ALLIQUA BIOMEDICAL, INC.

Moderator: David Johnson
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I would now like to turn the call over to your host, David Johnson. Mr. Johnson, you may begin.

David Johnson: Thank you Marquita and good morning, and welcome everyone to Alliqua's fourth quarter of 2014 earnings call. With me today on the call are Brian Posner, our Chief Financial Officer; Brad Barton, our Chief Operating Officer; Lori Toner, our Chief Marketing Officer; and Dr. Jan Smiell, our Chief Medical Officer.

We have a lot to discuss on today's call given it's a 10k call, so let's start with a quick agenda. I'll start off with some high level summary of our fourth quarter performance followed by a brief summary of our progress in 2014 towards our strategic growth initiatives. Then I'll turn the call over to Brian Posner who will walk us through a detailed review of our fourth quarter and fiscal year 2014 financial performance. And a review of our fiscal 2015 revenue guidance, which we updated in today's earnings press release.

I will then return to provide some commentary on our outlook, growth objectives, and key milestones for 2015. And then, of course, we'll open it up for some of your Q and A.

So, listen, I think to start we're very pleased with both our operating and our financial performance in the fourth quarter. We reported revenue of $1.7 million, up 255% year over year and fueled by strong growth in sales of our proprietary products, including our hydrogels, our Sorbion, our TheraBond, and our BIOVANCE.

We generated close to $800,000 in gross profit on these sales compared to losses in the same period last year. I think this is early evidence of the improving financial results that come with increasing our mix of sales to high margin products. As we have stated before, these products have a margin profile right around the 70% area. Thus, we expect our gross profit to continue to rise if this mix trend continues going forward.

In terms of operational milestones in the fourth quarter, a number of things should be noted. First, we continue to see some strong growth in our Sorbion and TheraBond brands. Clearly, both of these technologies are penetrating the marketplace, added clinical and economic advantages to our clinicians.

Second, we made significant progress in the early commercialization efforts for our human embryonic membrane allograft, which we call BIOVANCE. BIOVANCE also received important clinical validation in Q4 and achieved an important regulatory and reimbursement hurdle in the quarter as well. I'll speak to each one of these separately.

And finally, as I attended our first national sales conference recently, it occurred to me that the talent we continue to acquire in the salesforce is truly second to none in the industry and will continue to pay dividends as we go through 2015 and beyond.

Now let's go back and spend just a little more time on our BIOVANCE product. It really was in order with a number of positive events which took place in this franchise. In October, we announced an expansion of our exclusive licensing agreement with Celgene cell therapeutics, a subsidiary of the Celgene Corporation, for the right to market BIOVANCE for podiatric and orthopedic applications including sports-medicine-related conditions pertaining to the use in tendon repair, nerve and bone repair in the foot and ankle, as well as other surgical procedures in these specialty areas.

These indications expand the potential treatable population for our BIOVANCE product, which had already been targeted for the management of non-infected partial and full thickness wounds. We believe the expanding of this agreement represents just another example of our successful collaboration with Celgene and we were encouraged by the opportunity it presents to get our innovative technology in the hands of more surgeons and wound care practitioners.

Turning to clinical validation, our BIOVANCE product was the subject of an abstract that was recognized as the highest scoring abstract in the clinical research category at the Fall 2014 Symposium of Advanced Wound Care, or as many of you know it, the SAWC. Each year, abstracts are submitted to the symposium and are reviewed and scored in one of four categories by a blind panel of judges who are experts in the field of wound care.

The abstract was authored by Dr. Terry Treadwell and was presented at the Spring 2014 SAWC. The abstract summarized the results of the study designed to evaluate the effectiveness of BIOVANCE for the treatment of patients with second degree burns compared to those treated with a nanocrystalline silver dressing. The results were truly compelling. Burn patients who were treated with BIOVANCE as part of the study healed in one week while patients with comparable wound sizes who were treated with the silver dressing took up to two weeks to heal.

This acceleration of healing time as well as other data which we will be talking about shortly resonates with the surgeons and the wound care practitioners, and is truly a key driver of the adoption of this innovative technology.

Finally, on the regulatory and reimbursement front, our BIOVANCE product achieved an important milestone that was announced in early November -- a coding decision that adds a new channel of potential growth for our product in the coming years. Specifically, BIOVANCE was assigned a new and unique level two reimbursement Q code by the Centers for Medicare and Medicaid Services, or CMS. The new Q code assignment was released by CMS on October 310, 2014 and became effective on January 1 of this year.

By way of background, BIOVANCE’s Q code assignment is used to identify products employed in an outpatient setting and is an important first step in the process towards obtaining comprehensive reimbursement coverage for this product.

I'll discuss more on the specific payer and max coverage strategy for 2015 later in the call, but let's just wrap up my Q4 summary. We were very pleased with our financial performance and our operational progress, including our talent management initiatives in the selling organization.

As I look back over the full fiscal year 2014, I must admit I'm extremely encouraged with the significant progress we have made in such a brief period of time. Fiscal 2014 was certainly an important year for Alliqua Biomedical. And as I said in our press release this morning, the profile of the company changes dramatically this year with growth in all areas of the organization -- leadership, sales force, and distribution infrastructure; and importantly in our portfolio of advanced wound care products.

2014 included significant events in the company's history including capital investment to fund our strategic growth initiatives led by Celgene and other prominent healthcare investors and Warren exercises from certain key investors; B -- an investment in our sales and distribution infrastructure in Q2 of 2014 in the form of 25 experienced wound care sales representatives.

In January 2014 we were uplisted to the NASDAQ stock exchange. In May of 2014, we acquired all the outstanding equity interest in Choice Therapeutics and began marketing their family of products, including the TheraBond 3D Antimicrobial Barrier System in the second quarter of this year.

