

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2020

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38560

**Aerpio Pharmaceuticals, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**9987 Carver Road**  
**Cincinnati, OH**  
(Address of principal executive offices)

**EIN 61-1547850**  
(I.R.S. Employer  
Identification No.)

**45242**  
(Zip Code)

Registrant's telephone number, including area code: (513) 985-1920

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value per share	ARPO	Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 13(a) of the Exchange Act.

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

As of November 6, 2020, the registrant had 47,111,659 shares of common stock, \$0.0001 par value per share, outstanding.

## Summary of the Material and Other Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties that you should be aware of in evaluating our business. These risks include, but are not limited to, the following:

- The current pandemic of COVID-19 and the future outbreak of other highly infectious or contagious diseases could seriously harm our research, development and potential future commercialization efforts, increase our costs and expenses and have a material adverse effect on our business, financial condition and results of operations.
- We depend heavily on the success of our lead product candidate, razuprotafib. Even if we obtain favorable clinical results, we may not be able to obtain regulatory approval for, or successfully commercialize, razuprotafib.
- We may find it difficult to enroll patients in our clinical trials, which could delay or prevent clinical trials of our product candidates.
- Clinical drug development is a lengthy and expensive process with an uncertain outcome, and positive results from preclinical studies or earlier stage clinical trials are not necessarily predictive of the results of our future clinical trials of razuprotafib. If we cannot replicate the positive results from preclinical studies or earlier stage clinical trials in subsequent clinical trials, we may be unable to successfully develop, obtain regulatory approval for and commercialize our product candidates.
- We may experience delays in the planned clinical development program for razuprotafib, and we do not know whether planned clinical trials will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all.
- If our efforts to protect our proprietary technologies are not adequate, we may not be able to compete effectively in our market.
- Our patents covering one or more of our products or product candidates could be found invalid or unenforceable if challenged.
- If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our products.
- We rely on third parties to conduct preclinical studies and clinical trials for our product candidates, and if they do not properly and successfully perform their obligations to us, we may not be able to obtain regulatory approvals for our product candidates.
- We intend to rely on third parties to conduct some or all aspects of our product manufacturing, and these third parties may not perform satisfactorily.
- Our limited operating history may make it difficult for you to evaluate the success of our business to date and to assess our future viability.
- We cannot assure you that our exploration of strategic alternatives will result in a transaction or that any such transaction would be successful, and the process of exploring strategic alternatives or its conclusion could adversely impact our business and our stock price.
- We will require substantial additional financing. A failure to obtain this necessary capital when needed could force us to delay, limit, reduce or terminate our product development or commercialization efforts.
- Our future commercial success depends upon attaining significant market acceptance of our product candidates, if approved, among physicians, patients, third-party payors and others in the medical community.
- We face substantial competition, which may result in others discovering, developing or commercializing products before, or more successfully, than we do.
- Our product candidates may cause undesirable side effects or have other properties that delay or prevent their regulatory approval or limit their commercial potential.
- The market price of our common stock may be highly volatile, and may be influenced by numerous factors, some of which are beyond our control.
- Changes in tax law may adversely affect us or our investors.

The summary risk factors described above should be read together with the text of the full risk factors below, in the section entitled “Risk Factors” and the other information set forth in this Quarterly Report on Form 10-Q, including our consolidated financial statements and the related notes, as well as in other documents that we file with the SEC. The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not presently known to us, or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations and future growth prospects.

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## Table of Contents

	<u>Page</u>
<b>PART I. FINANCIAL INFORMATION</b>	<b>2</b>
Item 1. <a href="#">Condensed Consolidated Financial Statements</a>	<a href="#">2</a>
<a href="#">Condensed Consolidated Balance Sheets – September 30, 2020 (Unaudited) and December 31, 2019</a>	<a href="#">2</a>
<a href="#">Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income – Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Statements of Stockholders’ Equity – Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)</a>	<a href="#">4</a>
<a href="#">Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2020 and 2019 (Unaudited)</a>	<a href="#">5</a>
<a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a>	<a href="#">6</a>
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">19</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">26</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">27</a>
<b>PART II. OTHER INFORMATION</b>	<b>28</b>
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">28</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">28</a>
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">62</a>
Item 3. <a href="#">Defaults Upon Senior Securities</a>	<a href="#">62</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">62</a>
Item 5. <a href="#">Other Information</a>	<a href="#">62</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">63</a>
<a href="#">Signatures</a>	<a href="#">64</a>

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## AERPIO PHARMACEUTICALS, INC.

## Condensed Consolidated Balance Sheets

	September 30, 2020 <i>(unaudited)</i>	December 31, 2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 47,281,986	\$ 38,524,536
Prepaid research and development contracts	455,855	311,154
Other current assets	1,845,451	734,785
<b>Total current assets</b>	<b>49,583,292</b>	<b>39,570,475</b>
Furniture and equipment, net	137,325	164,187
Operating lease right-of-use assets, net	89,761	162,124
Deposits	20,000	40,000
<b>Total assets</b>	<b>\$ 49,830,378</b>	<b>\$ 39,936,786</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,417,172	\$ 3,231,450
Current portion of operating lease liability	94,787	102,555
<b>Total current liabilities</b>	<b>2,511,959</b>	<b>3,334,005</b>
Operating lease liability, net of current portion	—	67,438
<b>Total liabilities</b>	<b>2,511,959</b>	<b>3,401,443</b>
Commitments and contingencies (Note 9)		
<b>Stockholders' equity:</b>		
Common stock, \$0.0001 par value per share; 300,000,000 shares authorized and 47,111,659 and 40,588,004 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively.	4,711	4,059
Additional paid-in capital	189,146,884	178,766,806
Accumulated deficit	(141,833,176)	(142,235,522)
<b>Total stockholders' equity</b>	<b>47,318,419</b>	<b>36,535,343</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 49,830,378</b>	<b>\$ 39,936,786</b>

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

AERPIO PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(unaudited)</i>		<i>(unaudited)</i>	
License revenue	\$ —	\$ —	\$ 15,000,000	\$ —
Operating expenses				
Research and development	3,985,988	2,844,603	9,363,602	10,695,109
General and administrative	1,875,415	2,160,845	6,356,821	8,215,456
Restructuring (benefit) expense	—	(38,810)	—	876,284
Total operating expenses	<u>5,861,403</u>	<u>4,966,638</u>	<u>15,720,423</u>	<u>19,786,849</u>
Loss from operations	<u>(5,861,403)</u>	<u>(4,966,638)</u>	<u>(720,423)</u>	<u>(19,786,849)</u>
Grant income	—	79,303	79,900	99,574
Other income	897,378	—	897,378	—
Interest income	9,002	239,405	145,491	862,904
Total other income	<u>906,380</u>	<u>318,708</u>	<u>1,122,769</u>	<u>962,478</u>
Net and comprehensive (loss) income	<u>\$ (4,955,023)</u>	<u>\$ (4,647,930)</u>	<u>\$ 402,346</u>	<u>\$ (18,824,371)</u>
Net and comprehensive (loss) income per share				
Basic and diluted	\$ (0.12)	\$ (0.11)	\$ 0.01	\$ (0.46)
Weighted average number of common shares used in computing net and comprehensive (loss) income per share basic and diluted				
Basic	<u>42,139,493</u>	<u>40,588,004</u>	<u>41,108,942</u>	<u>40,588,004</u>
Diluted	<u>42,139,493</u>	<u>40,588,004</u>	<u>41,477,388</u>	<u>40,588,004</u>

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

AERPIO PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Stockholders' Equity

	For the Three and Nine Months Ended September 30, 2020 (unaudited)				
	Stockholders' Equity				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
Shares	Par Value				
Balance at January 1, 2020	40,588,004	\$ 4,059	\$ 178,766,806	\$ (142,235,522)	\$ 36,535,343
Issuance of warrants	—	—	62,347	—	62,347
Stock-based compensation expense	—	—	327,467	—	327,467
Net and comprehensive loss	—	—	—	(3,918,663)	(3,918,663)
Balance at March 31, 2020	40,588,004	4,059	179,156,620	(146,154,185)	33,006,494
Issuance of warrants	—	—	9,592	—	9,592
Stock-based compensation expense	—	—	308,341	—	308,341
Net and comprehensive income	—	—	—	9,276,032	9,276,032
Balance at June 30, 2020	40,588,004	4,059	179,474,553	(136,878,153)	42,600,459
Issuance of common stock, net of issuance costs of \$402,795	6,523,655	652	9,340,190	—	9,340,842
Stock-based compensation expense	—	—	332,141	—	332,141
Net and comprehensive loss	—	—	—	(4,955,023)	(4,955,023)
<b>Balance at September 30, 2020</b>	<b>47,111,659</b>	<b>\$ 4,711</b>	<b>\$ 189,146,884</b>	<b>\$ (141,833,176)</b>	<b>\$ 47,318,419</b>

