UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2018

[ ] **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: 000-54600

PROLUNG, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1922768**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
757 East South Temple, Suite 150 Salt Lake City, Utah	**84102**
(Address of principal executive offices)	(Zip Code)

(801) 736–0729
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (1) 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 [X] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
		Emerging growth company	[X]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act . [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]. Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 14, 2018, the issuer had 3,861,848 shares of common stock, $0.001 par value, outstanding.

PROLUNG, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ProLung, Inc. and Subsidiary
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash	$ 720,915	$ 636,639
Prepaid expenses	12,173	31,844
Deferred offering costs	-	303,401
Total Current Assets	733,088	971,884
Inventory, noncurrent	263,087	255,637
Property and equipment, net of accumulated depreciation	53,680	81,378
Intangible assets, net of accumulated amortization	149,005	156,176
Total Assets	$ 1,198,860	$ 1,465,075
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable	$ 216,660	$ 295,918
Accrued liabilities	228,511	25,402
Total Current Liabilities	445,171	321,320
Long-Term Liabilities		
Notes payable, net of discount	3,402,860	1,206,931
Total Long-Term Liabilities	3,402,860	1,206,931
Total Liabilities	3,799,520	1,528,251
Stockholders' Deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $0.001 par value; 120,000,000 shares authorized; 3,861,848 shares issued and outstanding	3,862	3,862
Additional paid-in capital	23,148,836	21,387,907
Accumulated deficit	(25,801,869)	(21,454,945)
Total Stockholders' Deficit	(2,649,171)	(63,176)
Total Liabilities and Stockholders' Deficit	$ 1,198,860	$ 1,465,075

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

ProLung, Inc. and Subsidiary
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues:				
Revenue	$ -	$ -	$ -	$ -
Total revenue	-	-	-	-
Cost of revenue:	-	-	-	-
Gross margin	-	-	-	-
Operating expenses:				
Research and development expense	412,951	274,407	1,524,767	1,034,934
Selling, general and administrative expense	361,876	1,067,502	2,042,167	2,472,940
Total operating expenses	774,827	1,341,909	3,566,934	3,507,874
Loss from operations	(774,827)	(1,341,909)	(3,566,934)	(3,507,874)
Other income (expense):				
Write-off of deferred offering costs	-	-	(303,401)	-
Interest expense	(216,790)	(24,211)	(476,589)	(97,957)
Net loss	$ (991,617)	$ (1,366,120)	$ (4,346,924)	$ (3,605,831)
Basic and diluted loss per share	$ (0.26)	$ (0.35)	$ (1.13)	$ (1.02)
Weighted-average common shares outstanding, basic and diluted	3,861,848	3,849,791	3,861,848	3,522,810

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

ProLung, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (4,346,924)	$ (3,605,831)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	29,624	24,195
(Gain) loss on sale of equipment	(3,294)	690
Amortization of loan discount	274,758	-
Stock-based compensation	1,021,625	385,013
Write-off of deferred offering costs	303,401	-
Change in assets and liabilities:		
Inventory	(7,450)	(22,906)
Prepaid expenses	19,671	(12,150)
Accounts payable	(79,258)	(163,520)
Accrued liabilities	203,109	(32,282)
Net cash flows from operating activities	(2,584,738)	(3,426,791)
Cash flows from investing activities:		
Proceeds from sale of equipment	8,539	394
Payments for equipment	-	(19,842)
Net cash flows from investing activities	8,539	(19,448)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants	-	6,531,567
Payment for loan and stock offering costs	(322,275)	(995,412)
Payment on notes payable and convertible debentures	-	(285,389)
Proceeds from notes payable	2,982,750	-
Proceeds from related party notes payable	-	35,000
Payment on related party notes payable	-	(85,000)
Net cash flows from financing activities	2,660,475	5,200,766
Net increase in cash	84,276	1,754,527
Cash at beginning of period	636,639	28,922
Cash at end of period	$ 720,915	$ 1,783,449
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 48,277	$ 169,623
Supplemental disclosure of non-cash investing and financing activities:		
Beneficial conversion feature	$ 463,983	$ -
Warrants issued to placement agent	$ 275,321	$ -
Conversion of convertible debt and interest	$ -	$ 1,355,789
Conversion of related party debt and interest	$ -	$ 60,000

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

ProLung, Inc. and Subsidiary
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

ProLung, Inc. (the "Company"), is a Delaware corporation that was incorporated on November 22, 2004 and is doing business as "ProLung." The Company's headquarters are located in Salt Lake City, Utah. The Company's business is the marketing and sales of precision predictive analytical medical devices specializing in lung cancer. The Company's principal activities are primarily developing products, seeking clearance by the U.S. Food and Drug Administration (the "FDA") for its product, developing markets, securing strategic alliances and obtaining financing.

Principles of Consolidation

During the year ended December 31, 2012, the Company formed a wholly-owned subsidiary, Hilltop Acquisition Corporation, Inc., which has had no activity since its inception and is included in the accompanying condensed consolidated financial statements from the date of its formation.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by management in accordance with rules and regulations promulgated by the U.S. Securities and Exchange Commission and therefore certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary for them to be presented fairly, with those adjustments consisting only of normal recurring adjustments. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements included in the Company's Annual Report on Form 10-K (the "Form 10-K") for the year ended December 31, 2017. The results of operations for the three and nine months ended September 30, 2018 may not be indicative of the results to be expected for the year ending December 31, 2018.

