grant. The aggregate Fair Market Value (determined as of the time the ISO is granted) of the Stock with respect to which ISOs (under all option plans of the Company and of any Parent Corporation and of any Subsidiary Corporation) are exercisable for the first time by an Eligible Grantee during any calendar year shall not exceed \$100,000. ISOs shall not be transferable by the Eligible Grantee otherwise than by will or the laws of descent and distribution and shall be exercisable, during the Eligible Grantee's lifetime, only by such Eligible Grantee. The Committee shall not grant ISOs to any Employee who, at the time the ISO is granted, owns stock possessing (after the application of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting stock of the Company or of any Parent Corporation or of any Subsidiary Corporation, unless the exercise price of the ISO is fixed at not less than one hundred and ten percent (110%) of the Fair Market Value of a share of Common Stock on the date of grant and the exercise of such ISO is prohibited by its terms after the fifth (5th) anniversary of the ISO's date of grant. In addition, no ISO shall be issued to an Eligible Grantee in tandem with a NQSO issued to such Eligible Grantee in accordance with Treasury Regulation Section 14a.422A-1, Q/A-39.

(ii) *SARs*. The Committee is authorized to grant SARs to Grantees on the following terms and conditions:

- a. In General. SARs may be granted independently or in tandem with an Option at the time of grant of the related Option. An SAR granted in tandem with an Option shall be exercisable only to the extent the underlying Option is exercisable. Payment of an SAR may be made in cash, Stock, or a combination of the foregoing, as specified in the Award Agreement or determined in the sole discretion of the Committee. At the time of the grant of SARs, the Committee may place restrictions on the exercisability or vesting of SARs that shall lapse, in whole or in part, upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year.
- b. Term and Exercisability of SARs. SARs shall be exercisable over the exercise period at such times and upon such conditions as the Committee may determine, as reflected in the Award Agreement; provided, however, that no SAR may be exercised more than ten years after its grant date. Except as set forth in Section 4.3, no SAR granted hereunder may be exercised after the earlier of (A) the expiration of the SAR or (B) unless otherwise provided by the Committee in an Award Agreement, ninety days after the severance of an SAR holder's employment or service with the Company or any Subsidiary.
- c. Payment. An SAR shall confer on the Grantee a right to receive an amount with respect to each share of Stock subject thereto, upon exercise thereof, equal to the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Committee may determine but in no event shall be less than the Fair Market Value of a share of Stock on the date of grant of such SAR). An SAR may be exercised by giving written notice of such exercise to the Committee or its designated agent. No dividends or dividend equivalents will be paid on shares of Stock subject to an SAR.

(iii) *Restricted Stock*. The Committee is authorized to grant Restricted Stock to Grantees on the following terms and conditions:

- a. Issuance and Restrictions. Restricted Stock shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant, which restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, or otherwise, as the Committee may determine. The Committee may place restrictions on Restricted Stock that shall lapse, in whole or in part, upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year. Except to the extent restricted under the Award Agreement relating to the Restricted Stock, a Grantee granted Restricted Stock shall have all of the rights of a stockholder including, without limitation, the right to vote Restricted Stock and the right to receive dividends thereon.