Of course, we received our first GPO contract with Med Assets in the fall of 2014. And then late in the year, our second GPO contract with Premier. And finally, our notable progress with BIOVANCE, our first product that we have commercialized out of our strategic partnership with Celgene.

Although we are early in our commercialization efforts, we are truly seeing all of the company's growth and development beginning to evidence themselves in our financial results. This portfolio

of products reported tremendous growth and revenue this year from a run rate of roughly $100,000 in the first quarter to roughly a run rate of $1.4 million in Q4. It is clear that we are building a portfolio of value-added advanced wound care products that are resonating in the market.

Importantly, even with all we have achieve thus far in our short history as an advanced wound care company, we still believe that our progress to date represents only a fraction of our growth potential.

Now, with that, I'm going to turn the call over to Brian now for a detailed review of our financial results, but then I'll return to discuss the growth opportunities we see in front of us for 2015 and beyond. Brian?

Brian Posner: Thank you, Dave. Total revenue for the fourth quarter of 2014 increased $1.2 million, or 255% year over year to $1.7 million. Sales of the company's products increased $1.2 million, or 1170% year over year, to $1.35 million; representing 81% of the total company sales this year compared to 23% of sales in the fourth quarter of 2013.

Fourth quarter products revenue includes contributions from Choice, which we acquired in May 2014. Excluding the contributions from the Choice acquisition, fourth quarter products revenue increased 609%, year over year. Fourth quarter product sales were within our guidance range of $1.3 million to $1.6 million,.

Contract manufacturing sales declined $47,000, or 13% year over year to $315,000. Fourth quarter contract manufacturing sales were slightly better than the high end of our guidance range of $250,000 to $300,000.

Gross profit for the fourth quarter of 2014 increased $849,000 year over year to $778,000, or 46.7% of sales; compared to a loss of $71,000 last year. the increase in gross margin was driven by the change in mix due to increased sales of products. We expect gross margins to continue to increase as the mix of our total revenue shifts towards products. Gross margin on product sales was 73% in the fourth quarter of 2014.

Total operating expenses decreased $7.2 million -- or 54% -- to $6.1 million this quarter. Fourth quarter of 2014 operating expenses included an impairment charge of $8.1 million related to in-process R&D for the company's (Hepamay) technology. Excluding the impairment charge, adjusted operating expenses increased $900,000, or 18% year over year. The increase in adjusted operating expenses in the fourth quarter of 2014 was driven primarily by higher compensation and benefits related to increased head counts compared to the prior year and the incremental expenses related to our acquisition of Choice.

Stock-based compensation was $1.7 million and $2.6 million for the three months ending December 31, 2014 and '13, respectively. Loss from operations for the fourth quarter of 2014 was $5.3 million compared to a loss of $13.4 million for the same period last year. Excluding the impact of the impairment charge last year, loss from operations was flat year over year.

Net loss for the fourth quarter of 2014 was $5.4 million compared to a net loss of $14.9 million for the same period last year.

Total revenue for the year ending December 31, 2014 increased $3 million, or 166% year over year to $4.8 million. Total revenue growth was driven by a 1577% increase in sales of products and a 10% increase in contract manufacturing revenues compared to the prior year.

Products revenue in fiscal year 2014 totaled $3 million, or 63% of total sales, compared to $179,000, or 10% of sales in fiscal 2013. Total products revenue included contributions from the

acquisition of Choice of approximately $1.5 million. Excluding the acquired revenue from Choice, our growth in product sales was 742% year over year.

Gross profit margin was 31.7% in fiscal year 2014 compared to a gross loss in the prior period. This improvement in total company gross margin was driven by a higher concentration of sales coming from products, which had gross margins of 70% for fiscal year 2014.

Operating expenses increased $7.1 million, or 35% year over year to $27 million. Excluding the impact of an impairment charge last year and the impacts of acquisition expenses and charges related to contingent consideration liabilities this year, adjusted operating expenses increased $14.4 million, or 122% year over year to $26.2 million.

Net loss for fiscal year 2014 was $25.4 million compared to a net loss of $22 million for the same period last year.

As of December 301, 2014, the company had $16.8 million in cash and cash equivalents compared to $12.1 million at December 31, 2013. The increase was largely due to net financing proceeds of $14.4 million and proceeds from the exercise of stock options and warrants totaling $6.6 million; offset by cash using operating activities at $13.3 million and $ 2 million used for the purchase of Choice during the twelve months ended December 31, 2014.

Turning to a discussion of our updated financial guidance for fiscal year 2015, the updated guidance reflects the expected incremental contributions from the acquisition of Celleration based on a closing date of June 30. For the fiscal year ending December 31, 2015, the company expects total revenue of $15.5 million to $18 million, representing growth at the midpoint of the range of approximately 250% year over year. This compares to the company's previous expectation for total revenue in fiscal year 2015 in the range of 11 to $13 million.

Acceleration revenue for the second half of fiscal year 2015 is expected to be in the range of $4.5 million to $5 million. We expect sales from our contract manufacturing business to post slightly positive growth year over year. So the growth rates reflected in our total company revenue guidance for FY ’15 are indeed fueled primarily by our products.

With that, I’ll turn the call back to Dave to discuss our outlook, growth objectives, and key milestones for 2015.

David Johnson: Thanks, Brian. All right. SO as I mentioned earlier, from where we sit today we feel that we have made an awful lot of progress in the last year. we feel very confident that we’ve created a unique business model that is already beginning to prove its effectiveness in the market.