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has generated minimal revenues thus far from its operations. The Company will not reach its planned level of operations in the United States until it receives FDA approval, if ever. The Company does have a CE mark for Europe and has licensed a portion of its technology to an entity located in China. The Company's focus and use of funds during 2017 and the first nine months of 2018 has been on obtaining FDA approval and building an infrastructure to launch the United States market. The Company has incurred substantial and recurring losses to date from operations, continues to have a stockholders' deficit and is currently dependent on debt and equity financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result relating to the recoverability and classification of the asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this risk and uncertainty.

The ability of the Company to continue as a going concern is dependent on the Company successfully obtaining additional funding, developing products that can be sold profitably, and generating cash through operating activities. Management's plans include issuing equity or debt securities to fund capital requirements and developing ongoing operations. See Note 4 for funds raised from a convertible note offering. However, there can be no assurance the Company will raise sufficient funds and be successful in raising sufficient funds to continue as a going concern.

Basic and Diluted Loss Per Share

The Company computes basic loss per share by dividing net loss by the weighted-average number of common shares outstanding during the period. The Company computes diluted loss per share by dividing net loss by the sum of the weighted-average number of common shares outstanding and the weighted-average dilutive common share equivalents outstanding. The computation of diluted loss per share does not assume exercise or conversion of securities that would have an anti-dilutive effect. As of September 30, 2018, and 2017, the following items were excluded from the computation of diluted net loss per common share as their effect is anti-dilutive:

	For the Three and Nine Months Ended September 30,	
	2018	2017
Warrants to purchase shares	1,231,559	1,205,623
Stock options	283,417	127,500
Convertible notes	698,919	201,155

Convertible Debt

The Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt that has conversion features at fixed or adjustable rates that are in-the-money when issued. The BCF for the convertible instruments is recognized equal to the intrinsic value of the conversion features which is credited to additional paid-in capital.

Adoption of New Accounting Policies

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which requires that restricted cash and cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and a retrospective transition method is required. The Company adopted this guidance in the first quarter of 2018 but has not historically had restricted cash resulting in no impact to previously reported periods.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. These new standards supersede all existing revenue recognition requirements, including most industry specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The Company does not, at this time, expect it to have a material impact on the Company's revenue recognition. However, the Company does expect to have significant changes to the footnote disclosures related to revenue recognition as a result of implementing these new standards. As the Company has elected to be treated as an emerging growth company, this standard will be implemented effective January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02: *Leases.* ASU 2016-02 requires companies to generally recognize on the balance sheet, operating and financing lease liabilities and corresponding right-of-use assets. ASU 2016-02 will be effective for the Company's fiscal year beginning January 1, 2020 on a modified retrospective basis and earlier adoption is permitted. Management is currently evaluating the impact of the pending adoption of ASU 2016-02 and based on the Company's one lease agreement, does not anticipate a material impact to the condensed consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II). Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I applies to entities that issue financial instruments such as warrants, convertible debt or convertible preferred stock that contain down round features. Part II replaces the indefinite deferral for certain mandatorily redeemable noncontrolling interests and mandatorily redeemable financial instruments of nonpublic entities contained within current account guidance with a scope exception and does not impact the accounting for these mandatorily redeemable instruments. ASU 2017-11 is effective for the Company for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. The Company has not had any instruments that meet the criteria for Part I, but could issue such instruments in the future; therefore, the Company is currently evaluating the impact that the adoption of the standard could have on its future condensed consolidated financial statements.

ASU No. 2017-12, *Derivatives and Hedging* (Topic 815): Targeted Improvements to Accounting for Hedging Activities was issued in August 2017. The amendments under ASU 2017-12, refine and expand hedge accounting requirements for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. The standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company will adopt this ASU on January 1, 2020. The Company does not currently have any derivative or hedging instruments but may in the future.

In June 2018, the FASB issued ASU 2018-07 *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* ASU 2018-07 is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018; Early adoption is permitted, but no earlier than the Company's adoption date of Topic 606, Revenue from Contracts with Customers. The Company does not currently have any stock options to non-employees that have a vesting requirement. However, if the Company were to issue options to a non-employee with a vesting provision the implementation of this standard would provide a consistent expense over the service period of the non-employee.

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact that the adoption of the standard could have on its future condensed consolidated financial statements.

Note 2 – Inventory

Inventory principally consists of the cost of materials purchased and assembled. The cost of inventory also includes the costs of direct labor for the assembly and certain indirect costs incurred in connection with purchasing of parts and the assembly of products. Inventory consists of the following at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Raw materials	$ 73,415	$ 66,417
Work in progress	13,340	12,465
Finished goods	176,332	176,755
Total inventory	263,087	255,637
Less: carrying value of inventory not deemed to be a current asset	263,087	255,637
Inventory, included in current assets	$ -	$ -

Note 3 – Accrued Liabilities

Accrued liabilities consisted of the following at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Accrued interest	$ 151,770	$ -
Accrued royalties	17,873	17,873
Accrued payroll and payroll taxes	58,868	7,529
Total Accrued Liabilities	$ 228,511	$ 25,402

Note 4 –Notes Payable

2018 Transactions

In March 2018, the Company began issuing 8% convertible promissory notes ("convertible notes"). The convertible notes are unsecured. Principal and accrued interest are due two years from the date of issuance. The holder of the convertible note is entitled, at its option, to convert all, or any portion of the outstanding principal and interest, into shares of the Company's common stock at a conversion price of $6.30 per share. Interest accruing from the date of issuance to the conversion date shall be paid on the maturity date. If the Company completes a public offering of its common stock, the convertible promissory notes and accrued interest automatically convert into common stock at the lower of i) 90% of the public offering price or ii) $6.30 per share.