- b. Certificates for Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Grantee, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may retain physical possession of the certificate.
 - c. Dividends. Except to the extent restricted under the applicable Award Agreement, cash dividends paid on Restricted Stock shall be paid at the dividend payment date subject to no restriction. Unless otherwise determined by the Committee, Stock distributed in connection with a stock split or stock dividend shall be subject to the transfer restrictions, forfeiture risks and vesting conditions to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed. Notwithstanding the foregoing, the Committee may not provide for the current payment of dividends for Restricted Stock subject to Performance Goals; for such Awards, dividends may accrue but shall not be payable unless and until the Award vests upon satisfaction of the applicable Performance Goals and all other applicable conditions to vesting.
- (iv) *Restricted Stock Units*. The Committee is authorized to grant Restricted Stock Units to Grantees, subject to the following terms and conditions:
- a. Conditions to Vesting. At the time of the grant of Restricted Stock Units, the Committee may place restrictions on Restricted Stock Units that shall lapse, in whole or in part, upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year.
 - b. Benefit Upon Vesting. Unless otherwise provided in an Award Agreement, upon the vesting of a Restricted Stock Unit, there shall be delivered to the Grantee, within 30 days of the date on which such Award (or any portion thereof) vests, the number of shares of Stock equal to the number of Restricted Stock Units becoming so vested.
 - c. Dividend Equivalents. To the extent provided in an Award Agreement, subject to the requirements of Section 409A of the Code, an Award of Restricted Stock Units may provide the Grantee with the right to receive dividend equivalent payments with respect to Stock subject to the Award (both before and after the Stock subject to the Award is earned, vested, or acquired), which payments may be either made currently or credited to an account for the Grantee, and may be settled in cash or Stock, as determined by the Committee. Any such settlements and any such crediting of dividend equivalents may, at the time of grant of the Restricted Stock Unit, be made subject to the transfer restrictions, forfeiture risks, vesting and conditions of the Restricted Stock Units and subject to such other conditions, restrictions and contingencies as the Committee shall establish at the time of grant of the Restricted Stock Unit, including the reinvestment of such credited amounts in Stock equivalents, provided that all such conditions, restrictions and contingencies shall comply with the requirements of Section 409A of the Code. Notwithstanding the foregoing in this Section 4.2(iv)(c), dividend equivalents may accrue on unearned Restricted Stock Units subject to Performance Goals but shall not be payable unless and until the applicable Performance Goals are met and certified.

- (v) *Other Stock-Based Awards.* The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. At the time of the grant of Other Stock-Based Awards, the Committee may place restrictions on the payout or vesting of Other Stock-Based Awards that shall lapse, in whole or in part, upon the attainment of Performance Goals; provided that such Performance Goals shall relate to periods of performance of at least one fiscal year. The Committee shall determine the terms and conditions of such Awards at the date of grant. Other Stock-Based Awards may not be granted with the right to receive dividend equivalent payments.
- (vi) *Cash-Based Awards.* The Committee is authorized to grant Awards to Grantees in the form of Cash-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. At the time of the grant of Cash-Based Awards, the Committee may place restrictions on the payout or vesting of Cash-Based Awards that shall lapse, in whole or in part, upon the attainment of Performance Goals. The Committee shall determine the terms and conditions of such Awards at the date of grant.
- (vii) *Settlement of Options and SARs.* Shares of Stock delivered pursuant to the exercise of an Option or SAR shall be subject to such conditions, restrictions and contingencies as the Committee may establish in the applicable Award Agreement. Settlement of SARs may be made in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination thereof, as determined in the discretion of the Committee and set forth in the Award Agreement. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Stock acquired pursuant to the exercise of an Option or an SAR as the Committee determines to be desirable.
- (viii) *Vesting; Additional Terms.* Except as set forth in Section 4.3, other than Options, SARs, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards conditioned upon the attainment of Performance Goals that relate to performance periods of at least one fiscal year, Options, SARs, Restricted Stock, Restricted Stock Units or Other Stock- Based Awards granted hereunder shall vest as determined by the Committee and set forth in the Award Agreement. The term of any Award granted under the Plan will not exceed ten years from the date of grant.
- (ix) *Qualified Performance-Based Compensation.*
 - a. The Committee may determine that Restricted Stock, Restricted Stock Units, Other Stock-Based Awards or Cash-Based Awards granted to a Covered Employee shall be considered "qualified performance-based compensation" under section 162(m) of the Code, in which case the provisions of this Section 4.2(ix) shall apply. As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Committee's authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than qualifying Options and qualifying SARs) shall terminate upon the first meeting of the Company's stockholders that occurs in the fifth year following the year in which the Company's stockholders first approve this Plan.