When we think about 2015, there are multiple drivers of growth that we expect to contribute to the total company revenue guidance of 15 and a half to 18 million. Let me see if I can give you a better idea of how these components will contribute to our overall company results, and I will share our operating priorities and key milestones for the main focus areas of the business this year.

So we are expecting fiscal year 2015 revenue to be driven primarily by organic growth; specifically the eleven to 13 million range we introduced in our Q3 call and confirmed in our Q4 press release this morning. This organic growth will be supplemented by the contributions from our recently announced acquisition of Celleration. We expect this acquisition to close at the end of Q2 and our guidance reflects the contributions from this asset in the second half of fiscal 2015. Specifically, our guidance assumes Celleration revenue in the third and fourth quarter together will be in the range of four and a half to $5 million.

Now, back to organic growth in 2015, this will be driven by a combination of the following: increasing sales force productivity as we leverage investments in the 25 sales reps we hired and

trained in 2014; two -- continued penetration of our existing advanced wound care products; and lastly, contributions from and new indications for those same existing products.

Regarding BIOVANCE specifically, recall that we shared our views on what is a compelling near term market opportunity for our innovative skin substitute product on last quarter's call. Since our commercial launch of BIOVANCE in Q2 of '14, we have focused on penetrating the inpatient market which includes hospitals where DRG related procedures are performed as well as procedures performed in the Veterans' Administration hospital system.

We believe that these facilities represent nearly 50% of the current market for skin substitutes. Further, the strong early adoption we have seen from BIOVANCE to date has come solely from these inpatient facilities and our 2015 growth expectations for BIOVANCE are based on the continued growth of sales in these channels.

Many of you will be wondering about our efforts to gain coverage in the eight regional MACs, or Medicare Administrative Contractors, now that we have been awarded a Q code in October of 2014, which will eventually fully open up the market to BIOVANCE in the outpatient arena.

So let's talk about where we are here. First, as we think most of you know, obtaining MAC coverage is essential to maximizing the penetration in this outpatient market, which we believe represents somewhere in the area of 50% of the skin substitute market.

Second, as many of you also know, this is a very involved process which has been demonstrated by others who have navigated this MAC challenge before us. However, we're encouraged by the experience that our Alliqua team members bring to this process, having been down this road before; and we are poised to follow best practice in building a compelling case for coverage of BIOVANCE.

To that end, our team is focused on building the requisite dossier that fulfills three key criteria on which the MACs will evaluate coverage decisions -- first, a clear demonstration of medical necessity; second, strong clinical evidence; and lastly, some strong physician support in those areas.

Given the uncertainty, however, surrounding the timing of contributions from future MAC coverage decisions, our fiscal year 2015 revenue guidance excludes revenue contribution from any future MAC approvals. Importantly, however, we remain confident in our strategy to pursue comprehensive MAC coverage for our innovative skin substitute and in the team that we have assembled to navigate this process on our behalf. We look forward to updating you and the entire investment community as we win new MAC approvals. And to the extent that these approvals drive material revenue contribution to our results in fiscal ’15, we will be sure to communicate this positive news accordingly.

So let me now tell you where our organization will be focused for the rest of 2015. First, we want to make sure we support our commercial activities by furthering our clinical validation. Recall that it’s part of our strategic agreement with Celgene we have obtained access to a registry study on BIOVANCE that includes 230 patients and 244 wounds across nineteen wound care facilities.

This data demonstrates real world clinical benefit for BIOVANCE and has informed our plans for a randomized clinical study involving the use of BIOVANCE on diabetic foot ulcers. We have finalized the protocols for this study and reached out to approximately ten sites, many of which have begun the process of obtaining approval from the institutional review board. WE expect to receive our first IRB approval in the second quarter and begin enrolling patients in the third quarter.

In addition to this clinical study, we have submitted two papers on BIOVANCE for publication in two prominent wound care journals. We also have another paper related to our Sorbion products that will be published in Wounds in March.

Our second key focus area will be to ensure we build awareness amongst our key customer base, and we'll do this to our physician and payer community by accentuating our product features, our performance, our safety, and our cost benefit of our entire advanced wound care portfolio, and our solution selling approach. We have and will be sponsoring eight poster presentations at four major events this year, including the JA (Baws) with Burn and Wound Care Symposium; the American College of Foot and Ankle Surgeon Scientific Conference; the Wound Healing Society meeting; and the Spring SAWC Conference.

And finally, our third major focus area will be to both close the Celleration transaction and, of course, integrate the company in the second half of this year. Our 2015 guidance assumes contributions to our total company growth from our acquisition of Celleration. Our guidance assumes the deal closes by the end of Q2 and that we see contributions over the course of the second half of 2015.

As we discussed on our call following the acquisitions announcement, this is an important acquisition for the company. We are adding innovative technology to our portfolio of advanced wound care products, and we plan to keep and fully integrate Celleration sales reps into our existing infrastructure, which will nearly double our footprint in the wound care channel. Over time, we expect to transition all of our sales reps to representing the entire Alliqua product portfolio.

In addition to our sales force, we are able to enhance our skill set Alliqua with some outstanding reimbursement expertise and an engineering and development team with stellar background, to name just two areas of the Celleration organization.

As you can see, our strategic focus areas are clearly defined and we believe that our continued success in executing our near term and longer term strategic plans will allow us to grow the scale of our business and to deliver strong returns to our current shareholders. My team and I believe in the Alliqua business model and the growth opportunity, and we hope you do as well.

With that, we appreciate your participation in today's call and your interest in the Alliqua story. Operator, I think we'll now turn it to you for starting a question and answer period.

Operator: Thank you. If you would like to ask a question, you may signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star 1 to be placed into the queue. We'll pause for just a moment while we assemble the queue.