During the nine months ended September 30, 2018, the Company issued $2,982,750 in convertible promissory notes and accrued interest totaling $127,631 which would be convertible into 493,740 shares of common stock (473,467 shares for principal and 20,273 shares for interest).

On the date the convertible notes were issued, the fair value of the Company's stock was estimated to be $7.28 per share which was greater than the conversion rate of $6.30. The $0.98 per share difference is considered a beneficial conversion feature. The beneficial conversion feature related to the convertible notes was $463,983. On the date of issuance, the Company also assessed the conversion feature for possible derivative treatment (under ASC 815) and determined the conversion feature was indexed to the Company's common stock and thus not a derivative.

The Company utilized a placement agent in connection with the offering which entitled them to a cash commission of 10% of the convertible notes issued, $25,000 for non-accountable expenses and warrants to purchase 10% of the potential conversion shares of stock associated with the principal portion of convertible notes issued by the Company (47,186 warrants). Pursuant to this agreement, the Company incurred cash commission fees to the placement agent of $322,275. The value of the 47,186 warrants was $275,321 ($5.83 per warrant), derived utilizing the Black-Scholes Pricing Model with the following weighted average assumptions:

Expected life	2.5 years
Exercise price	$ 7.29
Expected volatility	160%
Expected dividends	n/a
Risk-free interest rate	2.35%

The $597,596 in loan costs incurred was added to the $463,983 beneficial conversion feature creating a debt discount ("discount") of $1,061,579. The accompanying condensed consolidated balance sheet reflects the convertible notes net of the discount. The discount will be amortized as a component of interest expense over the term of the convertible notes. During the three and nine months ended September 30, 2018, the Company recognized interest expense of $133,977 and $274,758 related to the amortization of the beneficial conversion feature and loan costs. As of September 30, 2018, the unamortized balance of the beneficial conversion feature and loan costs is $786,821.

2017 Transactions

During the nine months ended September 30, 2017 convertible debentures were converted or repaid as follows: The Company repaid $164,000 in principal along with $25,700 in related accrued interest. The remaining convertible debenture holders elected to convert $1,093,050 in principal along with $162,739 in related interest into 241,500 shares of common stock at a rate of $5.20 per share.

During the nine months ended September 30, 2017, $89,389 of principal of a master note to an individual related to an executive officer of the Company was repaid along with interest of $39,071. In addition, the noteholder elected to convert the remaining $100,000 of principal for 8,334 shares of common stock as well as 8,334 warrants to purchase stock at a price of $12.00 per unit.

During the nine months ended September 30, 2017, $105,000 of related-party notes were repaid along with interest and fees of $5,000. The Company repaid $50,000 in cash, and the individual elected to convert the remaining $60,000 into 5,000 shares of common stock, and 5,000 warrants to purchase stock, at a price of $12 per share. During the nine months ended September 30, 2017, the same individual made a short-term advance of $35,000 that did not bear interest which was repaid during the nine months ended September 30, 2017.

During the nine months ended September 30, 2017, $32,000 of principal along with $1,185 of related accrued interest for a third-party note was repaid with cash.

Notes payable are summarized as follows:

	September 30, 2018	December 31, 2017
Convertible notes payable net of $786,821 in discount and loan costs; unsecured; interest at 8.00%; due March through May 2020	$ 2,195,929	$ -
Convertible notes payable; unsecured; interest at 8.00%; due November 2020	1,206,931	1,206,931
Notes payable	$ 3,402,860	$ 1,206,931

Note 5 – Common Stock

Public Offering of Common Stock of the Company

During 2017 through February 2018, the Company filed a Registration Statement and subsequent amendments on Form S-1 (the "Registration Statement"). The Registration Statement related to a potential public offering of the Company's common stock. There was no assurance that any shares would be offered and sold pursuant to such Registration Statement. Through February 2018, the Company incurred cash offering costs totaling $303,401 which were to be offset against the proceeds received if such offering was completed. In February 2018, the Board suspended the offering, and in June 2018, the Board decided not to pursue the public offering in the near future and the Company wrote-off the deferred offering costs to expense.

Private Placement of Common Stock of the Company

During 2016 and through May 2017, the Company issued equity under a private placement agreement. The Company engaged two separate placement agents during different time periods in connection with the offering, which placement agents were entitled to a cash commission of ten percent of the issuance price of the common stock sold in the offering, and one share of common stock of the Company for each ten shares of the Company's common stock sold in the offering. Pursuant to these agreements, the Company had incurred commission fees to the placement agents of $826,146 together with 67,326 shares of common stock as of September 30, 2017. For the nine months ended September 30, 2017, the Company received subscriptions for $6,531,567 and paid $664,452 of cash offering costs. As of September 30, 2017, the total adjusted maximum offering amount of $8.2 million was subscribed for and the offering was closed.

Common Stock Issued for Conversion of Convertible Notes and Debentures

During the nine months ended September 30, 2017 the following conversions occurred:

- $1,093,050 of convertible debentures and $162,739 of accrued interest was converted at $5.20 per share into 241,500 shares of common stock;
- As partial settlement of a note payable to a relative of an Executive Officer, $100,000 was converted at $12.00 per share into 8,334 shares of common stock;
- As partial settlement of a related party note, $55,000 of principal and $5,000 of interest was converted at $12.00 per share into 5,000 shares of common stock.

Common Stock Issued for Services

During the nine months ended September 30, 2017, the Company issued 6,250 shares of common stock with a total value of $53,500 to certain Board members and consultants for services rendered.