	For the Three and Nine Months Ended September 30, 2019 (unaudited)				
	Stockholders' Equity				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
Shares	Par Value				
Balance at January 1, 2019	40,588,004	\$ 4,059	\$ 177,621,807	\$ (118,959,291)	\$ 58,666,575
Cumulative effect of change in accounting principle	—	—	5,717	(5,717)	—
Stock-based compensation expense	—	—	621,685	—	621,685
Net and comprehensive loss	—	—	—	(8,492,825)	(8,492,825)
Balance at March 31, 2019	40,588,004	4,059	178,249,209	(127,457,833)	50,795,435
Stock-based compensation expense	—	—	604,661	—	604,661
Net and comprehensive loss	—	—	—	(5,683,616)	(5,683,616)
Balance at June 30, 2019	40,588,004	4,059	178,853,870	(133,141,449)	45,716,480
Stock-based compensation expense	—	—	645,899	—	645,899
Net and comprehensive loss	—	—	—	(4,647,930)	(4,647,930)
Balance at September 30, 2019	40,588,004	\$ 4,059	\$ 179,499,769	\$ (137,789,379)	\$ 41,714,449

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

AERPIO PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2020	2019
<b>Operating activities:</b>	<i>(unaudited)</i>	
Net and comprehensive income (loss)	\$ 402,346	\$ (18,824,371)
Adjustments to reconcile net and comprehensive income (loss) to net cash used in operating activities:		
Depreciation	45,887	53,692
Stock-based compensation	967,949	1,872,245
Consulting expense related to warrants	71,939	—
Changes in operating assets and liabilities:		
Prepaid research and development contracts	(144,701)	216,092
Other current assets	(1,090,666)	(260,811)
Accounts payable and other current liabilities	(817,121)	(2,044,301)
Net cash used in operating activities	(564,367)	(18,987,454)
<b>Investing activities:</b>		
Purchase of furniture and equipment	(19,025)	(236,953)
Net cash used in investing activities	(19,025)	(236,953)
<b>Financing activities:</b>		
Proceeds from issuance of common stock	9,743,637	—
Cash paid in connection with the sale of common stock	(402,795)	—
Net cash provided by financing activities	9,340,842	—
Net increase (decrease) in cash and cash equivalents	8,757,450	(19,224,407)
Cash and cash equivalents at beginning of year	38,524,536	62,614,010
Cash and cash equivalents, nine months ended	\$ 47,281,986	\$ 43,389,603

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. Nature of Organization and Operations**

Aerpio Pharmaceuticals, Inc. (the “Company”) is a biopharmaceutical company focused on developing compounds that activate Tie2 to treat ocular diseases and diabetic complications, as well as other indications in which the Company believes that activation of Tie2 may have therapeutic potential, including acute respiratory distress syndrome (“ARDS”) associated with a novel strain of coronavirus (“COVID-19”) infections. The Company was incorporated as Zeta Acquisition Corp. II (“Zeta”) in the State of Delaware on November 16, 2007. Zeta was a “shell company” (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended).

The Company’s pipeline includes the following programs:

*Glaucoma:* Based on the preclinical proof of concept and the results of the Phase 1b trial showing a reduction in intraocular pressure (“IOP”) in patients with ocular hypertension (“OHT”) and open angle glaucoma (“OAG”), the Company initiated a Phase 2 clinical trial in June 2020 designed to evaluate the safety and efficacy of a topical formulation of razuprotafib (also known as AKB-9778) in approximately 195 patients followed over a 28-day period. Patients enrolled in the trial will be administered a baseline of latanoprost ophthalmic solution 0.005%, and then randomized in a 1:1:1 fashion to receive adjunctive therapy consisting of placebo, 40 mg/ml razuprotafib once-daily, or 40 mg/ml razuprotafib twice-daily. The primary endpoint of the study is mean diurnal IOP at 28 days in the razuprotafib treated groups compared to the latanoprost monotherapy group. The Company expects to report topline results from this study in December or possibly in early January 2021 to coincide with seasonal healthcare industry conferences, subject to potential delays in study completion, including due to delays arising from the ongoing COVID-19 pandemic.

*Acute Respiratory Distress Syndrome:* Based on results in preclinical studies and observations in patients in the TIME-2 and TIME-2b trials, the Company believes that a vascular endothelial receptor, Tie2, may play a pivotal role in the defense against microvascular breach in ARDS. The Company hypothesizes that razuprotafib, the Company’s lead Tie2 activator, may have therapeutic potential for the treatment of COVID-19 associated ARDS and initiated two Phase 2 trials during 2020.

In May 2020, the Company was selected by Quantum Leap Healthcare Collaborative to participate in the I-SPY COVID-19 Trial (Investigation of Serial studies to Predict Your COVID Therapeutic Response with biomarker Integration and Adaptive Learning) to evaluate subcutaneous razuprotafib for the treatment of COVID-19 related ARDS in adult patients with critical COVID-19. Trial updates are anticipated in the first half of 2021, subject to potential delays in subject enrollment and study completion, including due to delays arising from the ongoing COVID-19 pandemic.

In August 2020, the Company initiated a second Phase 2 clinical trial (“RESCUE”) for the treatment of COVID-19 with the U.S. Government operating through Medical Technology Enterprise Consortium (“MTEC”). This RESCUE trial will evaluate subcutaneous razuprotafib for the prevention and treatment of ARDS in adult patients with moderate to severe COVID-19 as part of MTEC-20-09-COVID-19 Treatment Military Infectious Disease Research Program (“MIDRP”) “Development of Treatments for COVID-19”. MTEC will provide up to \$5.1 million of reimbursement related to qualified internal and external spending of the Company, as it relates to the clinical trial. Total anticipated spend of the RESCUE clinical trial is \$7.9 million. Aerpio will support the trial with “in kind” spending in the amount of \$2.8 million. The Company expects to conduct the trial at approximately 10 clinical sites and expects the trial to be completed in the first half of 2021, subject to potential delays in subject enrollment and study completion, including due to delays arising from the ongoing COVID-19 pandemic.

*Diabetic Kidney Disease:* In two consecutive trials, TIME-2 and TIME-2b, subcutaneous razuprotafib showed reduction in Urine Albumin-Creatinine Ratio (“UACR”), a measure of progression of diabetic kidney disease. The Company believes that systemic treatment with razuprotafib could have the potential to change the treatment paradigm for diabetics in the future and potentially address a major societal problem by lowering the cost of care associated generally with diabetes.

*ARP-1536:* The humanized monoclonal antibody, ARP-1536, directed at the same target as subcutaneous razuprotafib, is in preclinical development. The Company is evaluating development options for ARP-1536, including subcutaneous injection for the treatment of diabetic vascular complications, e.g., diabetic nephropathy and intravitreal injection as an adjunctive therapy for diabetic macular edema.

The Company is also developing a bispecific antibody that binds both vascular endothelial growth factor (“VEGF”) and vascular endothelial protein tyrosine phosphatase (“VE-PTP”) which is designed to inhibit VEGF activation and activate Tie2. The Company believes this bispecific antibody has the potential to be an improved treatment for wet age-related macular degeneration (“AMD”) and diabetic macular edema via intravitreal injection.

In June 2018, the Company licensed AKB-4924 (now GB004), a selective stabilizer of hypoxia-inducible factor-1 alpha (“HIF-1 alpha”) to a wholly-owned subsidiary of Gossamer Bio, Inc., GB004, Inc. (collectively “Gossamer”), which is being developed for the treatment of inflammatory bowel disease (“IBD”). HIF-1 alpha is involved in mucosal wound healing and the reduction of inflammation in the gastrointestinal tract. Gossamer completed the Phase 1b clinical trial in ulcerative colitis (“UC”) patients and reported results during the second quarter of 2020. Gossamer has announced that, subject to developments in the ongoing COVID-19 pandemic, it plans to initiate a 12-week Phase 2 study of GB004 in patients with mild-to-moderate UC in the second half of 2020.



In May 2020, the Company received a one-time payment of \$15.0 million pursuant to an amendment to its license agreement with Gossamer resulting in a reduction in future potential milestone payments and tiered royalty rates over the life of the license agreement. Gossamer is responsible for all remaining development and commercial activities for GB004.

In February 2018, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (“SEC”) which was declared effective by the SEC on April 11, 2018 (the “Form S-3”). On February 21, 2018, and pursuant to the Form S-3, the Company entered into a Controlled Equity Offering Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co. (“Cantor”), pursuant to which it may issue and sell, from time to time, shares of its common stock having an aggregate offering price of up to \$75.0 million through Cantor as the sales agent. Cantor may sell the Company’s common stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415(a)(4) of the Securities Act, including sales made directly on or through the Nasdaq Capital Market or any other existing trade market for the Company’s common stock, in negotiated transactions at market prices prevailing at the time of sale or at prices related to prevailing market prices, or any other method permitted by law. During the three months ended September 30, 2020, 6,523,655 shares of the Company’s common stock were sold under the Sales Agreement, pursuant to the Form S-3, the related prospectus, and the prospectus supplement. The net proceeds received from this transaction were \$9.3 million, after deducting expenses of approximately \$403,000 (including sales agent compensation of approximately \$292,000) that were direct and incremental to the sale of the Company’s common stock.