- b. When Awards are made under this Section 4.2(ix), the Committee shall establish in writing (i) the objective Performance Goals that must be met, (ii) the period during which performance will be measured, (iii) the maximum amounts that may be paid if the Performance Goals are met, and (iv) any other conditions that the Committee deems appropriate and consistent with the requirements of Section 162(m) of the Code for "qualified performance-based compensation." The Performance Goals shall satisfy the requirements for "qualified performance-based compensation," including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the Performance Goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the Performance Goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable, but may reduce the amount of compensation that is payable, pursuant to Awards identified by the Committee as "qualified performance-based compensation."
- c. Performance Goals must be pre-established by the Committee. A Performance Goal is considered pre-established if it is established in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates, provided that the outcome is substantially uncertain at the time the Committee actually established the goal. However, in no event will a Performance Goal be considered pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the goal is established) has elapsed.
- d. The Committee in its sole discretion shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary of the Company or any Affiliated Company or the financial statements of the Company or any Subsidiary of the Company or any Affiliated Company, in response to changes in applicable laws or regulations, including changes in generally accepted accounting principles or practices, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business, as applicable, provided such adjustment occurs in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates (and in no event later than the date that 25% of the period of service has elapsed). In addition, the Committee may specify that certain equitable adjustments to the Performance Goals will be made during the applicable Performance Period, provided such specification occurs in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates (and in no event later than the date that 25% of the period of service has elapsed).
- e. The Committee shall certify the performance results for the performance period specified in the Award Agreement after the performance period ends. The Committee shall determine the amount, if any, to be paid pursuant to each Award based on the achievement of the Performance Goals and the satisfaction of all other terms of the Award Agreement. Subject to the provisions of Section 3.3 relating to capitalization adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, a maximum of 2,500,000 shares of Stock subject to qualified performance-based compensation may be granted to any Eligible Grantee during any calendar year during the 162(m) Term.
- f. The Committee may provide in the Award Agreement that Awards under this Section 4.2(ix) shall be payable, in whole or in part, in the event of the Grantee's death or Disability, or under other circumstances consistent with the Treasury regulations and rulings under Section 162(m) of the Code.

4.3 Change of Control of the Company.

- (i) The Committee may, at the time an Award is made or at any time prior to, coincident with or after the time of a Change of Control:
 - a. provide for the adjustment of any Performance Goals as the Committee deems necessary or appropriate to reflect the Change of Control;
 - b. provide for the cancellation of any Awards then outstanding if the surviving entity or acquiring entity (or the surviving or acquiring entity's parent company) in the Change of Control replaces the Awards with new rights of substantially equivalent value, as determined by the Committee;
 - c. provide that upon an involuntary termination of a Participant's employment as a result of a Change of Control, any time periods shall accelerate, and any other conditions relating to the vesting, exercise, payment or distribution of an Award shall be waived; or
 - d. provide that Awards shall be purchased for an amount of cash equal to the amount that could have been obtained for the shares covered by a Restricted Stock Award if it had been vested and or by an Option or SAR if it had been exercised at the time of the Change of Control.
- (ii) Notwithstanding any other provisions of the Plan or an Award Agreement to the contrary, the vesting, payment, purchase or distribution of an Award may not be accelerated by reason of a Change of Control for any Grantee unless the Grantee's employment is involuntarily terminated as a result of the Change of Control as provided in the Award Agreement or in any other written agreement, including an employment agreement, between us and the Grantee.

5 Operation

5.1 **Duration.** Grants may be made under the Plan through September 12, 2024. In the event of Plan termination while Awards remain outstanding, the Plan shall remain in effect as long as any Awards under it are outstanding, although no further grants may be made following Plan termination.

5.2 **Uncertificated Stock.** Nothing contained in the Plan shall prohibit the issuance of Stock on an uncertificated basis, to the extent allowed by the Company's Articles of Incorporation and Bylaws, by applicable law and by the applicable rules of any stock exchange.

5.3 Tax Withholding. All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Grantee, through the surrender of shares of Stock which the Grantee already owns, through withholding from other compensation payable to the Grantee or through the surrender of unrestricted shares of Stock to which the Grantee is otherwise entitled under the Plan, but only to the extent of the minimum amount required to be withheld under applicable law.