Total stock-based compensation expense from all sources for the three and nine months ended September 30, 2018 and 2017, including stock-based compensation for the options and warrants discussed in Note 6 and Note 7, has been included in the condensed consolidated statements of operations as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development expense	$ 99,129	$ -	$ 579,754	$ -
Selling, general and administrative expense	(67,139)	261,153	441,871	385,013
Total share-based compensation	$ 31,990	$ 261,153	$ 1,021,625	$ 385,013

Note 6 – Common Stock Options

Equity Incentive Plan

In July 2017, the shareholders approved the ProLung, Inc. Stock Incentive Plan (the "Plan"). The Plan authorizes the Board's Compensation Committee to grant incentive stock options, non-incentive stock options, stock bonuses, restricted stock, and performance-based awards to directors, officers and employees and non-employee agents, consultants, advisers and independent contractors of the Company or any parent or subsidiary of the Company.

The total number of initial shares of Common Stock authorized for issuance under the Plan is 500,000 shares. The authorized shares will automatically increase on January 1 of each year, for ten consecutive years, commencing on January 1, 2018, by the lesser of (i) 40,000 shares of Common Stock (i.e., 8% of the shares originally authorized to be issued), or (ii) such number of shares of common stock (if any) the Board may earlier designate in writing. If the automatic increases are not limited by the Board, there will be 900,000 shares of common stock authorized under the Plan in January 1, 2027.

Board and Key Employee Option Grants

In March 2018, the Board's compensation committee approved the issuance of 938 options to a new director of the Company at an exercise price of $8 per option. One third of the options vest immediately with the remaining two thirds vesting at June 30, 2018. The fair value of these options was $6.18 per option or $5,794 and will be expensed over the relative vesting period.

In May 2018, as part of a bonus agreement the Board approved the issuance of 30,000 options to our Chief Medical Officer with an exercise price of $8 per option. These options vested upon issuance. The fair value of these options was $6.28 per option or $188,289 and was expensed upon issuance.

At a Board meeting in May 2018, the Board approved the issuance of stock options as payment for their 2018 Board fees in lieu of cash which included the first quarter accrual of $105,500. The Company issued 50,016 options to these Board members with one third vesting immediately, one third vesting on June 30, 2018 and the remaining one third vesting on September 30, 2018. The fair value of these options was $6.07 per option or $303,696, were expensed over the relative vesting period and are fully vested at September 30, 2018

During the nine months ended September 30, 2018, certain employees separated from the Company and several directors resigned resulting in 48,893 options being forfeited and $140,303 of future expense being eliminated.

The fair value was computed using the Black Scholes method using the following weighted-average assumptions:

Expected life		5.06 Years
Exercise price	$	8.00
Expected volatility		125%
Expected dividends		None
Risk-free interest rate		2.81%

The Company recorded an expense of $227,262 and $1,049,054 for the three and nine months ended September 30, 2018, respectively, related to the amortization of options issued under the Plan. The remaining unrecognized expense of $162,488 will be recognized through September 30, 2019 with a weighted average term of 1.0 years.

CEO Stock Option Incentive

The Company granted the Company's former CEO stock option incentives related to FDA approval. The stock option shall expire 10 years after the grant date and shall vest with respect to a number of options of Common Stock upon the receipt of FDA marketing authorization (as defined below), with such number of options to be as follows:

- 112,500 options if FDA marketing authorization is obtained after January 1, 2018 and on or before July 1, 2018;
- 75,000 options if FDA marketing authorization is obtained after July 1, 2018 and on or before January 1, 2019;
- 37,500 options if FDA marketing authorization is obtained after January 1, 2019 and on or before January 1, 2020.

The Company considered these options to be performance based with August 9, 2017 the grant date. Solely for accounting purposes, the Company originally estimated the conditions for vesting will be met between July and December 2018. Based on this estimate, management believed the most probable number of options to be issued would be 75,000, less a pro-rata reduction due to the CEO's separation from the Company.

During the three months ended September 30, 2018, the Company concluded it was improbable that FDA marketing authorization would be obtained by December 31, 2018. The Company updated their estimate whereby the conditions for vesting will likely be met by December 31, 2019. Based on the December 31, 2019 estimate, the number of options decreased from 75,000 to 37,500 (less a pro-rata reduction due the CEO's separation from the Company) and the resulting value from $472,000 to $223,000; as the service period was extended from December 31, 2018 to December 31, 2019. Through the date of the change in estimate, the Company had amortized $301,375 of compensation expense related to the original estimate. Based on the updated estimate the Company should have amortized $106,103 of compensation expense. As a result, the Company recognized a net reversal of compensation expense of $195,272 and $27,429 for the three and nine months ended September 30, 2018, respectively. The remaining $116,281 is being recognized through December 31, 2019, less a pro-rata reduction due to the CEO's separation from the Company.

As of September 30, 2018, there are currently 178,293 options available for issuance under the Plan.

A summary of option activity for the nine months ended September 30, 2018 is presented below:

	Shares Under Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value of Vested Options
Outstanding at December 31, 2017	331,000	$ 8.05	10.0 years	$ -
Issued	80,954	$ 8.00		
Adjustment	(37,500)	$ 8.00		
Forfeited/Expired	(91,037)	$ 8.00		
Outstanding at September 30, 2018	283,417	$ 8.00	9.28 years	$ -
Vested at September 30, 2018	195,198	$ 8.00	9.22 years	$ -

Note 7 – Common Stock Warrants

A summary of warrant activity for the nine months ended September 30, 2018 is presented below:

	Shares Under Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value of Vested Warrants
Outstanding at December 31, 2017	1,184,998	$ 9.16	1.9 years	$ 1,160,404
Issued	47,186	$ 7.29		
Exercised	-			
Expired/Forfeited	(625)	$ 0.01		
Outstanding at September 30, 2018	1,231,559	$ 9.02	1.1 years	$ 1,155,860

The intrinsic value at September 30, 2018 is calculated at $7.28 per share less the exercise price, based on management's latest estimate of the fair value of the shares of common stock, which is the latest price the Company has issued shares of common stock for cash.