We'll take our first question from Matt Hewitt with Craig Hallum.

(Dillon): Hey, good morning guys. This is actually (Dillon) on for Matt. Can you hear me okay?

David Johnson: We sure can, (Dillon). How are you this morning?

(Dillon): Doing well. Congratulations, firstly, on a good end of the year and a promising outlook for '15. I'll just ask a couple and jump back in line.

Firstly, regarding the guidance, what changed -- if anything -- from what you guys were saying earlier on the Q3 call and I believe on the Celleration call about including Q code reimbursement contributions for BIOVANCE this year? Is there anything in your confidence level that has changed over the past couple of months regarding getting the MACs? Just any kind of more color on that.

David Johnson: Absolutely, (Dillon). No, nothing has changed at all from our October 30 call. I think the way we look at this -- and there's a number of different ways you can go. So let's start with - we're continuing to penetrate into that 50% of the market right now and spending our time commercially going after the VA hospitals and the DRG hospitals. We really like the momentum that we're getting and driving forward in this area.

Two, we are spending a massive amount of resources -- both time and money -- in trying to gain MAC coverage. As I said in my formal remarks, many who've gone here before will recognize that the unpredictability of when you get MAC coverage has just made us make a decision that until we know we have one MAC, two MACs, three MACs, four MACs, five MACs, it would be remiss to give further financial guidance.

And so we continue to move forward. We continue to be very bullish, quite frankly. I like the skill sets we have. I like the progress we've made. And after saying that, until I hear that we actually have MAC coverage, (Dillon), we've decided that we're not going to further our guidance at this point.

(Dillon): Okay, nothing wrong with erring on the side of conservatism. And then in the same breadth regarding your goal for clinical validation and bolstering that for BIOVANCE moving forward, what can we expect form the type of structure of trial that you guys will do? One of your peers has been very successful doing smaller type trials. Another one has done the full RCT. Are you guys going to fall somewhere in the middle of that? When can we expect a readout? Any color there?

David Johnson: Absolutely. So I'm going to turn this over to Jan Smiell, who can just walk you through briefly the protocol of the RCT that we're preparing right now, (Dillon). Jan?

Jan Smiell: Hi (Dillon). So as Dave mentioned, we will be doing a diabetic foot ulcer study and it will be multi-centric, and it will be randomized and controlled. It's a design that I feel is high quality and having quite a long history in designing studies, exploring what has been done by all the others who came before us, I'm confident that our design will be something that will be looked at as providing valid data. So we expect to be, actually, conducting the study in 2015 and going into 2016.

David Johnson: So I think the way to look at it, (Dillon), is we've taken what we think is the high road to really do a good, multicenter RTC and diabetic feet, and I believe that the outcome of this will be one which is respected by the scientific community. I think that's the way to go.

Jan Smiell: And to further that, we do anticipate having some other smaller experiences to supplement that data as well. Of course, we'd like to look at other applications, but most of our energy and resource will go into a high quality study.

(Dillon): Okay. And then lastly for me and I'll jump back, regarding the cross-selling of your product suite, can you let us know what percentage of your customers use more than one product? Do you usually - I know it varies on a case by case basis, but do you usually get in with BIOVANCE or get in with TheraBond and then begin a cross-sale? Or is it really too early in the race here?

David Johnson: It's pretty early, so I'm not sure I can give you specific numbers yet, (Dillon). But here's - the model works something like this. So instead of walking into a clinician -- I'll call it pushing or selling -- the technology, we look for where they're experiencing -- I'll call it pain points -- in their ability to manage a wound.

And let's say for argument's sake that they're having a difficult time managing high exudate wounds. We would start with talking to them about Sorbion, work with that clinician and that patient for whatever the number of time is -- four, six weeks -- and gain credibility with one

technology. As you now develop a relationship and you develop credibility with one technology, the chance of that clinician wanting to use another technology of yours becomes much greater than if they didn't know you beforehand.

So it really is a case of understanding where a pain point is, having a clinically efficacious and economically beneficial solution to help a clinician, and then starting to build that relationship within an institution or within an individual. That really is how the solution approach is working. We love the way it's resonating. Probably too early to give actual numbers at this point.

(Dillon): Okay, thanks.

David Johnson: You're welcome. Thanks, (Dillon).

Operator: And we'll go next to Suraj Kalia with Northland Securities.

Suraj Kalia: Good morning everyone. Thank you for taking my questions.

David Johnson: Hi Suraj. Good morning.

Suraj Kalia: So let me start out with Brian. Brian, did you - my apologies if I missed this. Did you mention the exact contribution of BIOVANCE in the quarter?

Brian Posner: No. We're not giving at this point specific product revenue information. We - I'll just say anecdotally it was a very strong quarter for BIOVANCE as well as some of our other products. We were happy with the momentum we saw.

Suraj Kalia: So Dave, for you or for Jan, I know you all give some very high level parameters on the randomized trial. I guess - can I just take it one step further and see if you all would be willing to

share some color? Number of patients you'll see, what Lagner grades for the DFUs - and what are you comparing it to? I guess if we can get some color on this for the RCT, that would be great.

David Johnson: Sure, Suraj. Let me pass it over to Jan and we'll give you that next layer of detail. Jan?

Jan Smiell: Hi Suraj. It's going to be a twelve-week treatment experience and we'll have the two groups -- moist wound therapy and offloading, and the other group with the addition of BIOVANCE. And then the standard of care arm will have an opportunity to cross over and get BIOVANCE if they haven't healed in those twelve weeks. We're looking at ten centers, approximately, and a goal of getting at least sixty patients.