5.4 Use of Shares. Subject to the limitations on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including the plans and arrangements of the Company or a Subsidiary assumed in business combinations.

5.5 Nontransferability. Awards granted under the Plan, and during any period of restriction on transferability, shares of Common Stock issued in connection with the exercise of an Option or a SAR, or vesting of a Restricted Stock Award may not be sold, pledged, hypothecated, assigned, margined or otherwise transferred by a Grantee in any manner other than by will or the laws of descent and distribution, unless and until the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed or have been waived by the Committee. No Award or interest or right therein shall be subject to the debts, contracts or engagements of a Grantee or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law, by judgment, lien, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy and divorce), and any attempted disposition thereof shall be null and void, of no effect, and not binding on the Company in any way. Notwithstanding the foregoing, the Committee may permit Options and/or shares issued in connection with an Option or a SAR exercise that are subject to restrictions on transferability, to be transferred one time and without payment or consideration to a member of a Grantee's immediate family or to a trust or similar vehicle for the benefit of a Grantee's immediate family members. During the lifetime of a Grantee, all rights with respect to Awards shall be exercisable only by such Grantee or, if applicable pursuant to the preceding sentence, a permitted transferee.

5.6 Form and Time of Elections. Unless otherwise specified herein, each election required or permitted to be made by any Grantee or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be in writing filed with the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

5.7 Agreement with Company. An Award under the Plan shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall, in its sole discretion, prescribe. The terms and conditions of any Award to any Grantee shall be reflected in such form of written document as is determined by the Committee. A copy of such document shall be provided to the Grantee, and the Committee may, but need not, require that the Grantee shall sign a copy of such document. Such document is referred to in the Plan as an "Award Agreement" regardless of whether any Grantee signature is required.

5.8 Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

5.9 Limitation of Implied Rights.

- (iii) The Plan shall at all times be unfunded and neither a Grantee nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. Nothing contained in the Plan and no action taken pursuant hereto shall create or be construed to create a fiduciary relationship between the Company and any Grantee or any other person. A Grantee shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.
- (iv) The Plan does not constitute a contract of employment or service, and selection as a Grantee will not give any participating Employee, Non-Employee Director or Key Advisor the right to be retained in the employ or service of the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan or the Award Agreement, no Award under the Plan shall confer upon the holder thereof any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

5.10 Section 409A. It is intended that all Options and SARs granted under the Plan shall be exempt from the provisions of Section 409A of the Code and that all other Awards under the Plan, to the extent that they constitute "non-qualified deferred compensation" within the meaning of Section 409A of the Code, will comply with Section 409A of the Code (and any regulations and guidelines issued thereunder). The Plan and any Award Agreements issued hereunder may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Section 409A of the Code. Notwithstanding anything in this Plan to the contrary, if required by Section 409A of the Code, if a Grantee is considered a "specified employee" for purposes of Section 409A of the Code and if payment of any Award under this Plan is required to be delayed for a period of six months after "separation from service" within the meaning of Section 409A of the Code, payment of such Award shall be delayed as required by Section 409A of the Code, and the accumulated amounts with respect to such Award shall be paid in a lump sum payment within ten days after the end of the six month period. If the Grantee dies during the postponement period prior to the payment of benefits, the amounts withheld on account of Section 409A of the Code shall be paid to the Grantee's beneficiary within sixty (60) days after the date of the Grantee's death. For purposes of Section 409A of the Code, each payment under the Plan shall be treated as a separate payment. In no event shall a Grantee, directly or indirectly, designate the calendar year of payment. To the extent that any provision of the Plan would cause a conflict with the requirements of section 409A of the Code, or would cause the administration of the Plan to fail to satisfy the requirements of Section 409A of the Code, such provision shall be deemed null and void to the extent permitted by applicable law. Notwithstanding anything in the Plan or any Award Agreement to the contrary, each Grantee shall be solely responsible for the tax consequences of Awards under the Plan, and in no event shall the Company have any responsibility or liability if an Award does not meet any applicable requirements of Section 409A of the Code. Although the Company intends to administer the Plan to prevent taxation under Section 409A of the Code, the Company does not represent or warrant that the Plan or any Award complies with any provision of federal, state, local or other tax law.