The Company recognized $35,446 and $70,360 as share-based compensation related to the vesting of warrant shares for the three and nine months ended September 30, 2017, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements and related notes that appear elsewhere in this Quarterly Report on Form 10-Q (this "Report") and the Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") of ProLung, Inc. (the "Company").

The statements contained in this Report that are not purely historical are forward-looking statements. Our forward-looking statements include, but are not limited to, statements regarding our expectations, hopes, beliefs, intentions, or strategies regarding the future. In addition, any statements that refer to projections, forecasts, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipates," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "should" and "would," as well as similar expressions, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward looking. The forward-looking statements contained in this prospectus are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties, or assumptions, many of which are beyond our control that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Important factors that could cause these differences include the following:

- we are a development stage company with limited revenue and no assurance of earning significant revenue over the long term;
- our future success may be dependent upon additional financings to fund our operations, particularly if we obtain approval from the U.S. Food and Drug Administration (the "FDA") to market our non-invasive lung cancer risk stratification test (the "ProLung Test"), if we fail to obtain such capital, which may become more difficult if we do not receive FDA approval, we may be unable to continue as a going concern;
- our clinical studies may produce unfavorable results which could prevent or delay us from obtaining FDA and other regulatory approvals;
- we must obtain regulatory approval in the US and other non-European Union markets to be able to commence marketing and sales in those markets;
- if we obtain FDA approval, we will be subject to Medical Device Reporting, or MDR, requirements, which may lead to inquiries, injunctions or liabilities;
- we offer and sell a single testing product;
- we may eventually want to expand the ProLung Test to other cancer targets. ProLung does not have clinical data suggesting that the ProLung Test is effective in other cancers and the ProLung Test may not be effective in other cancers;
- we are a small company and may be unable to compete with competitive technologies;
- we may be unable to protect our intellectual property rights, which are important to the potential value of our products and company;
- we may incur significant costs and liability if we infringe, or are accused of infringing on, the intellectual property rights of others;

- although we are capable of internally manufacturing to meet foreseeable demand, we may at some time be dependent upon contract manufacturers to safely and timely manufacture our products;

- there is no guarantee that FDA approval will lead to the ProLung Test being approved by payors for reimbursement;

- our ProLung Test may produce false positive and false negative results; and

- other factors discussed in our 2017 Form 10-K.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements.

Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Overview

In this Report, ProLung, Inc. and its consolidated subsidiary are referred to as "ProLung" in addition to as the "Company" versions of "we" or "us." We have registered trademarks under ProLungdx®, Fresh Medical Laboratories®, ProLung®, EPN Scan®, Electro Pulmonary Nodule Scanner® and EPN Scanner®. Any other trademarks and service marks used in this Report are the property of their respective holders.

We are a medical device company that is developing, testing and commercializing its non-invasive lung cancer risk stratification test or ProLung Test. The ProLung Test was developed to be adjunctive to Computed Tomography ("CT"), or what is commonly referred to as a "CT scan" of the chest. The ProLung Test is designed to assist in evaluating the risk associated with a CT finding in the lung that is suspicious for cancer.

ProLung's bioconductance technology is a "mass averaging" bioconductance device that has shown utility in studies to evaluate the risk of lung cancer in patients with lesions of the lung in well-controlled clinical trials. The novel "mass averaging" bioconductance technology of the Company refers to the simultaneous consideration of multiple measurement pathways.

Subject to FDA approval, the ProLung Test will be introduced to the market like a standard predictive analytic test without the need for transmission of a physical sample or specimen. Instead, the ProLung Test acquires precision bioconductance measurements by means of a patented probe and disposable diaphoretic electrodes placed on the back and arms. The data containing precision measurements is processed by a proprietary classified algorithm, and a report is electronically generated that may be used by the physician, in addition to other risk factors such as nodule size, family history, gender, histology and other risk stratification information, to evaluate patients with suspicious masses or lesions identified by the CT scan. The ProLung Test is immediate, pain-free, non-invasive, and non-radiating. It requires little patient preparation and can be completed in less than 30 minutes by a proficient technician.

When patients at high risk of lung cancer have suspicious lung findings after CT evaluation, clarifying the risk of the disease, or risk stratification, has the potential to reduce the cost, anxiety, and/or time associated with the inaccurate and/or delayed diagnosis of lung cancer. Risk stratification may also play a role in identifying those patients who need to modulate the extent and frequency of follow-up. On December 31, 2013, the U.S. Preventative Services Task Force recommended CT screening guidelines for lung cancer in adults aged 55 to 80 who have a 30 pack-year history and currently smoke or have quit smoking in the past 15 years. On February 5, 2016, Medicare began to pay for lung cancer screening. The guideline and its related reimbursement by Medicare are expected to increase the number of individuals identified with suspicious findings in the lung that may be candidates for the ProLung Test. The reimbursement also expected to increase the development of lung cancer centers for interdisciplinary review of screening results. We believe that these changes may increase the number of patients seeking further risk assessment from the administrations of tests like the ProLung Test.

On May 10, 2013, the ProLung Test received the "CE" mark in Europe for its Electro Pulmonary Nodule Scanner. This marking is regulatory approval that clears the marketing and sales of the ProLung Test in the European Economic Area and European Free Trade Association Countries representing 509 million individuals and 31-member states. The new screening guidelines and Medicare coverage announced in the U.S. for lung cancer screening are not available in Europe.