The Company’s operations to date have been limited to organizing and staffing the Company, business planning, raising capital, acquiring and developing its technology, identifying potential product candidates and undertaking preclinical and clinical studies. The Company’s revenue has been primarily limited to license revenue from Gossamer described in Note 11. The Company’s product candidates are subject to long development cycles and there is no assurance the Company will be able to successfully develop, obtain regulatory approval for, or market its product candidates.

The Company is subject to a number of risks similar to other life science companies in the current stage of its life cycle including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, the need to obtain marketing approval for its product candidates, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of any of the Company’s pipeline products that are approved, and protection of proprietary technology. If the Company does not successfully commercialize any of its pipeline products or mitigate any of these other risks, it will be unable to generate revenue or achieve profitability.

Excluding the one-time payments from Gossamer, the Company incurred losses from operations and had negative cash flows from operating activities for the nine months ended September 30, 2020 and 2019 (and since inception). The Company’s current operating plan indicates that it will continue to incur losses from operations and generate negative cash flows from operating activities given ongoing expenditures related to the completion of its ongoing clinical trials and the Company’s lack of product revenue generating activities. However, the Company believes it has the ability to control its current operating plan and that existing cash and cash equivalents of approximately \$47.3 million at September 30, 2020, will be sufficient to allow the Company to fund its current operating plan through the fourth quarter of 2022.

There can be no assurance, however, that the current operating plan will be achieved in the time frame anticipated by the Company, or that its cash resources will fund the Company’s operating plan for the period anticipated by the Company or that additional funding will be available on terms acceptable to the Company, or at all. The Company will need to raise additional funds in order to further advance its clinical research programs, commence additional clinical trials, and operate its business and meet its obligations as they come due. The Company is pursuing financing alternatives, which include permanent equity financing, business development arrangements, and licensing arrangements. However, financing may not be available to the Company in the necessary time frame, in amounts that the Company requires, on terms that are acceptable to the Company, or at all. If the Company raises additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to its potential products or proprietary technologies or grant licenses on terms that are not favorable to the Company. If the Company is unable to raise the necessary funds when needed or reduce spending on currently planned activities, it may not be able to continue the development of its product candidates or the Company could be required to delay, scale back, or eliminate some or all of its development programs and other operations and will materially harm its business, financial position and results of operations.

COVID-19 has resulted, and will likely continue to result, in significant governmental measures being implemented to control the spread of the virus through quarantines, travel restrictions, heightened border security and other measures. While the Company cannot predict the scope and severity, these developments and measures could materially and adversely affect its business, including its planned Phase 2 clinical trials for the glaucoma and ARDS programs, results of operations and financial condition. In addition, in response to the continuing spread of COVID-19, the Company has kept its executive offices closed with its employees continuing their work outside of the office. The Company is closely monitoring the impact of COVID-19 on all aspects of its business and is taking steps to minimize the impact on its business. However, the extent to which COVID-19 ultimately impacts the Company’s business, results of operations or financial condition will depend on future developments, which remain highly uncertain and cannot be predicted with confidence, such as the duration of the COVID-19 pandemic, new information that may emerge concerning the severity of COVID-19 and the effectiveness of actions taken to contain the COVID-19 pandemic or treat its impact, among others. While some states and jurisdictions have started to rollback stay-at-home and quarantine orders and reopened in phases, it is difficult

to predict what the lasting impact of the COVID-19 pandemic will be, and if the Company or any of the third parties with whom it engages were to experience additional shutdowns or other prolonged business disruptions, the Company's ability to conduct its business in the manner and on the timelines presently planned could have a material adverse impact on the Company's business, results of operation and financial condition. In addition, a recurrence of COVID-19 cases could cause other widespread or more severe impacts depending on where infection rates are highest. The Company will continue to monitor developments as it deals with the disruptions and uncertainties relating to the COVID-19 pandemic.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The unaudited condensed consolidated financial statements have been prepared in accordance with SEC regulations and include all of the information and disclosures required by U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP") for interim financial reporting, and, in the opinion of management include all adjustments necessary for a fair presentation of the results of operations, financial position, changes in stockholders' equity and cash flows for each period presented. Any reference in these notes to applicable guidance is meant to refer to the authoritative U.S. GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB"). All adjustments are of a normal and recurring in nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as of and for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2020. The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. The Company's condensed consolidated financial statements are stated in U.S. Dollars.

### **Segment Information**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment, which is the business of developing and commercializing proprietary therapeutics. All the assets and operations of the Company's sole operating segment are located in the United States.

### **Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these condensed consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including: expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes, and management must select an amount that falls within that range of reasonable estimates. Estimates are used in the following areas, among others: prepaid and accrued research and development expense, stock-based compensation expense, revenue recognition and income taxes.

The Company's results can also be affected by economic conditions, global health concerns, such as COVID-19, and political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies, and changes in the prices of research studies, can have a significant effect on operations. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of all cash on hand and \$100,000 invested in short-term certificates of deposits with original maturities of three months or less at the time of purchase. At September 30, 2020 and December 31, 2019, the Company's cash equivalents are primarily held in money market funds. The Company maintains balances with its banks in excess of federally insured limits.

### **Revenue Recognition**

At the inception of an arrangement, the Company evaluates if a counterparty to a contract is a customer, if the arrangement is within the scope of revenue from contracts with customers guidance and the term of the contract. The Company recognizes revenue when its customer obtains control of promised goods or services in a contract for an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. For contracts with customers, the Company applies the following five-step

model in order to determine this amount: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. As part of the accounting for contracts with customers, the Company must develop assumptions that require judgment to determine the standalone selling price of each performance obligation identified in the contract. The Company then allocates the total transaction price to each performance obligation based on the estimated standalone selling prices of each performance obligation. The Company recognizes the amount of the transaction price as revenue that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied.

The Company enters into collaboration arrangements, under which it licenses certain rights to its intellectual property to third parties. The terms of these agreements may include payment to the Company of one or more of the following: nonrefundable upfront license fees; development, sale and commercial milestone payments and royalties on net sales of licensed products. Each of these types of payments are classified as license revenue except for revenue from royalties on net sales of licensed products, which are classified as royalty revenue.

For each collaboration agreement that results in revenues, the Company identifies all material promised goods and services, which may include a license to intellectual property, research and development activities and/or transition activities. Promised goods or services are considered to be separate performance obligations if they are distinct. In order to determine the transaction price to be allocated to each performance obligation, in addition to any upfront payment, the Company estimates the amount of variable consideration at the outset of the contract either utilizing the expected value or most likely amount method, depending on the facts and circumstances relative to the contract. The Company constrains (reduces) the estimates of variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur throughout the life of the contract. When determining if variable consideration should be constrained, management considers whether there are factors outside the Company's control that could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal of revenue. These estimates are re-assessed each reporting period as required.

Once the estimated transaction price is established, amounts are allocated to the performance obligations that have been identified. The transaction price is generally allocated to each separate performance obligation on a relative standalone selling price basis. The Company must develop assumptions that require judgment to determine the standalone selling price ("SSP") in order to account for these agreements. To determine the standalone selling price the Company's assumptions may include (i) assumptions regarding the probability of obtaining marketing approval for the drug candidate; (ii) estimates regarding the timing of and the expected costs to develop and commercialize the drug candidate; (iii) estimates of future cash flows from potential product sales with respect to the drug candidate; and (iv) appropriate discount and tax rates. Standalone selling prices used to perform the initial allocation are not updated after contract inception. The Company does not include a financing component to its estimated transaction price at contract inception unless it estimates that certain performance obligations will not be satisfied within one year.