5.11 Regulations and Other Approvals.

- (i) The obligation of the Company to sell or deliver Stock with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.
- (ii) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Stock, no such Award shall be granted or payment made or Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.
- (iii) In the event that the disposition of Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act and is not otherwise exempt from such registration, such Stock shall be restricted against transfer to the extent required by the Securities Act of 1933, as amended, or regulations thereunder, and applicable state securities laws, and the Committee may require a Grantee receiving Stock pursuant to the Plan, as a condition precedent to receipt of such Stock, to represent to the Company in writing that the Stock acquired by such Grantee is acquired for investment only and not with a view to distribution.
- (iv) With respect to persons subject to section 16 of the 1934 Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3.
- (v) All Awards under the Plan will be subject to any compensation, clawback and recoupment policies that may be applicable to the employees of the Company, as in effect from time to time and as approved by the Board or Committee, whether or not approved before or after the Effective Date. Subject to the requirements of applicable law, any such compensation, clawback and recoupment policies shall apply to Awards made after the effective date of the policy.

5.12 Non-Employee Director Award Deferrals. The Committee may permit a Non-Employee Director to defer receipt of the payment of cash or the delivery of shares that would otherwise be due to such Non-Employee Director in connection with any Restricted Stock, Restricted Stock Units, Other Stock-Based Awards or Cash-Based Awards. If any such deferral election is permitted, the Committee shall establish rules and procedures for such deferrals and may provide for interest or other earnings to be paid on such deferrals, which rules and procedures shall be consistent with applicable requirements of Section 409A of the Code. Unless otherwise specified in a Non-Employee Director's valid election, any deferred amount will be deferred until the earliest to occur of the Non-Employee Director's death, separation from service, or Change of Control; provided that any such deferral election is made by the Non-Employee Director on or prior to December 31 of the calendar year preceding the calendar year in which any such amounts are earned, or, if such Non-Employee Director is newly eligible for purposes of Section 409A of the Code, then within 30 days following the date he or she is first eligible, and then only with respect to amounts earned after the date of the election.

6 Amendment and Termination

The Plan may be terminated or amended by the Board at any time, except that the following actions may not be taken without stockholder approval:

- (i) any increase in the number of shares that may be issued under the Plan (except by certain adjustments provided for under the Plan);
- (ii) any change in the class of persons eligible to receive ISOs under the Plan;
- (iii) any change in the requirements of Sections 4.2(i)(b) and 4.2(ii)(c) hereof regarding the exercise price of Options and the grant price of SARs;
- (iv) any repricing or cancellation and regrant of any Option or, if applicable, other Award at a lower exercise, base or purchase price, whether in the form of an amendment, cancellation or replacement grant, or a cash-out of underwater options or any action that provides for Awards that contain a so-called "reload" feature under which additional Options or other Awards are granted automatically to the Grantee upon exercise of the original Option or Award; or
- (v) any other amendment to the Plan that would require approval of the Company's stockholders under applicable law, regulation or rule or stock exchange listing requirement.

Notwithstanding any of the foregoing, adjustments pursuant to Section 3 shall not be subject to the foregoing limitations of this Section 6.

7 Governing Law

The Plan and all Award Agreements entered into under the Plan shall be construed in accordance with and governed by the laws of the State of New York, except that any principles or provisions of New York law that would apply the law of another jurisdiction (other than applicable provisions of U.S. Federal law) shall be disregarded. Notwithstanding the foregoing, matters with respect to indemnification, delegation of authority under the Plan, and the legality of shares of Stock issued under the Plan, shall be governed by the Nevada Revised Statutes.

8 Severability

If any of the provision of this Plan is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided that, if any such provision is finally held to be invalid, illegal or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed modified to the minimum extent necessary in order to make such provision enforceable.

* * * * *



CITIUS PHARMACEUTICALS, INC.