In the United States, ProLung applied for marketing approval under Section 510(k) from the FDA. In February 2015, we received a letter from the FDA identifying a number of issues, questions, and concerns in our application, including the risk classification of the test, the study design and study analysis along with what we consider other less important questions. In subsequent meetings with the FDA, ProLung succeeded in reducing the number of concerns and was asked to complete an additional study. We must complete the requested clinical research and resubmit the application with the results of the requested study and resolve or negotiate the removal of the remaining issues previously identified by the FDA as well as address possible issues to be identified in the future. Unless and until we obtain FDA approval, we are not permitted to market or sell our ProLung Test in the United States.

From inception to date, we have generated limited revenues. During the year ended December 31, 2014, we commenced selling the ProLung Test to customers in the European Union but generated no revenue in the European Union in the periods covered by this Report.

We plan to continue the development and deployment of medical devices and procedures specializing in the immediate, non-invasive evaluation of indeterminate masses in the lung seen in CT and radiography. We anticipate the need to fund expansion and market growth by raising capital over the next two years. The amount of capital needed could change based on the opportunities available to us and the ability to expand our markets.

We are an "emerging growth company" and a "smaller reporting company" under the federal securities laws and are subject to reduced public company reporting requirements.

Results of Operations

The following discussion is included to describe our consolidated financial position and results of operations. The condensed consolidated financial statements and notes thereto contain detailed information that should be referred to in conjunction with this discussion.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Revenues and Cost of Revenue. During the three months ended September 30, 2018 and 2017 we had no revenues or cost of revenues.

Operating Expenses. Total operating expenses for the three months ended September 30, 2018 were $774,827 compared to the total operating expenses for the three months ended September 30, 2017 of $1,341,909, representing a decrease of $567,082. Operating expenses have been classified by management as either research and development or selling, general and administrative based on an assignment of certain expenses directly to these classifications or based on management's allocation of certain expenses between these classifications.

During the first half of 2017, we concluded our private placement which provided additional capital which enabled us to access various professionals and consultants for a future public offering, business development and administrative costs. In anticipation of marketing our product and completing a public offering, we hired additional personnel increasing our payroll costs. During the three months ended September 30, 2018, our focus has been eliminating costs and gaining FDA approval. In July 2017, our Board authorized the ProLung, Inc. Stock Incentive Plan; whereby, we issued the Board, our former CEO and significant employees options which resulted in the amortization of the value of the options during the second half of 2017 and throughout 2018. In September 2018 certain estimates regarding our former CEO's options were modified, resulting in a reversal of some compensation expense. The above issues resulted in a decrease year over year in operating costs during the three months ended September 30, 2018. A further discussion as to the changes in research and development expense and selling, general and administrative expense is more fully discussed below.

Research and Development Expense. Research and development expense for the three months ended September 30, 2018, was $412,951 compared to research and development expense of $274,407 for the three months ended September 30, 2017; representing an increase of $138,544. This increase was due to our focus during the three months ended September 31, 2018 on obtaining FDA approval for the ProLung Test. We also recorded $99,128 of stock-based compensation during 2018 to our employees classified as research and development employees in full or in part. We did not have this expense during the same period in 2017.

Selling, General and Administrative Expense. Selling, general and administrative expense for the three months ended September 30, 2018 was $361,876 compared to selling, general and administrative expense of $1,067,502 for the three months ended September 30, 2017; representing a decrease of $705,626. During the three months ended September 30, 2017, we commenced an offering of our common stock whereby we incurred significant up-front travel, legal, professional and consulting expense during the three months ended September 30, 2017. These costs primarily related to advisory fees, investor relations and brand awareness as we commenced the offering process and were not included as part of deferred offering costs. In February 2018, we elected to terminate our relationship with our underwriter and postponed the offering. As a result, we did not incur these costs during the three months ended September 30, 2018. Also, during the three months ended September 30, 2018 we updated our estimate of when our former CEO would vest in his stock options. As a result, we reversed previously recognized expense of $195,272 related to these options.

Interest Expense. Interest expense for the three months ended September 30, 2018 was $216,790 as compared to $24,211 for the three months ended September 30, 2017 representing an increase of $192,579. From March to May 2018, we issued approximately $3 million in 8% convertible promissory notes. The convertible notes were issued with a beneficial conversion feature and cash and equity loan costs. Under these new notes, we incurred both interest expense and the amortization of discount which we did not have during the three months ended September 30, 2017. These convertible notes mature two years from the date of issuance and we anticipate our interest expense will be consistent with the current quarter amount during the term of these notes. However, if the convertible note is converted, any unamortized discount will be immediately charged against interest.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Revenues and Cost of Revenue. During the nine months ended September 30, 2018 and 2017 we had no revenues or cost of revenues.

Operating Expenses. Total operating expenses for the nine months ended September 30, 2018 were $3,566,934 compared to the total operating expenses for the nine months ended September 30, 2017 of $3,507,874 representing an increase of $59,060 Operating expenses have been classified by management as either research and development or selling, general and administrative based on an assignment of certain expenses directly to these classifications or based on management's allocation of certain expenses between these classifications.

The overall increase in operating expenses during the nine months ended September 30, 2018, is primarily a result of stock-based compensation related to options issued under our Stock Incentive Plan and our current focus of gaining FDA approval for the ProLung Test. A further discussion as to the changes in research and development expense and selling, general and administrative expense are more fully discussed below.