*License Fees:* If a license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from nonrefundable, upfront (or one-time) license fees based on the relative value prescribed to the license compared to the total value of the arrangement. The revenue is recognized when the cash is received or when the license is transferred to the collaborator and the collaborator is able to use and benefit from the license. For licenses that are not distinct from other obligations identified in the arrangement, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. If the combined performance obligation is satisfied over time, the Company applies an appropriate method of measuring progress for purposes of recognizing revenue from nonrefundable, license fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

*Development Milestone Payments:* Depending on facts and circumstances, the Company may conclude it is appropriate to include the milestone in the estimated transaction price using the most likely amount method or it is appropriate to fully constrain the milestone. A milestone payment is included in the transaction price in the reporting period the Company concludes that it is probable that recording revenue in the period will not result in a significant reversal in amounts recognized in future periods. The Company may record revenues from certain milestones in a reporting period before the milestone is achieved if the Company concludes that achievement of the milestone is probable and that recognition of revenue related to the milestone will not result in a significant reversal in amounts recognized in future periods. The Company records a corresponding contract asset when this conclusion is reached. Milestone payments that have not been included in the transaction price to date are fully constrained. These milestones remain fully constrained until the Company concludes that achievement of the milestone is probable and recognition of revenue related to the milestone will not result in a significant reversal in amounts recognized in future periods. The Company re-evaluates the probability of achievement of such development milestones and any related constraint each reporting period. The Company adjusts its estimate of the overall transaction price, including the amount of collaborative revenue that it has recorded, if necessary.

**Sales-based Milestone and Royalty Payments:** The Company's collaborators may be required to pay the Company sales-based milestone payments or royalties on future sales of commercial products. The Company recognizes revenues related to sales-based milestone and royalty payments upon the later to occur of (i) achievement of the collaborator's underlying sales or (ii) satisfaction of any performance obligation(s) related to these sales, in each case assuming the license to the Company's intellectual property is deemed to be the predominant item to which the sales-based milestones and/or royalties relate.

### **Grant Income**

Grant income is recognized as earned based on contract work performed.

### **Other Income**

Other income represents reimbursed internal and external qualified expenses, per the terms of the MTEC arrangement, related to the ARDS clinical trial. Other income is recorded, and generally received, in the period the internal or external qualified clinical trial expenses are incurred, and paid, by the Company.

### **Research and Development**

Research and development costs are expensed as incurred. Research and development expense consists of (i) employee-related expenses, including salaries, benefits, travel and stock-based compensation expense, (ii) external research and development expenses incurred under arrangements with third parties, such as contract research organizations and consultants, (iii) the cost of acquiring, developing and manufacturing clinical study materials, and (iv) costs associated with clinical, preclinical and regulatory activities.

The Company enters into consulting, research and other agreements with commercial firms, researchers, universities and others for the provision of goods and services. Under such agreements, the Company may pay for services on a monthly, quarterly, project, or other basis. Such arrangements are generally cancellable upon reasonable notice and payment of costs incurred. Costs are considered incurred based on an evaluation of the progress to completion of specific tasks under each contract using information and data provided to the Company by its clinical sites and vendors. These costs consist of direct and indirect costs associated with specific projects, as well as fees paid to various entities that perform certain research on behalf of the Company.

### **Patents**

Costs incurred in connection with the application for and issuances of patents are expensed as incurred.

### **Income Taxes**

Income taxes are recorded in accordance with ASC Topic 740, *Income Taxes* ("ASC 740"), which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the condensed consolidated financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the condensed consolidated financial statement and tax bases of assets and liabilities and for loss and credit carryforwards using enacted tax rates anticipated to be in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position, as well as consideration of the available facts and circumstances. As of September 30, 2020 and December 31, 2019, the Company does not have any uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions, if any exist, in income tax expense.

### **Net and Comprehensive (Loss) Income per Share Attributable to Common Stockholders**

The Company's basic net and comprehensive (loss) income per share attributable to common stockholders is calculated by dividing the net and comprehensive (loss) income by the weighted average number of shares of common stock outstanding for the period. The diluted net and comprehensive (loss) income per share attributable to common stockholders is computed by adjusting the weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method.

## Stock-Based Compensation

The Company accounts for its stock-based compensation awards in accordance with ASC Topic 718, *Compensation – Stock Compensation* (“ASC 718”). ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the condensed consolidated statements of operations and comprehensive (loss) income based on their fair values. All the Company’s stock-based awards are subject only to service-based vesting conditions. The Company estimates the fair value of its stock-based awards using the Black-Scholes option pricing model, which requires the input of assumptions, including (a) the expected stock price volatility, (b) the calculation of expected term of the award, (c) the risk-free interest rate, and (d) expected dividends.

Due to the historical lack of public market for trading of the Company’s common stock and a lack of company-specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The computation of expected volatility is based on the historical volatility of a representative group of companies with similar characteristics to the Company, including stage of product development and life science industry focus. The Company believes the group selected has sufficient similar economic and industry characteristics and includes companies that are most representative of the Company.

The Company uses the simplified method as prescribed by the SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*, to calculate the expected term, as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for options granted to employees, and utilizes the contractual term for options granted to non-employees. The expected term is applied to the stock option grant group as a whole, as the Company does not expect substantially different exercise or post-vesting termination behavior among its employee population. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options.

Compensation expense related to awards to employees is calculated on a straight-line basis by recognizing the grant date fair value over the associated service period of the award, which is generally the vesting term.

## Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, accounts payable and accrued expenses. The Company values cash equivalents using quoted market prices. The fair value of accounts payable and accrued expenses approximates its carrying value because of its short-term nature.

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”), establishes a hierarchy of inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described below:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in markets that are not active or for which all significant inputs are observable, either directly or indirectly
- Level 3 – Valuations that require inputs that reflect the Company’s own assumptions that are both significant to the fair value measurement and unobservable

To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There were no transfers within the fair value hierarchy during the nine months ended September 30, 2020 or 2019. The assets of the Company measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019, are summarized below:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<b>September 30, 2020</b>				
Assets:				
Cash and cash equivalents	\$ 47,281,986	\$ —	\$ —	\$ 47,281,986
Total assets	\$ 47,281,986	\$ —	\$ —	\$ 47,281,986
<b>December 31, 2019</b>				
Assets:				
Cash and cash equivalents	\$ 38,524,536	\$ —	\$ —	\$ 38,524,536
Total assets	\$ 38,524,536	\$ —	\$ —	\$ 38,524,536

### Concentrations of Credit Risk and Off-Balance Sheet Risk

Cash and cash equivalents are the only financial instruments that potentially subject the Company to concentrations of credit risk. At September 30, 2020 and December 31, 2019, the Company maintains its cash and cash equivalents with high-quality, accredited financial institutions and, accordingly, such funds are subject to minimal credit risk. The Company has no off-balance sheet concentrations of credit risk, such as foreign currency exchange contracts, option contracts or other hedging arrangements.

### Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, if any. Comprehensive (loss) income equaled net (loss) income for all periods presented.

### Furniture and Equipment

Furniture and equipment is stated at cost, less accumulated depreciation. Furniture and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, generally three to seven years. Such costs are periodically reviewed for recoverability when impairment indicators are present. Such indicators include, among other factors: operating losses, unused capacity, market value declines, and technological obsolescence. Recorded values of asset groups of furniture and equipment that are not expected to be recovered through undiscounted future net cash flows are written down to current fair value, which generally is determined from estimated discounted future net cash flows (assets held for use) or net realizable value (assets held for sale).

### Leases

At the inception of an arrangement the Company determines whether the arrangement is or contains a lease based on the circumstances present. All leases with a term greater than one year are recognized on the condensed consolidated balance sheet as right-of-use assets, lease liabilities and, if applicable, long-term lease liabilities. The Company has elected not to recognize on the condensed consolidated balance sheet leases with terms of one-year or less if entered into. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

### Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). ASU 2018-07 improves financial reporting for share-based payments issued to nonemployees under ASC 718 by expanding the scope of the employee share-based payments guidance to include share-based payments issued to nonemployees. The amendments in ASU 2018-07 are effective for public companies for fiscal years beginning after December 31, 2018, including interim periods within that fiscal year. The Company adopted ASU 2018-07 as of January 1, 2019 and recorded a one-time cumulative adjustment of \$5,717 upon adoption.

No other new accounting pronouncement recently issued or newly effective had or is expected to have a material impact on the Company’s condensed consolidated financial statements.

### 3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are as follows:

	September 30, 2020	December 31, 2019
Accrued project costs	\$ 850,330	\$ 382,131
Accounts payable	709,272	439,785
Accrued bonus	480,324	689,830
Professional fees	234,151	346,999
Accrued vacation	83,402	43,470
Restructuring accrual (see Note 12)	38,114	793,913
Other	21,579	13,463
Accrued retention bonus	—	521,859
Total accounts payable and accrued expenses	<u>\$ 2,417,172</u>	<u>\$ 3,231,450</u>

### 4. Common Stock

As of September 30, 2020 and December 31, 2019, the Company had 300,000,000 shares of authorized common stock with par value of \$0.0001 per share.

The common stock has the following characteristics:

#### *Voting*

The holders of common stock are entitled to one vote for each share of common stock held at all meetings of stockholders and written actions in lieu of meetings.

#### *Dividends*

The holders of common stock are entitled to receive dividends, if and when declared by the board of directors of the Company (the “Board of Directors”). Since the Company’s inception, no dividends have been declared or paid to the holders of common stock.