2014 STOCK INCENTIVE PLAN

Nonqualified Stock Option Agreement

This **NONQUALIFIED STOCK OPTION AGREEMENT** (this "Agreement"), made and entered into effective as of the [·] day of [·], 201[·] (the "Grant Date"), by and between [·] (the "Participant") and Citius Pharmaceuticals, Inc., a Nevada corporation (the "Company"), sets forth the terms and conditions of stock options issued to the Participant pursuant to the Company's 2014 Stock Incentive Plan (the "Plan") and this Agreement, which options have been approved by the Company's Board of Directors. Any capitalized terms used but not defined herein shall have the meaning prescribed in Annex A or in the Plan.

1. Grant of Stock Option. Subject to the provisions of this Agreement and the Plan, the Company hereby grants to the Participant stock options (the "Options") to purchase up to [·] shares of the Company's common stock, \$0.001 par value per share (the "Common Stock"). The Options are granted as of the Grant Date pursuant to, and subject to the terms and conditions of, the Plan. The Options are not intended to qualify as incentive stock options under Section 422 of the Code.

2. Exercise Price. The exercise price per share of Common Stock subject to the Options is \$[·] (the "Exercise Price").

3. Vesting. Subject to Section 4 hereof, the Options shall vest as follows: [·] so long as the Participant continuously remains an employee, officer, director, or consultant of the Company from the Grant Date through such date(s). The Options shall be exercisable on any date to the extent vested and outstanding on such date. For purposes of this Agreement, an employment or service relationship with the Company shall include employment with or provision of services to the Company's affiliates (including Subsidiaries) and/or its successors.

4. Termination of Employment or Service.

(a) Generally. Except as described in the succeeding subsections of this Section 4, in the event of the termination of the Participant's employment or service relationship with the Company or its affiliates (including Subsidiaries), any portion of the Options that has not vested as of the date of such termination shall immediately expire and be forfeited, and the vested portion of such Options shall expire and be forfeited 90 days after such termination.

(b) Death or Disability. In the event of the termination of the Participant's employment or service relationship with the Company or its affiliates (including Subsidiaries) by reason of the Participant's death or Disability, any portion of the Options that has not vested as of the date of such termination of shall immediately expire and be forfeited, and the vested portion of such Options shall expire and be forfeited 180 days after such termination.

(c) For Cause. In the event of the termination of the Participant's employment or service relationship with the Company or its affiliates (including Subsidiaries) for Cause, that portion of the Options that are outstanding as of the date of such termination of employment or service relationship, whether vested or unvested, shall immediately expire and be forfeited.

5. Term of Options. All unexercised Options shall expire as to all shares of Common Stock underlying the Options on [·], 20[·] (the "Expiration Date"), unless sooner terminated as provided in Section 4 hereof.

6. Method of Stock Option Exercise.

(a) Notice. The Options may be exercised during their term, in whole or in part, to the extent they have become vested and exercisable pursuant to Sections 3 and/or 4 and have not yet been forfeited or expired, by the Participant providing notice in writing to the Chief Executive Officer of the Company (the "CEO"), signifying the Participant's election to exercise the Options (the "Notice of Exercise"). The Notice of Exercise shall be in such manner and on such form as designated by the CEO and pursuant to procedures established by the CEO and/or the Company. The Company may in the future change the person designated to receive such Notice(s) of Exercise to any other agent or employee of the Company. In the event of any such change, the Company shall provide notice to the Participant.

(b) Conditions to Exercise. The exercise of the Options shall be subject to the following conditions:

(i) Payment of Exercise Price. The aggregate Exercise Price for the shares being purchased shall be paid at the time of such exercise. The Exercise Price shall be payable in cash or by wire transfer to the Company's bank account, for the full purchase price of the shares being purchased, plus such amount, if any, as is required for withholding taxes and for fees related to any agent(s), if applicable.

(ii) Representations. If requested by the Company, the Participant will make such written representations as reasonably requested to the Company, including but not limited to representations that an investment in the Common Stock of the Company involves a high degree of risk, that the Participant has received a copy of the Company's financial statements for the most recently ended fiscal year for which such statement is available (which are available at www.sec.gov and at www.citiuspharma.com), and that the Participant purchasing the Common Stock for investment for Participant's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933.