Research and Development Expense. Research and development expense for the nine months ended September 30, 2018, was $1,524,767 compared to research and development expense of $1,034,934 for the nine months ended September 30, 2017; representing an increase of $489,833. This increase during 2018 was due to our focus on obtaining FDA approval for the ProLung Test. During the period we entered into an agreement with our Chief Medical Officer resulting in a total additional expense of $308,307, which includes $188,307 of stock-based compensation. We also recorded $391,446 of stock-based compensation during 2018 to our employees classified as research and development employees in full or in part. We did not have this expense during the same period in 2017. This was primarily offset by less travel and clinical costs during 2018, due to our on-site clinical trials winding down.

Selling, General and Administrative Expense. Selling, general and administrative expense for the nine months ended September 30, 2018, was $2,042,167 compared to selling, general and administrative expense of $2,472,940 for the nine months ended September 30, 2017; representing a decrease of $430,773. During the nine months ended September 30, 2017, we commenced an offering of our common stock whereby we incurred significant up-front, legal, professional and consulting expense and travel through the nine months ended September 30, 2017. These costs primarily related to advisory fees, investor relations and brand awareness as we commenced the offering process and were not included as part of deferred offering costs. In February 2018, we elected to terminate our relationship with our underwriter and postponed indefinitely the offering. As a result, we did not incur these costs from March 2018 through September 30, 2018. Also, during the nine months ended September 30, 2018 we updated our estimate of when our former CEO would vest in his stock options. As a result, we reversed previously recognized expense of $195,272 related to these options.

Other Expense. Other expense for the nine months ended September 30, 2018 was $779,990 as compared to $97,957 for the nine months ended September 30, 2017 representing an increase of $682,033. The increase costs consist of the following:

Interest Expense – From March through May 2018, we issued approximately $3 million in 8% convertible promissory notes. The convertible notes were issued with a beneficial conversion feature and cash and equity loan costs. Under these new notes, we incurred both interest and the amortization of discount which we did not have during the nine months ended September 30, 2017. These convertible notes mature two years from the date of issuance, and we anticipate our interest expense will be consistent with the current period amount during the term of these notes. However, if the convertible notes are converted, any unamortized discount will be immediately charged against interest.

Write-Off of Deferred Offering Costs – During 2017 and 2018, the Company filed a Registration Statement and numerous amendments related to a potential public offering of the Company's common stock. There was no assurance that any shares would be offered and sold pursuant to such Registration Statement. Through February 2018, the Company incurred cash offering costs totaling $303,401 which were to be offset against the proceeds received if such offering was completed. In February 2018, the Board suspended the offering, and in June 2018, the Board decided not to pursue the public offering in the near future and the Company wrote-off the deferred offering costs to expense.

Liquidity and Capital Resources

The following is a summary of our key liquidity measures at September 30, 2018 and 2017:

	September 30, 2018	December 31, 2017
Cash	$ 720,915	$ 636,639
Current assets	733,088	971,884
Current liabilities	(396,660)	(321,320)
Working capital	$ 336,428	$ 650,564

We need additional capital to continue our operations. During the nine months ended September 30, 2018 we issued $2,667,750 in convertible notes, net of loan fees paid. If we obtain FDA clearance to market the ProLung Test we expect that our need for capital will expand. We expect that in order to raise such capital we may be required to issue equity securities, debt securities and rights to acquire equity securities. We have no existing commitment to provide capital, and given our early stage of development, we may be unable to raise sufficient capital when needed and, in any case, will likely be required to pay a high price for capital.

Our future capital requirements and adequacy of available funds will depend on many factors including:

- our ability to obtain regulatory approval for the marketing of the ProLung Test in markets outside of Europe, including in the US;
- our ability to successfully commercialize our ProLung Test, ProLung System, and related products and the market acceptance of these products;
- reimbursement for our ProLung Test by Medicaid, Medicare and private third-party payors;
- the timing of our orders, if any, and the pricing and payment terms of those orders;
- our ability to establish and maintain collaborative arrangements with distributors for the development and commercialization of certain product opportunities;
- the cost of manufacturing and production scale-up;
- our financial results;
- the cost and availability of capital generally; and
- the occurrence of unexpected adverse expenses or events.

Notes Payable

In March 2018, we began issuing 8% convertible promissory notes ("convertible notes"). The convertible notes are unsecured. Principal and accrued interest are due two years from the date of issuance. The holder of the convertible note is entitled, at its option, to convert all, or any portion of the outstanding principal and interest, into shares of our common stock at a conversion price of $6.30 per share. Interest accruing from the date of issuance to the conversion date shall be paid on the maturity date. If the Company completes a public offering of its common stock, the convertible promissory notes and accrued interest automatically convert into common stock at the lower of i) 90% of the public offering price or ii) $6.30 per share. Through September 30, 2018, we have issued $2,982,750 in convertible promissory notes and paid fees of $322,275 related to these notes.

Cash provided by (used in) operating, investing and financing activities

Cash provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2018 and 2017 is as follows:

Operating Activities

	Nine Months Ended September 30,	
	2018	2017
Operating activities	$ (2,584,738)	$ (3,426,791)
Investing activities	8,539	(19,448)
Financing activities	2,660,475	5,200,766
Net increase in cash	$ 84,276	$ 1,754,527

For the nine months ended September 30, 2018, the differences between our net loss and net cash used in operating activities were due to net non-cash charges totaling $1,626,114 for stock-based compensation, amortization of debt discount, depreciation and the write-off of deferred offering costs.

For the nine months ended September 30, 2017, the differences between our net loss and net cash used in operating activities were due to net non-cash charges totaling $409,898 for stock-based compensation and depreciation.