Suraj Kalia: Great. That's good color. Dave, (Novitas) as I read it - they just did a policy update. I think it was the twentieth, a few days ago. It almost comes across they're becoming skin substitute agnostic on their policy update. Does that change any of the efforts that Alliqua has to put in to get MAC coverage as it moves through the year? There is noise and other MACs also; and at the same time, would you be ready to give us some color? Maybe we'll get three MAC approvals by end of FY '15.

David Johnson: So, Suraj, you're absolutely right. As you know, (Novitas) put out their draft document last week. We've read the document. We've worked with an industry coalition who's working on this document to understand what it means. I will say this -- on the surface, it's very encouraging and we'll continue to work and be a voice in commenting on the original draft proposal which right now is slated to take effect in early April. So we're going to stay very close.

I think it's too early to fully understand what this means. We know it's good news, Suraj. The question is how good of news, and I think one of the things that one still needs to understand is

all and any company in this space still needs to abide by the three tenets of strong clinical documentation, strong physician support, and a medical necessity. That won't go away.

So I think the answer on (Novitas) is there does seem to be a changing landscape here. It can only mean good things for new entrants into this space such as BIOVANCE. I think it's too early to suggest exactly what it means. I would think by the time our Q1 call comes around, Suraj, we'll be at a better place.

Just to answer - and I'll frustrate you a little bit on answering your second question. We just talked about - is it appropriate on a call to create expectations? Are we going to get two MACs this year? Three MACs this year? Four MACs this year? because of the unpredictability of the timing, I think we're just going to say we continue to feel good. We continue to be focused but we're not going to put those numbers out there at this point.

Suraj Kalia: Fair enough. I'd rather you guys under-promise. Final question, Dave, and I'll hop back in queue. Forgive me if I got these numbers wrong -- I heard there were 25 reps exiting FY '14 and Celleration is -- at least, quantitatively -- what I heard was somewhere between 20 and 25. It almost doubles your sales force.

If I heard it correctly, the question I have, Dave, is - the Celleration reps. How do you all intend to cross-pollinate your existing products with the Celleration guys? What are the - what all gaps have you identified that potentially would help you improve reproductivity exiting FY '15? Thank you for taking my questions.

David Johnson: Yes, thanks Suraj. It's a really good question. So just to make sure we're all on the same page with exact numbers, we have 25 selling resources today and Celleration has nineteen selling resources today. So it doesn't quite double the number but it's pretty darn close.

Number two -- both Brad and I went through the profiles of each one of the nineteen sales reps that Celleration had to see if it's the same profile that we would hire into our existing Alliqua sales force. And the answer is it's - we would hire the same people that Celleration has hired.

So we were extremely positive of the profiles that we're able to acquire through the Celleration transaction.

And finally, our entire integration plan looks something like this -- between now and closing, which again we estimate to be somewhere before the end of the second quarter, Brad is leading a team around integrating the two organizations. In fact, there's a group of -- I believe the number is six from Alliqua and six from Celleration. They're meeting in mid-March in Chicago and that will be the start of the integration program.

In June, there'll be an entire cross-training week that the Celleration reps will be trained on the Alliqua products and Alliqua reps will be trained on the Celleration products. In Q3, there'll be a - I'll call it a soft handover of customers as we continue to build the entire forty-four territories. And then by the fourth quarter of the year, we'll be fully integrated, carrying one set of products moving forward down the road.

So that's the staging of how it's happening. I will tell you this as a little bit of color -- timing is everything. Brad and I had a chance on the ninth of February -- only one week after the announcement -- to attend the Celleration sales meeting and address the team. I think both of us came away feeling like this is just a high quality, motivated, strong group of people ready to take on the next challenge and excited they're going to have more in their bags than just this great therapy, but able to really sell the entire solution. So we came away feeling extremely positive about the motivated team that we're about to take on.

Suraj Kalia: Thanks guys.

Operator: We'll take our next question from Raymond Myers with Alere Financial Partners.

Raymond Myers: Thank you. Dave, I first wanted to ask you about the two papers that you said are submitted on BIOVANCE. When do you expect those to be published and can you clarify what the subject of the papers are? Is it the 230 patient wound registry?

David Johnson: Yes, first of all good morning, Ray. Thanks. Jan, maybe you can talk to that.

Jan Smiell: Sure. Dr. Treadwell submitted his and his is on that burn study that he had conducted, which he did a poster for it at SAWC. And the BIOVANCE paper is a subset of that registry, actually -- just the chronic wounds. As far as trying to predict how the review period goes and when they decide whether or not they're publishing, you know how that is. It could be anywhere from three to five months. So we're hoping...

David Johnson: Somewhere in the first half of the year is probably the best way to think of it, Ray.

Raymond Myers: Okay, good. We'll look for those. My next question is about Celleration. It's early, but do we see any evidence of any improvement in their sales momentum from the substantial reimbursement increase from CMS that started January 1?

David Johnson: So, I think I'm going to go back to your first point. It's early. They've had one month under their belt and during that month was an announcement that they were selling the company. So I think it's a little too early to really understand what the reimbursement has done. I will tell you anecdotally, again, with Brad and I attending the sales conference and speaking to the sales force at length -- very positive signs that we're seeing and it seems like they achieved their budget in the first quarter, which was a real positive.

So yes, I think we're seeing a lot of indicators, anecdotally, that suggest that things are really moving forward and this truly was the tipping point that we had hoped for as we continue through 2015. And quite frankly, more importantly as we get the two sales forces together as move into '16.

Raymond Myers: That's great. And there's been so many factors to consider, I don't want to ignore the new products that we have been anticipating this year from Celgene and Sorbion. Can you touch on your expectations of those as those launch dates approach?