#### *Liquidation*

In the event of any voluntary or involuntary liquidation, dissolution, or winding-up of the Company, the holders of common stock are entitled to share ratably in the Company’s assets.

#### *Warrants to Purchase Common Stock*

At September 30, 2020 and December 31, 2019, the Company had warrants outstanding for the purchase of 600,000 and 917,562 shares, respectively, of the Company’s common stock. In October 2019, the Company issued warrants for the purchase of 600,000 shares of the Company’s common stock at an exercise price of \$0.486 per share in connection with the hiring of a strategic advisor consultant for a six-month period. These warrants vested in equal monthly installments over a six-month period beginning October 14, 2019 and expire on October 24, 2024. At the date of grant the fair value of these awards were determined using a Black-Scholes Merton pricing model. Included at December 31, 2019 are warrants for the purchase of 317,562 shares of the Company’s common stock at an exercise price of \$5.00 per share that were issued in connection with the 2017 Offering and have a three-year term. The 317,562 warrants expired on March 15, 2020, and none were exercised or settled as the fair value of the Company’s common stock was below the exercise price.

The number of shares and the exercise price shall be adjusted for standard anti-dilution events such as stock splits, combinations, reorganizations, or issue shares as part of a stock dividend. Upon a change of control, the warrant holder will have the right to receive securities, cash or other properties it would have been entitled to receive had the warrant been exercised. The warrants are equity classified instruments and do not contain contingent exercise provisions, or other features, that would preclude the Company from concluding that the warrants are indexed solely to the Company's common stock.

## 5. Preferred Stock

As of September 30, 2020 and December 31, 2019, the Company had 10,000,000 shares of preferred stock, par value \$0.0001 per share, in authorized capital. No preferred stock was issued and outstanding at September 30, 2020 and December 31, 2019.

## 6. Stock-Based Compensation

In March 2017, the Company's Board of Directors adopted, and the stockholders approved, the 2017 Stock Option and Incentive Plan (the "2017 Plan"), that became effective in April 2017. The 2017 Plan provides for the issuance of incentive awards up to 4,600,000 shares of common stock to officers, employees, consultants and directors, less the number of shares subject to issued and outstanding awards under the 2011 Plan that were assumed in the Merger. The 2017 Plan also provides that the number of shares reserved for issuance thereunder will be increased annually on the first day of each year beginning in 2018 by four percent (4%) of the shares of our common stock outstanding on the last day of the immediately preceding year or such smaller increase as determined by our Board of Directors. In March 2020, the Company's Board of Directors approved a 4% increase adding 1,623,520 shares to the 2017 Plan, which was effective as of January 1, 2020.

### Stock Options

The options granted generally vest over 48 months. Under the 2017 Plan, options vest in installments of 25% at the one-year anniversary and thereafter in 36 equal monthly installments beginning on the 1<sup>st</sup> of the month after the one-year anniversary date, subject to the employee's continuous service with the Company. In May 2019, the Company issued a special retention grant of options to purchase an aggregate of 2,419,050 shares of common stock which vest in installments of 50% at June 30, 2020 and 50% at June 30, 2021, subject to the employee's continuous service with the Company. The options generally expire ten years after the date of grant. The fair value of the options at the date of grant is recognized as an expense over the requisite service period. No option awards to purchase common stock were granted during the three months ended September 30, 2020 and 2019. Option awards to purchase an aggregate of 962,720 and 4,622,428 shares of common stock were granted in the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December 31, 2019, 3,570,705 and 1,983,093 shares were reserved for issuance under the 2017 Plan, respectively.

The following table summarizes the stock option activity during the nine months ended September 30, 2020:

	Stock Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2020	5,335,850	\$ 2.60	6.23	\$ 2,866
Granted	962,720	0.71		
Exercised	—	—		
Expired/cancelled	(1,452,470)	4.01		
Outstanding, September 30, 2020	4,846,100	\$ 1.80	7.14	\$ 1,789,867
Expected to vest, September 30, 2020	2,219,001	\$ 1.51	8.76	\$ 1,086,038
Options exercisable, September 30, 2020	2,627,099	\$ 2.05	5.78	\$ 703,829

Aggregate intrinsic value represents the estimated fair value of the Company's common stock in excess of the weighted average exercise price multiplied by the number of options outstanding or exercisable.

As of September 30, 2020, there was \$1,776,807 of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted average period of 1.80 years.



## Compensation Expense Summary

The Company recognized the following compensation cost related to stock-based compensation activity for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Research and development	\$ 139,544	\$ 153,997	\$ 403,453	\$ 386,791
General and administrative	192,597	491,902	564,496	1,485,454
<b>Total</b>	<b>\$ 332,141</b>	<b>\$ 645,899</b>	<b>\$ 967,949</b>	<b>\$ 1,872,245</b>

The Company uses the Black-Scholes option pricing model to determine the estimated fair value for stock-based awards. Option pricing and models require the input of various assumptions, including the option's expected life, expected dividend yield, price volatility and risk-free interest rate of the underlying stock. Accordingly, the weighted-average fair value of the options granted during the three and nine months ended September 30, 2020 and 2019 was \$0.43 and \$1.11 per share, respectively. No options were granted during the three months ended September 30, 2020 and September 30, 2019. The calculation was based on the following assumptions.

	Nine Months Ended September 30,	
	2020	2019
Expected term (years)	5.92	5.77
Risk-free interest rate	0.53%	2.32%
Expected volatility	69.36%	65.83%
Expected dividend yield	0.00%	0.00%

## 7. Income Taxes

The Company did not record a current or deferred income tax expense or benefit for the three and nine months ended September 30, 2020 and 2019, due to the Company's net and comprehensive (loss) income and increases in its deferred tax asset valuation allowance.

## 8. Net and Comprehensive (Loss) Income per Share Attributable to Common Stockholders

The following table sets forth the computation of the Company's basic and diluted net and comprehensive (loss) income per share ("EPS") attributable to common stockholders for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net and comprehensive (loss) income per share	\$ (4,955,023)	\$ (4,647,930)	\$ 402,346	\$ (18,824,371)
<b>Denominator:</b>				
Weighted average common shares used in computing EPS				
Basic	42,139,493	40,588,004	41,108,942	40,588,004
Diluted	42,139,493	40,588,004	41,477,388	40,588,004
<b>Basic and diluted EPS</b>	<b>\$ (0.12)</b>	<b>\$ (0.11)</b>	<b>\$ 0.01</b>	<b>\$ (0.46)</b>

Holders of non-vested stock-based compensation awards do not have voting rights.

The following weighted average common stock equivalents were excluded from the calculation of basic and diluted net and comprehensive loss per share for the three months ended September 30, 2020 and 2019 because including them would have had an anti-dilutive effect. The following weighted average common stock equivalents were excluded from the calculation of diluted net and comprehensive income per share for the nine months ended September 30, 2020 and basic and diluted net and comprehensive loss per share for the nine months ended September 30, 2020 and 2019 because including them would have had an anti-dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Options to purchase common stock	\$ 4,846,100	\$ 6,726,097	4,020,193	6,726,097
Warrants to purchase common stock	600,000	317,562	—	317,562

## 9. Leases

At September 30, 2020, the Company is a party to one property lease in Cincinnati, Ohio under an arrangement which provides the right to use the underlying asset and require lease payments for the lease term. During the fourth quarter of 2019, the Company terminated its leases in Lexington, Massachusetts and Dexter, Michigan; no penalties were incurred related to these terminations. The Cincinnati, Ohio lease agreement obligates the Company to pay real estate taxes, insurance and certain maintenance costs (hereinafter referred to as non-lease components). The Company's lease arrangement contains a renewal provision of 5 years, exercisable at the Company's option. The Company's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Operating lease assets and operating lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available at lease commencement date. Lease agreements with lease and non-lease components are generally accounted for as a single lease component. The Company's operating lease expense is recognized on a straight-line basis over the lease term and are recorded in general and administrative expenses on the condensed consolidated statements of operations and comprehensive (loss) income.