(iii) Whole Shares. The Options may only be exercised for whole shares of Common Stock. No fractional shares will be issued hereunder.

(c) Delivery of Shares.

(i) As soon as practical after the Exercise Price has been paid and all other conditions satisfied, the Company will, at its election, either: (A) issue a certificate representing the shares purchased pursuant to this Agreement; or (B) not issue any certificate representing the shares purchased pursuant to this Agreement and instead document the Participant's interest in the shares by registering such shares with the Company's transfer agent (or another custodian selected by the Company) in book-entry form in the Participant's name.

(ii) The Company shall not be required to issue a certificate for any shares or record the shares in book-entry form unless and until all then applicable requirements imposed by federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any exchanges upon which the shares may be listed, have been fully met. The Company may impose such conditions on any shares issuable pursuant to this Agreement as it may deem advisable, including, without limitation, restrictions under the Securities Act of 1933, under the requirements of any exchange upon which shares of the same class are then listed and under any blue sky or other securities laws applicable to those shares.

(iii) The Company may cause each certificate evidencing the purchased Common Stock to be endorsed with one or more legends setting forth the restrictions on transfer or otherwise of such Common Stock. The Company also issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(iv) Neither the Participant nor anyone claiming through him/her will have any rights as a stockholder of the Company with respect to any shares subject to the Options until the Participant has exercised the Options as described herein and the shares are delivered (as evidenced by delivery of a certificate for such shares or the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company).

7. Adjustments. The number of shares subject to the Options and the Exercise Price will be subject to adjustment as described in Section 3.3 of the Plan.

8. Taxes. At the time Participant exercises the Options (in whole or in part), Participant may incur tax obligations under federal, state, local, and/or foreign law. To the extent that the Company determines that it is required to withhold an amount for tax purposes as a result of the exercise of the Options, Participant agrees that the Company may satisfy such withholding by any of the following means or by a combination of such means, in the Committee's discretion: (i) withholding from any compensation otherwise payable to the Participant by the Company; (ii) causing the Participant to tender a cash payment; or (iii) withholding from the shares otherwise issuable to Participant upon exercise of the Options the number of shares with a Fair Market Value (measured as of the date the tax withholding obligations are to be determined) equal to the amount of such tax withholding; provided, however, that the number of such shares so withheld will not exceed the amount necessary to satisfy the Company's required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income (or such lesser amount as may be necessary to avoid classification of the shares as a liability for financial accounting purposes). Participant understands that all matters with respect to the total amount of taxes to be withheld in respect of such compensation income will be determined by the Committee in its reasonable discretion. Participant further understands that, although the Company will pay withheld amounts to the applicable taxing authorities, the Participant remains responsible for payment of all taxes due as a result of income arising under the Agreement.

9. Non-transferability. The Options shall not be transferable by the Participant other than pursuant to the terms of the Plan or by will or by the laws of descent and distribution. The Options shall be exercisable, subject to the terms of the Plan and this Agreement, only by the Participant, the Participant's estate or beneficiary, the guardian or legal representative of the Participant, or any person to whom such Options are transferred pursuant to this Section 9. For purposes of this Section 9, the term "Participant" includes such guardian, legal representative and other permitted transferee.

10. Successors, Assigns and Transferees. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and each of their respective successors, assigns and permitted transferees (including, upon the death of the Participant, the Participant's estate).

11. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. In the event of any question or controversy relating to the terms of the Plan and this Agreement, the decision of the Committee shall be conclusive.

12. Incorporation of Plan. Subject to the provisions of Section 11 of this Agreement, all terms and conditions of the Plan are incorporated herein and made part hereof as if stated herein. The Participant may obtain a copy of the Plan by contacting the Company's Chief Executive Officer.

13. Not an Employment or Service Contract. Neither this Agreement nor any Options, or the Plan, shall confer on the Participant any right with respect to continuance of employment or other service with the Company or any of its affiliates (including Subsidiaries), nor shall they interfere in any way with any right(s) that the Company or any such affiliates (including Subsidiaries) would otherwise have to terminate or modify the terms of the Participant's employment or other service, at any time.