David Johnson: Yes. We've really stayed away from spending a lot of time on the new products only for this reason -- there's nothing that we will launch in the first half of 2015; thus, nothing will be material to our numbers for 2015. And so as you know from a Celgene perspective, they continue to work with what I would consider an incredibly robust pipeline. They're responsible for getting the product through the FDA and the regulatory process, and we then take it and get it through the reimbursement process. Of course, we work very closely. Both teams are meld as one.

So at this stage, Ray, we're really not spending a lot of time on the new products other than to say we like the pipeline. And as the year progresses, you'll hear more about some of the new products we'll be launching in the second half of 2015.

Raymond Myers: Okay, that sounds good. But on track, they're still coming in the second half this year, right?

David Johnson: Yes, I would think - again, it's all about the regulatory pathway and ensuring - we would anticipate that before the end of the year there will be a regulatory approval on at least one more product in the Celgene pipeline. We'll give you a little more color on that as time goes on.

Raymond Myers: Sounds good. On the Sorbion side, do we still expect more product from them?

David Johnson: Yes. There's one specific product which we are looking at right now, which was originally a Sorbion product. Our initial indication is we really like it. We've got a little bit more work to do and if, in fact, it continues to demonstrate what we so far have seen, we would envision launching that product somewhere in the area of the fourth quarter of 2015. So that's where we are with it, but still too early to be able to give exact numbers on that one.

Raymond Myers: Okay, great. And then my final question is - you've done quite a bit and Celleration is a big transaction for Alliqua here in the first half of this year. so following Celleration's acquisition, do you still have capacity for further near term acquisitions or should we think of that as more of a second half possibility?

David Johnson: Listen, I think the way to look at our M&A strategy moving forward is this -- first, we're extremely excited that 18 months after we started this thing to have our hands on five technology platforms as differentiated both clinically and economically as we have. It's really well ahead of where we originally put a plan together. So that's number one.

Number two -- both with our BIOVANCE product and now with our Celleration product -- while we love all of our technologies, these two in particular have the potential to be very large in their categories. So we've got some tremendous opportunities already to be able to take this business to a very different level over the next several years. And so we'll be focusing very heavily on being able to do that.

And third, like all acquisitions, my experience on doing many acquisitions over the y ears is the success of an acquisition is how well you integrate that acquisition. So we're going to spend our efforts, our focus in integrating this acquisition to be able to really maximize its potential.

So would I expect another M&A transaction in the first half of 2015? I wouldn't. I think as we move forward, we will be much more opportunistic and we'll keep everyone in tune. But right now, it's full speed ahead on driving organic growth, creating the clinical dossier, gaining MAC coverage, and staring to truly integrate the Celleration business.

Raymond Myers: That's great, Dave. Thanks for all the color.

David Johnson: You're very welcome.

Operator: We'll take our next question from (RK) with HC Wainwright.

(RK): Good morning, Dave, and congratulations on an excellent 2014. I have a couple of questions. As sales are a big function of sales force efficiency and you have 25 folks on board at this point and probably - and you said, you're going to get nineteen more in the second half. What's the current run rate per sales person and when would it be optimum in your thinking when you get to the mid to long term business folks?

David Johnson: Yes. Thanks (RK). Good morning. So let's think about the midrange of our organic guidance, which is twelve million. So the eleven to 13 million that brain and I both discussed. We have 25 sales people. We're estimating that a sales person by the end of this year will be at approximately 500,000 per rep. we think maximum productivity in a rep in this space is somewhere in the area of a million, (RK).

So it does allow us to continue to have some headroom moving forward into 2016; but remember for us to hit the twelve million dollars this year, we're going to have to have a run rate of much higher than that by the time that we get to the fourth quarter. So we can see by Q4 it being somewhere in the area of $600,000 - somewhere in that area.

And with Celleration, not a dissimilar thing. If you take that as a - we talked about a 13 and a half - I'm sorry. We talked about Celleration being four and a half to $5 millions for the last half of the year. So think of it as - I'll just throw out a number of ten million dollar business together with our twelve -- it's a $22 million business with a run rate higher than that with forty-four reps.

It works out pretty similar. You may have somewhere in the area of $600,000 a rep. So some nice headroom moving into '16, but with our growth expectations and with more good MAC coverage, we're going to continue to pursue the potential of investing into more as we move through the end of 2015.

(RK): Thank you. On the - it's a nice segue that you talked about MAC. How do you plan to leverage the current MAC relationships that Celleration already has? And also, I understand it's very difficult for you to say how many MAC approvals you will have by the end of 2015, but in general form the experience that your folks have, what kind of time it takes to get a MAC approval? I understand it's specific to the product, but in general what is the time it takes?

David Johnson: so first of all, we have teams both internally and a virtual team externally of some of the leading experts in this space. In particular, some of our external consultants who work with us very closely have helped other companies go through this process. So number one - I'm very happy with the skill sets that have been working on this over the past four to five months.

Number two -- it's interesting you asked the question about how we can leverage Celleration. This afternoon, we have a monthly management meeting. Two hours of it is on reimbursement this afternoon and the reimbursement experts from Celleration will be joining us to help opine into where we are with our strategy, anything - any lessons learned, best practice that they were able to uncover through their ability to gain five of the eight MACs up until this point.

So we're already starting to use that expertise in our organization, (RK), and I think you bring up a great point. It's just going to do wonders for us.

Lastly, I know I frustrate people when I'm not willing to give numbers on how many MACs. This is really a changing landscape. One of the earlier questions about (Novitas), I think, is a great example of - this is a changing landscape. It's very unpredictable. I can tell you we feel very positive about the early indications that we've seen. We like the initiative. We like the team. What's the right number by the end of the year? We're just not willing to throw a number out at this point, (RK). Sorry about that.