The following table presents the lease cost and information related to the right-of-use assets and operating lease liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Lease cost</b>				
Average rent expense	\$ 28,357	\$ 62,086	\$ 85,072	\$ 186,226
<b>Other information</b>				
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 29,625	\$ 62,634	\$ 87,915	\$ 186,942
<b>The weighted average remaining lease term and discount rate at September 30, 2020</b>				
Weighted-average remaining lease term – operating leases			0.83	
Weighted-average discount rate – operating leases			13.28%	

As of September 30, 2020, future payments related to operating leases activities are presented in the table below:

	2020	2021	2022 and Thereafter	Total Lease Payments
Operating leases	\$ 29,865	\$ 69,685	\$ —	\$ 99,550
Less interest				(4,763)
Present value of lease liabilities				\$ 94,787

## 10. Employee Stock Purchase Plan

In March 2017, the Board of Directors adopted and the stockholders approved the Employee Stock Purchase Plan that became effective in April 2017. On June 20, 2018, the Company's shareholders approved the Amended and Restated 2017 Employee Stock Purchase Plan ("ESPP") at the Annual Meeting of Shareholders. Pursuant to the terms of the ESPP, the Company will reserve for issuance 300,000 shares of the Company's common stock in the aggregate, plus, on January 1, 2019 and each January 1 thereafter through January 1, 2028, the number of shares of the Company's common stock reserved and available for issuance under the ESPP will be cumulatively increased by the least of (i) one percent of the number of shares of the Company's common stock issued and outstanding on the immediately preceding December 31; (ii) 350,000 shares; or (iii) such lesser number of shares of the Company's common stock as determined by the Board of Directors, in each case subject to adjustment in accordance with the terms of the ESPP. In March 2020, the Company's Board of Directors approved an increase of 350,000 shares to the ESPP, which increase was effective as of January 1, 2020. No shares under the ESPP are outstanding at September 30, 2020 and December 31, 2019.

## 11. License Agreement

On June 24, 2018, the Company entered into a license agreement (the “Gossamer License Agreement”) with Gossamer, under which the Company granted Gossamer an exclusive, sublicensable license to develop and commercialize AKB-4924 and other structurally related products worldwide, with initial development expected in the indications of induction and maintenance in ulcerative colitis and Crohn’s Disease (collectively “initial indications”). Prior to the execution of the Gossamer License Agreement, AKB-4924 was a pipeline program for the Company that completed a Phase 1a clinical trial in healthy volunteers.

On May 12, 2020, the Company entered into Amendment No. 1 to the Gossamer License Agreement (“Amendment No. 1”). Pursuant to Amendment No. 1, Gossamer made a payment to the Company of \$15.0 million on May 12, 2020. For the nine months ended September 30, 2020, the Company recognized revenue of \$15.0 million based on the terms of Amendment No. 1, and no such revenue was recognized during the three months ended September 30, 2020.

Gossamer is responsible for the development and commercialization of the licensed products, and a joint development committee has been formed to oversee the development and manufacturing activities related to the licensed products. Under the terms of the Gossamer License Agreement and as amended by Amendment No. 1 (collectively, the “Amended Gossamer License Agreement”), Gossamer is obligated to use its commercially reasonable efforts to develop and commercialize licensed products in the United States, two major European countries and Japan for at least one of the initial indications. The Amended Gossamer License Agreement includes an exclusivity provision that prohibits the Company from developing, manufacturing or commercializing, and prohibits Gossamer from clinically developing or commercializing certain HIF stabilizing compounds other than as permitted in the Amended Gossamer License Agreement.

Under the terms of the Amended Gossamer License Agreement, the Company is eligible to receive up to \$40.0 million in approval milestone payments related to indications in ulcerative colitis and Crohn’s disease, and up to \$50.0 million in sales milestone payments. The Company is also eligible to receive the tiered royalties on sales of licensed products from percentages ranging from a low-single-digit to mid-single-digit, subject to certain customary reductions.

In addition, under certain circumstances, in lieu of receiving the foregoing milestone payments and royalties, the Company may elect to receive 20% of payments received by Gossamer and its stockholders (with some exclusions) in connection with Gossamer’s grant of a sublicense or other rights to the licensed products or if Gossamer undergoes a change of control and the value of the transaction exceeds a certain value (provided that Gossamer can prevent the Company from exercising this option if the parent company of Gossamer is the entity undergoing the change of control, in which case each of the royalty rate percentages described above would automatically be increased by low single digits). Conversely, the Company could be required to accept such 20% of those payments if Gossamer agrees to pay the Company a certain minimum upon Gossamer and its stockholders being paid. Such amount may be reduced if the transaction includes pharmaceutical candidates or products or other named asset categories in addition to the licensed products.

The Amended Gossamer License Agreement expires on a licensed-product-by-licensed-product and country-by-country basis on the later of fifteen years from the date of first commercial sale or when there is no longer a valid patent claim covering such licensed product in such country. Either party may terminate the Amended Gossamer License Agreement for an uncured material breach by the other party or upon the bankruptcy or insolvency of the other party. Gossamer may terminate the Amended Gossamer License Agreement in the event Gossamer determines there is a potential safety or efficacy issue with the licensed products. The Company may terminate the Amended Gossamer License Agreement if Gossamer institutes certain actions related to the licensed patents. Under certain termination circumstances, the Company would have worldwide rights to the terminated program.

As of September 30, 2020 and 2019, all development milestones, sales-based milestones and royalty payments within the Amended Gossamer License Agreement are constrained to the point where no transaction price has been allocated to the future milestones or royalty payments.

## 12. Restructuring

In April 2019, the Company executed a realignment plan to reduce operating costs and better align its workforce with the needs of its ongoing business and in October 2019, the Company’s Chief Executive Officer and Chief Financial Officer departed from their positions. As a result, the Company recorded employee severance (benefit) expense of (\$38,810) and \$0.9 million during the three and nine months ended September 30, 2019, respectively, and an additional \$1.0 million in the three months ended December 31, 2019. The severance liability as of December 31, 2019 was approximately \$0.8 million and was included in accounts payable and accrued expenses in the condensed consolidated balance sheet.

Total cash payments against the severance liability was approximately \$0.2 million and \$0.8 million in the three and nine months ended September 30, 2020, respectively. The remaining liability as of September 30, 2020, was approximately \$38,000 and is included in accounts payable and accrued expenses in the condensed consolidated balance sheet. These amounts were paid in cash in October 2020.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains express or implied forward-looking statements which are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are based on our management’s belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future operational or financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the initiation, timing, progress and results of our research and development programs and future preclinical and clinical studies;
- our ability to advance any product candidates into, and successfully complete, clinical studies and obtain regulatory approval for them;
- the timing or likelihood of regulatory filings and approvals;
- the commercialization, marketing and manufacturing of our product candidates, if approved;
- the pricing and reimbursement of our product candidates, if approved;
- the rate and degree of market acceptance and clinical utility of any products for which we receive marketing approval;
- the implementation of our strategic plans for our business, product candidates and technology;
- our exploration of strategic alternatives;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;
- our expectations related to the use of our cash reserves, and estimates of our expenses, future revenues, capital requirements and our needs for additional financing;
- our ability to maintain and establish collaborations, including with Gossamer, as well as the expected benefits from such collaboration;
- our financial performance;
- developments relating to our competitors and our industry, including the impact of government regulation;
- the ultimate impact of the current coronavirus pandemic (“COVID-19”), or any other health epidemic, on our business, our clinical trials, our research programs, healthcare systems or the global economy as a whole; and
- other material risks and uncertainties, including those listed under the caption “Risk Factors” in this Quarterly Report on Form 10-Q.

In some cases, forward-looking statements can be identified by terminology such as “may,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the negative of these terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the section entitled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Quarterly Report on Form 10-Q and the documents that we reference in Quarterly Report on Form 10-Q and have filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”) completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Report. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should therefore not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Report.

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

*The following discussion of the financial condition and results of operations of Aerpio Pharmaceuticals, Inc. should be read in conjunction with the unaudited condensed consolidated financial statements and the notes to those statements included in this Quarterly Report on Form 10-Q as of and for the period ended September 30, 2020 and our audited consolidated financial statements and related notes thereto for the year ended December 31, 2019 included in our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 16, 2020. Some of the information contained in this discussion and analysis including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risk, uncertainties and assumptions. You should read the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 16, 2020, as updated by the risk factors contained this Quarterly Report on Form 10-Q and our other filings with the SEC, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Operating Overview

Aerpio Pharmaceuticals, Inc. is a biopharmaceutical company focused on developing compounds that activate Tie2 to treat ocular diseases and diabetic complications, as well as other indications in which the Company believes that activation of Tie2 may have therapeutic potential, including acute respiratory distress syndrome (“ARDS”) associated with a novel strain of coronavirus (“COVID-19”) infections.

In March 2019, we announced topline results from our Phase 2b (“TIME-2b”) clinical trial of AKB-9778 (also known as razuprotafib) for the treatment of non-proliferative diabetic retinopathy. Although the results did not meet the study’s primary endpoint, the TIME-2b study further supported the reduction of intraocular pressure (“IOP”) seen with subcutaneous razuprotafib in the previous TIME-2 study. Importantly, IOP is the only identifiable modifiable risk factor for prevention of vision loss in patients with open angle glaucoma (“OAG”) and ocular hypertension (“OHT”). Moreover, recently published mouse and human genetic data implicate the Angpt/Tie2 pathway in maintenance of Schlemm’s canal, a critical component of the conventional outflow tract. The conventional outflow tract is the main conduit for the fluid drainage from the front of the eye and the principle regulator of IOP. Based on these findings, we developed a topical ocular formulation of razuprotafib, and observed in preclinical studies activation of Tie2 in Schlemm’s canal, IOP reduction via enhanced outflow facility and favorable tolerability.