14. Insider Trading Policy. The Participant hereby agrees to comply with any policies, instructions, guidelines or procedures covering trading in the Company's securities that the Company adopts from time to time, as may relate to the Options and underlying shares issued hereunder.

15. Exercise on certain Record Dates. Notwithstanding anything to the contrary contained in this Agreement or the Plan, in the event the Company sets a record date ("Record Date") in connection with a distribution of bonus shares or dividends, rights offering, stock split, reverse stock split or capital reduction (each an "Event"), the Participant shall not be eligible to exercise the Options on the Record Date.

16. Integration. This Agreement and the other documents referred to herein, including without limitation the Plan, or delivered pursuant hereto, which form a part hereof contain the entire understanding of the parties with respect to their subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein. This Agreement, including without limitation the Plan, supersedes all prior agreements and understandings between the parties with respect to its subject matter.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but which together constitute one and the same instrument. Notwithstanding the foregoing, any duly authorized officer of the Company may execute this Agreement by providing an appropriate facsimile signature and any counterpart or amendment hereto containing such facsimile signature shall for all purposes be deemed an original instrument duly executed by the Company.

18. Modification; Waiver. No provision of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing and signed by the Participant and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

THIS AGREEMENT SHALL BE NULL AND VOID *AB INITIO*, AND THE GRANT OF OPTIONS REFLECTED HEREIN, SHALL BE DEEMED FORFEITED, UNLESS THE COMPANY RECEIVES, WITHIN TWO WEEKS OF ITS TENDER OF THIS AGREEMENT TO THE PARTICIPANT, ONE COPY HEREOF BEARING THE PARTICIPANT'S ORIGINAL COUNTERSIGNATURE BELOW.

IN WITNESS WHEREOF, the Participant has executed this Agreement on the Participant's own behalf, thereby representing that the Participant has carefully read and understands this Agreement and the Plan as of the day and year first written above, and the Company has caused this Agreement to be executed in its name and on its behalf, all as of the date first written above.

CITIUS PHARMACEUTICALS, INC.

By: _____
Name: Myron Holubiak
Title: President & CEO

Agreed to and Accepted:

[.]

Annex A

Certain Definitions

A. "Cause" shall only mean

- (i) Any material breach by the Participant of any agreement between the Participant and the Company, which breach, if curable, is not cured, within 15 days after notice from the Company of such breach;
- (ii) the Participant's conviction of, or plea of nolo contendere to, any felony involving theft, fraud, embezzlement, or violent crime;
- (iii) the willful and continued failure of the Participant to perform substantially the Participant's duties (other than any such failure resulting from bodily injury or disease or any other incapacity due to mental or physical illness) after a written demand for substantial performance is delivered to the Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed the Participant's duties; or
- (iv) the willful engaging by the Participant in illegal conduct or gross misconduct that is materially and demonstrably detrimental to the Company and/or its affiliates (including Subsidiaries), monetarily or otherwise.

For purposes of this provision, no act, or failure to act, on the part of the Participant shall be considered "willful" unless done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, upon the instructions of the Chairman or another Board Member of the Company, upon the instructions of the Company's Chief Executive Officer or Chief Financial Officer, or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company and its affiliates (including Subsidiaries).

B. "Disability" shall mean the inability of the Participant to perform Participant's duties under his employment or service relationship for an aggregate of 180 days within any given period of 270 consecutive days as a result of any physical or mental incapacity of the Participant, taking into account any reasonable accommodation required by law.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Myron Holubiak, certify that:

1. I have reviewed this report on Form 10-Q of Citius Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2016

By: /s/ Myron Holubiak

Myron Holubiak
Chief Executive Officer,
Principal Executive Officer and Principal
Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Citius Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Myron Holubiak, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2016

By: /s/ Myron Holubiak
Myron Holubiak
Chief Executive Officer,
Principal Executive Officer and Principal
Financial Officer