(RK): Okay. I was just trying to understand how long it takes. That's fine. In terms of the agreement expansion from Celgene that you have on the BIOVANCE product, how do you plan to leverage that? Where can this product be taken to in terms of growth over the next couple of years now that you have this expanded agreement with Celgene?

David Johnson: Yes. So this is a really exciting new opportunity for us and one of the things that it really represents to me is that Celgene had a couple of options. One was to bring on a new partner for this area. But I think what this decision shows is the collaboration between the Celgene Corporation and ourselves in the early days really has been extremely positive. There is a strong sense of confidence on behalf of them in our ability to gain traction in a number of different markets. So I think that's important to note right off the bat.

Number two -- the foot and ankle surgery area in particular is filled with a group of both podiatric surgeons and surgeons who deal with both chronic and acute wounds; and in addition to their foot and ankle practice. So the synergy of our call point of our sales force walking into an account which they already know but now being able to expand the indications within that account, we think, creates a very large opportunity.

At our national sales conference in January, we had a foot and ankle surgeon spend two hours going through the practice, where the products fit in. this is an individual who had experience with BIOVANCE and has become a real strong supporter of the product line. So we have a sales force now which is trained and we continue to think it will be a part of this growth story as we move forward.

(RK): Last question to you, Dave. One of the things that you were starting to talk when you came on about was scientifically at a critical mass. And where are you in that - are you in the fourth inning or are you in the seventh inning of that?

David Johnson: I think we're in the third inning, quite frankly, (RK). I think - listen. To think that two years ago we had a million and a half dollars of sales for the year, we have not had a sales force - direct sales force on board for even twelve months. I think sometimes people forget about that. And so I think the Celleration acquisition has been a really nice - I'll call it medium step in gaining some more critical mass.

To my earlier point, think of this as a 20 to $25 million run rate business now once we close Celleration with MAC coverage still to allow us to grow BIOVANCE, some really nice solid growth in TheraBond and Sorbion, and now finally Celleration which we think it just an extremely big idea moving forward.

So we're in the third inning. I will say, however, that we have been able to acquire five assets in this short period of time which is well ahead of what we originally thought we could be at this point in time. So it allows us to go form the third inning up to the fourth or fifth or maybe even the sixth without being pressured to do more acquisitions. We think we have enough internally organic growth opportunities today to really take the business to some different levels in a relatively short period of time. And after saying that, we'll always continue to be opportunistic in what is out there and what we can continue to enhance this portfolio with.

(RK): Thank you very much and congratulations again.

David Johnson: Thanks, (RK). WE really appreciate it.

Operator: We'll go next to Josh Jennings with Cowen and Company.

Josh Jennings: Hi, good morning. Thanks David, appreciate you taking the question. I just have one, just a follow-up on some of your answers, Dave. If we look out to 2016, post Celleration close and start of integration, some MAC coverage of BIOVANCE and continued ramp there -- how should we think about - from your answer in terms about innings, just on the product side, just the breadth of your wound care product portfolio and you salespersons bag.

And where are the holds currently in terms of fulfilling the corporate vision to build a suite of wound care solutions for the clinicians to treat the full spectrum of wounds? How should we think about the balance between future M&A and then some of these pipeline products? You have licensing rights from Celgene and then also the other products that you'll also have entering into 2016. Thanks a lot.

David Johnson: Thanks Josh. I appreciate the question. So it's a really good question. So where are we? So I've talked form the start of this vision that we are building an entire suite of technological solutions so that a wound care practitioner can deal with the challenges of chronic and acute wounds. I would think that these five technology platforms have really crated a larger solution in the short term that maybe we expected to be.

We have everything from, now, MIST therapy or low frequency ultrasound therapy, skin substitutes which are really dealing with the root cause of the problem of a wound. We have some tremendous exudate management products, some antimicrobial technologies.

So as we think about managing the wound bed and preparing it, and then moving on to the re-epithelialization stage, or jump-starting the wound -- Josh, I'm thinking that if you pushed it, we probably have 75 % of the solution already covered with the five technologies.

Now, we've always said there may be two ways to skin a cat and there may be two different philosophies on how to manage any one aspect of a wound. So you may see us down the road do something where there's two ways of going after a specific problem. a great example there would be the antimicrobial side where silver dressings are one way to do it and there are other technologies which give a different philosophy around different wounds.

So I think specifically we're 75% of the way down the road. What Celleration has done in our minds, however, is created a situation where we do not feel pressured to do the next deal. We think we have a growth profile in the five technologies and an ability to get very close to that solution that we'll be able to be very opportunistic moving forward.

And finally, we do have some holes. I think there's things such as - let me give you one example. Today, in an $8 billion market, there's a technology called foam technology. It happens to have about a billion dollars of global sales. We currently don't have a foam. Now some of our Sorbion products overlap where the foam is. Some of our hydrogel products actually at times overlap where foams are.

But we think we probably need a foam over time. But we're not rushing. We'll wait until we find a highly differentiated, technologically advanced foam that we can show clinically it's efficacious and has an economic value proposition. But that would be one example of - we'll probably eventually have a foam in our bag. And there's a few more, Josh, that we have that we probably need to fill those gaps as well.

Josh Jennings: Great. And just on the Sorbion and Celgene pipeline products, if you guys counted 75% product coverage now, should we think about those as more overlapping products in the current portfolio? Or do those get jumped to 80% or north of that? Thanks again.

David Johnson: A little bit of both. I think it takes us from 75 to probably 85 or 90. And then second of all, it does provide a second type of philosophy in some of the areas we already cover, which we believe will expand our ability to penetrate different aspects of the market. So a little bit of both, Josh.