In June 2019, we initiated a double-masked, multiple-ascending dose Phase 1b clinical trial for OAG. We enrolled four cohorts of 12 subjects each and subjects received increasing daily doses of a topical ocular formulation of razuprotafib or placebo for seven days. The primary endpoint of the trial was ocular safety and tolerability, with IOP lowering as the key pharmacodynamic endpoint. In October 2019, we announced interim results from our Phase 1b clinical trial. The unmasked interim analysis, limited to the first three cohorts, showed the topical ocular administration of razuprotafib was well tolerated. Compared to placebo, there was a dose dependent increase in minimal to mild conjunctival hyperemia with razuprotafib, which was transient and generally considered non-adverse, and a time and dose dependent reduction in IOP that, in the highest once daily (“QD”) dose cohort peaked at 4 hours post-dose and was sustained through eight hours on day 7, returning to baseline levels at 24 hours post-dose. Based on these data, a cohort of 43 patients with OHT/OAG (hypertensive eyes) was added to the ongoing study to assess safety and pilot efficacy in the target patient population.

In January 2020, we announced the results of the fifth cohort of subjects noting subjects in cohort five randomized to the active arm exhibited statistically significant decreases in IOP at all post razuprotafib administration time points on both days 1 and 7 compared with day -1 baseline values when they were being treated with prostaglandin alone. When the change is placebo-corrected, razuprotafib plus prostaglandin versus prostaglandin alone produced a statistically significant decrease in IOP on Day 7 at 0, 4 and 8 hours post dose as compared to placebo. We believe these results suggest a persistent IOP-lowering activity from adding razuprotafib to standard-of-care prostaglandin therapy. Topical ocular administration of razuprotafib was well tolerated over seven days in cohort five. There were no reports of conjunctival hemorrhage or pain on instillation during the seven days of dosing and no systemic/non-ocular AEs were observed.

Based on the preclinical proof of concept and the results of the Phase 1b trial showing a reduction in IOP in patients with OHT and OAG, we initiated a Phase 2 clinical trial in June 2020 designed to evaluate the safety and efficacy of a topical formulation of razuprotafib in approximately 195 patients followed over a 28-day period. Patients enrolled in the trial will be administered a baseline of latanoprost ophthalmic solution 0.005%, and then randomized in a 1:1:1 fashion to receive adjunctive therapy consisting of placebo, 40 mg/ml razuprotafib once-daily, or 40 mg/ml razuprotafib twice-daily. The primary endpoint of the study is mean diurnal IOP at 28 days in the razuprotafib treated groups compared to the latanoprost monotherapy group. We expect to report topline results from this study in December or possibly early January 2021 to coincide with seasonal healthcare industry conferences, subject to potential delays in subject enrollment and study completion, including due to delays arising from the ongoing COVID-19 pandemic.

We believe that glaucoma, a serious condition of the eye affecting three million patients in the United States (“U.S.”), is an attractive commercial opportunity. If we develop, obtain marketing approval for and commercialize razuprotafib, our goal is to capture a portion of annual sales for adjunctive glaucoma therapies. We currently estimate that the dollar value of the U.S. glaucoma market is approximately \$4 billion dollars per year, and adjunctive therapies represent approximately half of this value. There were approximately 17 million prescriptions written for adjunctive glaucoma therapies in the U.S. in 2019.

#### *Acute Respiratory Distress Syndrome*

Based on results in preclinical studies and observations in patients in TIME-2 and TIME-2b trials, we believe that a vascular endothelial receptor, Tie2, may play a pivotal role in the defense against microvascular breach in ARDS. We hypothesize that razuprotafib, our lead Tie2 activator, may have therapeutic potential for the treatment of COVID-19 associated ARDS and initiated two Phase 2 trials during 2020.

In May 2020, we were selected by Quantum Leap Healthcare Collaborative to participate in the I-SPY COVID Trial (Investigation of Serial studies to Predict Your COVID Therapeutic Response with biomarker Integration and Adaptive Learning) to evaluate subcutaneous razuprotafib for the treatment of COVID-19 related ARDS in adult patients with critical COVID-19 (ClinicalTrials.gov Identifier: NCT04488081). The trial was initiated during the third quarter of 2020 and trial updates are anticipated in the first half of 2021, subject to potential delays in subject enrollment and study completion, including due to delays arising from the ongoing COVID-19 pandemic.

In August 2020, we announced the receipt of funding to evaluate subcutaneous razuprotafib in a new randomized, investigational trial for the prevention and treatment of ARDS in adult patients with moderate to severe COVID-19 (“RESCUE” trial; ClinicalTrials.gov Identifier: NCT04511650). The RESCUE trial is part of the MTEC-20-09-COVID-19 Treatment Military Infectious Disease Research Program (“MIDRP”). The RESCUE clinical trial was initiated during the third quarter of 2020 and is expected to be completed in the first half of 2021, subject to potential delays in subject enrollment and study completion, including due to delays arising from the ongoing COVID-19 pandemic. The Medical Technology Enterprise Consortium (“MTEC”), a non-profit organization primarily funded by the U.S. Army Medical Research and Development Command, will provide up to \$5.1 million of reimbursement related to qualified internal and external spending of the Company, as it relates to the clinical trial. Total anticipated spend of the RESCUE clinical trial is \$7.9 million.

#### *Diabetic Kidney Disease*

In two consecutive trials, TIME-2 and TIME-2b, subcutaneous razuprotafib showed reduction in Urine Albumin-Creatinine Ratio (“UACR”), a measure of progression of diabetic kidney disease. In a post-hoc analysis of the earlier TIME-2 clinical trial, there was a 21% reduction (geometric mean) in UACR from baseline in the razuprotafib treatment arms, but an overall increase in UACR in the placebo arm. The prospective UACR analyses from the recently completed TIME-2b trial largely replicated the results from the previous trial and reinforced the potential beneficial effects of Tie2 activation in diabetic kidney disease. We believe that systemic treatment with razuprotafib could have the potential to change the treatment paradigm for diabetics in the future and potentially address a major societal problem by lowering the cost of care associated generally with diabetes.

#### *ARP-1536*

ARP-1536, our humanized monoclonal antibody directed at the same target as subcutaneous razuprotafib, is in preclinical development. We are evaluating development options for ARP-1536, including subcutaneous injection for the treatment of diabetic vascular complications, e.g., diabetic nephropathy and intravitreal injection as an adjunctive therapy for diabetic macular edema. We are also developing a bispecific antibody that binds both vascular endothelial growth factor (“VEGF”) and vascular endothelial protein tyrosine phosphatase (“VE-PTP”) which is designed to inhibit VEGF activation and activate Tie2. We believe this bispecific antibody has the potential to be an improved treatment for wet AMD and diabetic macular edema via intravitreal injection.

#### *Gossamer License Agreement*

In June 2018, we licensed AKB-4924, a selective stabilizer of hypoxia-inducible factor-1 alpha (“HIF-1 alpha”) to Gossamer Bio, Inc. (“Gossamer”) AKB-4924, (now called GB004), is being developed for the treatment of inflammatory bowel disease (“IBD”). HIF-1 alpha is involved in mucosal wound healing and the reduction of inflammation in the gastrointestinal tract. Gossamer has completed the Phase 1 multiple ascending dose (“MAD”) clinical study and is currently running a Phase 1b clinical study in ulcerative colitis (“UC”) patients. Gossamer has progressed GB004 during 2019 by completing the Phase 1 trial in healthy volunteers and initiating a Phase 1b study in ulcerative colitis patients of 28-day duration. Gossamer reported topline results from the Phase 1b study in the second quarter of 2020 and has announced that, subject to developments in the ongoing COVID-19 pandemic, it plans to initiate a 12-week Phase 2 study of GB004 in patients with mild-to-moderate UC in the second half of 2020. Gossamer is responsible for all remaining development and commercial activities for GB004.

In April 2019, we adopted a realignment plan to reduce operating costs and better align our workforce with the needs of our ongoing business and in October 2019, our Chief Executive Officer and Chief Financial and Business Officer departed from their positions. As a result, we recorded severance (benefit) and expense of (\$38,810) and \$0.9 million during the three and nine months ended September 30, 2019, respectively, and an additional \$1.0 million in the three months ended December 31, 2019 for employee related costs, including severance benefits and payment of healthcare insurance premiums. Additionally, we recorded a one-time stock-based compensation cumulative reversal of \$1.1 million during the year ended December 31, 2019 for the forfeitures of outstanding equity awards. The total remaining liability under these severance-related actions was \$38,000 as of September 30, 2020 and was paid in October 2020.