Investing Activities

During the nine months ended September 30, 2018 and 2017, the Company had only insignificant investing activities which were related to the buying or selling of equipment.

Financing Activities

During the nine months ended September 30, 2018, cash flows from financing activities totaled $2,660,475. The cash flows were related to proceeds received from the issuance of convertible notes, net of loan costs paid.

During the nine months ended September 30, 2017, cash flows from financing activities totaled $5,200,766. These cash flows were related to gross proceeds of $6,531,567 received from our private placement of common shares and warrants to acquire common shares. Such private placement concluded in the quarter ended September 30, 2017. This was partially offset by direct and deferred offering costs of $995,412. During the nine months ended September 30, 2017, we made debenture payments, third party loan payments and related party payments of $164,000, $121,389 and $50,000, respectively. During the nine months ended September 30, 2017, a related party advanced the Company $35,000 which was repaid during the same period.

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. We evaluate our estimates on an on-going basis. We base our estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances. However, future events may cause us to change our assumptions and estimates, which may require adjustment. Actual results could differ from these estimates. We have determined that for the periods reported in this Report on Form 10-Q the following accounting policies and estimates are critical in understanding our financial condition and results of operations.

Inventory – Inventory is valued at the lower of cost or market value, with cost determined based on the first-in-first-out method. Management evaluates inventory for obsolescence based on expectations about future demand and marketability of products, and if necessary, reduces inventory to the lower of cost or market through the use of an inventory valuation account for obsolescence. The estimated cost of inventory not expected to be converted to cash within one year is reflected as "Inventory, noncurrent" in the condensed consolidated balance sheet.

Long-lived Assets – Long-lived assets, including property and equipment, and intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of the long-lived asset or asset group. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value.

Convertible Debt – The Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt that has conversion features at fixed or adjustable rates that are in-the-money when issued. The BCF for the convertible instruments is recognized as a discount equal to the intrinsic value of the conversion features, which is also recorded as an increase to additional paid-in capital.

Stock-based Compensation – The Company measures the cost of employee and consulting services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The awards issued are valued using a fair value-based measurement method. The resulting cost is recognized over the period during which an employee or consultant is required to provide services in exchange for the award, usually the vesting period.

Emerging Growth Company – We are an "emerging growth company" under the federal securities laws and will be subject to reduced public company reporting requirements. In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Although we have not delayed the adoption of any accounting standards, we may choose to take advantage of the extended transition period for complying with new or revised accounting standards in the future.

Off Balance Sheet Arrangements

The Company has not had any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to the Company because the Company is a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2018. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded as of September 30, 2018 that our disclosure controls and procedures are designed at a reasonable assurance level and were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure as a result the following material weakness in our internal controls and procedures existed:

The Company did not maintain effective entity-level internal controls as defined by the framework issued by COSO. Specifically, the Company did not effectively segregate certain accounting duties due to the small size of the Company's accounting staff. In addition, there were lapses in the Company's expense documentation and related controls.

In order to mitigate these material weaknesses the audit committee holds regular meetings whereby we determine whether a new control can be implemented to mitigate these risks at a reasonable cost, it is implemented as soon as possible.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred in the nine months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 31, 2018, the Company filed a complaint (the "Complaint") in the District of Utah, Central Division (Case No. 2:18-cv-00613-EJF), against Steven C. Eror, former CEO and director, Todd Morgan, former Chairman of the Board, Michael Christensen, Weild & Co, LLC, United Shareholders of ProLung and John Does 1-250. The Complaint alleges that the defendants have been engaged in an unlawful proxy solicitation in violation of Section 14(a) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") by misleading statements and omissions, failed to report the formation of a group and its intent in violation of Section 13(d) under the Exchange Act, failed to file a report on Form 3 under Section 16 of the Exchange Act, infringed the trademarks of the Company and engaged in unfair competition. The Complaint seeks declaratory relief, injunctive relief, damages and attorneys' fees. On September 14, 2018, we filed an amended complaint to name additional defendants. The defendants have not filed an answer or response to the Amended Complaint, and have not filed counterclaims.

Except as set forth above, we know of no existing or pending material legal proceedings to which the Company is a party nor of any proceedings in which any of our directors, officers or any of their respective affiliates, or any beneficial stockholder is an adverse party or has a material interest adverse to our interest.

ITEM 1A. RISK FACTORS

We are a smaller reporting company and, as a result, are not required to provide the information under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

3.1	Third Amended and Restated Certificate of Incorporation, as amended by Certificate of Amendment dated October 10, 2017[(1)]
3.2	Amended and Restated By-Laws[(1)]
31.1	Certification Pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Amended*
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101 INS	XBRL Instance Document*
101 SCH	XBRL Schema Document*
101 CAL	XBRL Calculation Linkbase Document*
101 LAB	XBRL Labels Linkbase Document*
101 PRE	XBRL Presentation Linkbase Document*
101 DEF	XBRL Definition Linkbase Document*

(1) Incorporated by reference from our Current Report on Form 8-K filed with the SEC on July 19, 2017

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.

PROLUNG, Inc.

November 14, 2018
Date

By: */s/ Jared Bauer*
Jared Bauer
Interim Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

Exhibit 31.1

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

I, Jared Bauer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ProLung, 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.

Dated: November 14, 2018

/s/ Jared Bauer
Interim Chief Executive Officer
(Principal Executive and Financial Officer)

Exhibit 32.1

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 on Form 10-Q of ProLung, Inc. (the "Company") for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Jared Bauer, Interim Chief Executive and Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2018

/s/ Jared Bauer
Jared Bauer
Interim Chief Executive Officer
(Principal Executive Officer)