Josh Jennings: Excellent, thank you.

David Johnson: You're welcome.

Operator: We'll take our next question from Yale Ken with Laidlaw and Company.

Yale Ken: Good morning and congrats on a very good quarter and year.

David Johnson: Thank you Yale.

Yale Ken: I know most questions I have have been answered, so maybe a few housekeeping ones and maybe one top view type of question. First of all, you guys have a very good improvement in the gross margin if 47% for the quarter. So going forward in 2015, how you guys see the margin improvement? First of all, it may come from the product mix, but quantitatively would you be able to give some guidance on that?

Brian Posner: Yes. Good morning Yale. It's Brian. How are you? Basically, our...

Yale Ken: Morning.

Brian Posner: Morning. Our products - we're not going to give specific product gross margins but they range in the upper sixties to upper seventy percent. I think you can basically go by the guidance and it really can help you. We've given the guidance on the Alliqua revenue of eleven to 13 and basically have said the growth will come almost all from the products. So I think that can help you there getting to an increased gross margin percentage.

And then on the Celleration revenue, what I believe we said on the previous call when we announced or discussed the deal - their margins are somewhere north of eighty percent. So I think with those variables you should be able to see continued trend of increased gross margins.

Yale Ken: Okay, great. That's helpful. And also another housekeeping question is that the - for this quarter, there's a change in the fair value of contingent liability. Is that a one-time issue?

Brian Posner: No, what that is - with the Choice acquisition there's a contingent payment based on revenue. We have to mark to market that liability. It can be up to $5 million liability payable in stock. It's basically a scale from zero to five million. So what that change was basically represents the time value of money. We haven't changed our assumption yet on that payout, but obviously as we get closer to the payout date, the discount factor becomes less of a number. But that will flow through until the payout amount is finally determined and paid.

Yale Ken: Okay, great. Also, in the study you guys are scheduled to start in the second half of this year, should we anticipate that the more detail in the product trial design to be reported about in Clinicaltrials.gov?

Jan Smiell: Yes. We'll be putting a report in Clinicaltrials.gov.

Yale Ken: Okay, great. Thanks. And lastly, you mentioned, I believe, in the third quarter call that you anticipate the company eventually will - in a few years' time frame, you will be over $50 million sales driven. Would you elaborate a little more given you have a new product here as well as what do you see that that revenue outlook will be form your current product offering or maybe just addition of other products going forward to make that projection or estimates? Thanks.

David Johnson: You're very welcome. Good questions, all of them. So I think what we said in our third quarter call - we were trying to get people to understand the revenue potential that our current product portfolio had. I think as we talked some of the building blocks - we purchased TheraBond. It was doing just under $2 million with three sales representatives. We've now put it in the bag of 25. Where could that go?

WE talked about Sorbion being a $20 million business in Germany alone with 20 sales people. We've got a larger market here in the US. We're going to continue to expand the selling organization. So how far can that go?

We talked about BIOVANCE and some of the competitors in this space. It's a $600 million space today growing at what seem to be - the independent reports are suggesting at 20% a year. So you've got companies who are three to four years ahead of us who will do close to $200 million with a single technology this year. We think BIOVANCE and with the tremendous development partner we have with Celgene has some very high growth opportunities here.

And now we have our hands on Celleration and MIST Therapy, which I will tell you that way back when I first started looking at this in the mid-2000s after it had achieved a regulatory status, in an old world of mine we believed this to be a technology which could truly change the standard protocol of care in managing wounds as it really is the only product in its place that has the ability to stimulate cells below the wound bed into the dermis and into the subcutaneous tissue.

And so we think that this is an opportunity to continue to build a franchise. When I started the company, I think we made a comment that we said there was an opportunity for someone to come in and build a suite of technologies with a world-class sales and marketing originations, capitalize the company well, and you would fill a niche in the mid-market wound care space which is classify as $100 million to $200 million. That's what we're still endeavoring to do. So it just gives you some ideas on what our thinking is right now, Yale.

Yale Ken: Okay, great. Thanks and congrats again.

David Johnson: Thanks again. Appreciate it.

Operator: We'll go next to Matt Hewitt with Craig Hallum.

(Dillon): Hey guys, (Dillon) again. Just real briefly because Matt will fire me if I don't ask, where do we stand for BIOVANCE? I understand it's an outside shot, but just where does that fit in your priority ladder heading into '15?

David Johnson: That's a good one. I'm surprised it wasn't asked earlier. So (Dillon), I think you may be aware that as of January 1 of 2015, the pass-through process for 361 approved products in biologics was moved from the biologics committee under the CMS umbrella to the medical devices committee under that same umbrella.

What that has done is - it's a completely deferment process on how you get approved through a pass-through code. So what we have all recognized as the process and how to get it and how companies before us have is no longer valid. So we have -- again, using some great outside help in this area because it is so new to everybody -- are evaluating our options as to how we will proceed with here.

We always like to think we have a shot, but I think we would agree we're not counting on this. It would be a huge upside if it happened, but given what we understand of the process, this will be challenging at best. So that's where we stand right now. We'll continue to give you updates, (Dillon), as we make some further decisions.

(Dillon): Cool. Thanks and congrats again.

David Johnson: You're welcome.

Operator: And at this time I would like to turn the conference back over to Mr. David Johnson for any additional or closing remarks.

David Johnson: Yes, thanks again everyone for your participation on the call and for your continued interest in the Alliqua Biomedical story. We'll continue to forward and update you o the progress during our first quarter all. Thanks everyone and thanks, Operator.

Operator: That does concludes today's conference. We appreciate your participation. You may now disconnect.

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