Our primary source of liquidity to date has been through public and private sales of our common stock, redeemable convertible preferred stock, convertible debt and the proceeds from a license agreement entered into with Gossamer (the "Gossamer License Agreement"), as amended by that certain Amendment No. 1 to the Gossamer License Agreement ("Amendment No. 1" and together with the Gossamer License Agreement, as amended by Amendment No. 1, the "Amended Gossamer License Agreement"). For the three and nine months ended September 30, 2020, we generated \$0.0 and \$15.0 million, respectively, in revenue pursuant to Amendment No. 1.

We will need to raise additional funds to further advance our clinical research programs, commence additional clinical trials and commercialize our products, if approved. While we continue to pursue financing alternatives, which may include equity financing, business development arrangements, licensing arrangements and business combination transactions, financing may not be available to us in the necessary time frame, in the amounts that we need, on terms that are acceptable to us or at all. If we are unable to raise the necessary funds when needed or reduce spending on currently planned activities, we may not be able to continue the development of our product candidates or we could be required to delay, scale back or eliminate some or all of our development programs and other operations and will materially harm our business and consolidated financial position.

We expect to continue to incur significant expenses and operating losses for the foreseeable future as a result of our ongoing activities. We are subject to a number of risks similar to other life science companies in the current stage of our life cycle, including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical testing or clinical trials, competitors developing new technological innovations, and protection of proprietary technology. If we do not successfully mitigate any of these risks, we will be unable to generate revenue or achieve profitability.

Except for the Amended Gossamer License Agreement that we entered into with Gossamer in June 2018 and amended in May 2020, our operations to date have been limited to organizing and staffing our Company, business planning, raising capital, acquiring and developing our technology, identifying potential product candidates and undertaking preclinical and clinical studies. There can be no assurance of future revenues either from future payments related to the Amended Gossamer License Agreement, transition services or from our product candidates. Our product candidates are subject to long development cycles, and there is no assurance we will be able to successfully develop, obtain regulatory approval for, or market our product candidates. As of September 30, 2020, we had an accumulated deficit of \$141.8 million and anticipate incurring additional losses for the next several years.

The Company's inability to obtain required funding in the near future could have a material adverse effect on its operations and strategic development plan for future growth. If the Company cannot successfully raise additional capital and implement its strategic development plan, its liquidity, financial condition and business prospects will be materially and adversely affected, and the Company may have to cease operations. Based on the Company's current cash reserves of \$47.3 million at September 30, 2020 and financial condition as of this Quarterly Report on Form 10-Q, we believe our existing cash and cash equivalent will be sufficient to fund currently planned operations through the fourth quarter of 2022.

#### **COVID-19 Considerations:**

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, as a global pandemic, which continues to spread throughout the United States and around the world. The COVID-19 pandemic is evolving, and to date has led to the implementation of various responses, including government-imposed quarantines, stay-at-home orders, travel restrictions, mandated business closures and other public health safety measures. In addition, in response to the spread of COVID-19, we have continued to keep our executive offices closed with our employees continue to work outside of our offices. We are closely monitoring the impact of COVID-19 on all aspects of our business, including how it may impact our planned Phase 2 clinical trial for our glaucoma program, expected timelines and costs on an ongoing basis. We do not yet know the full extent of potential delays or the impact on our business, our planned clinical trial, our research programs, healthcare systems or the global economy and we cannot presently predict the scope and severity of any potential business shutdowns or disruptions. The extent to which COVID-19 ultimately impacts our business, results of operations and financial condition will depend on future developments, which remain highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 or the effectiveness of actions to contain COVID-19 or treat its impact, among others. While some states and jurisdictions have started to rollback stay-at-home orders, quarantines and similar restrictions and reopened in phases, the regulations vary on a state by state basis and the impact of loosening of those restrictions is not yet known. If we or any of the third parties with whom we engage were to experience additional shutdowns or other prolonged business disruptions, our ability to conduct our business in the manner

and on the timelines presently planned could have a material adverse impact on our business, results of operation and financial condition. In addition, a recurrence of COVID-19 cases could cause other widespread or more severe impacts depending on where infection rates are highest. We continue to monitor developments as we deal with the disruptions and uncertainties relating to the COVID-19 pandemic.

### **Basis of Presentation**

The following discussion highlights the Company's results of operations and the principal factors that have affected our financial condition as well as our liquidity and capital resources for the periods described and provides information that management believes is relevant for an assessment and understanding of the condensed consolidated balance sheets and the condensed consolidated statements of operation and comprehensive (loss) income presented herein. The following discussion and analysis are based on the Company's condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, which we have prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP"). You should read the discussion and analysis together with such condensed consolidated financial statements and the related notes thereto.

### **Components of Statements of Operations and Comprehensive (Loss) Income**

#### ***License Revenue***

License revenue relates to payments received pursuant to the license agreement with Gossamer.

#### ***Research and Development***

Research and development expenses are expensed as incurred. Research and development expenses consist primarily of (i) employee-related expenses, including salaries, benefits, travel, and stock-based compensation expense, (ii) external research and development expenses incurred under arrangements with third parties, such as contract research organizations ("CRO's") and consultants, (iii) the cost of acquiring, developing, and manufacturing clinical study materials, and (iv) costs associated with preclinical, clinical and regulatory activities.

Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and clinical sites.

As we continue to invest in basic research and clinical development of our product candidates, we expect research and development expenses to increase in absolute dollars.

#### ***General and Administrative***

General and administrative expenses consist primarily of compensation and related costs for our finance, human resources and other administrative personnel, including stock-based compensation, employee benefits and travel. In addition, general and administrative expenses include third-party consulting, legal, patent, audit, accounting services and facilities costs. We expect to continue to incur general and administrative expenses due to additional legal, accounting, insurance, investor relations and other costs associated with being a public company, as well as other costs associated with growing our business.

#### ***Restructuring (Benefit) Expense***

Restructuring (benefit) expense consists primarily of severance related expenses of employees terminated as a result of our restructuring efforts. Expenses include continued payroll, benefits and outplacement services (collectively "severance") as defined and agreed upon by the respective employees' severance agreement. Severance was recognized as restructuring expense in 2019 when employees were notified of the restructuring event with a corresponding restructuring accrual which was reduced as payments were made to the employees.

#### ***Grant Income***

Grant income is recognized as earned based on contract work performed.

#### ***Other Income***

Other income represents reimbursed internal and external qualified expenses, per the terms of the MTEC arrangement, related to the ARDS RESCUE clinical trial. Other income is recorded, and generally received, in the period the internal or external qualified clinical trial as we incur and pay expenses.



### Interest Income

Interest income consists primarily of interest income received on cash and cash equivalents

### Results of Operations

The following table presents the results of operations for the periods presented:

#### Comparison of the Three and Nine Months Ended September 30, 2020 and 2019

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
License revenue	\$ —	\$ —	\$ 15,000,000	\$ —
Operating expenses:				
Research and development	3,985,988	2,844,603	9,363,602	10,695,109
General and administrative	1,875,415	2,160,845	6,356,821	8,215,456
Restructuring (benefit) expense	—	(38,810)	—	876,284
Total operating expenses	5,861,403	4,966,638	15,720,423	19,786,849
Loss from operations	(5,861,403)	(4,966,638)	(720,423)	(19,786,849)
Grant income	—	79,303	79,900	99,574
Other income	897,378	—	897,378	—
Interest income	9,002	239,405	145,491	862,904
Total other income	906,380	318,708	1,122,769	962,478
Net and comprehensive (loss) income	\$ (4,955,023)	\$ (4,647,930)	\$ 402,346	\$ (18,824,371)

#### License Revenue

License revenue for the three and nine months ended September 30, 2020 was \$0.0 and \$15.0 million, respectively, related to payment received as consideration pursuant to Amendment No. 1. This revenue was recognized when cash was received on May 12, 2020.

No such license agreement amendment was executed in 2019, nor were any milestones of the Gossamer License Agreement achieved in 2019.

#### Operating Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Research and development	\$ 3,985,988	\$ 2,844,603	\$ 9,363,602	\$ 10,695,109
General and administrative	1,875,415	2,160,845	6,356,821	8,215,456
Restructuring (benefit) expense	—	(38,810)	—	876,284
Total operating expenses	\$ 5,861,403	\$ 4,966,638	\$ 15,720,423	\$ 19,786,849

#### Research and Development

Research and development expenses for the three months ended September 30, 2020, increased by approximately \$1.1 million or 40.1%, compared to the three months ended September 30, 2019. This was the result of increased spending on clinical trials during the three months ended September 30, 2020, specifically the Phase 2 program for glaucoma, and the I-SPY and RESCUE clinical trials, compared to spending related to the glaucoma Phase 1b clinical trial during the same period in 2019.

Research and development expenses for the nine months ended September 30, 2020, decreased approximately \$1.3 million or 12.4%, compared to the nine months ended September 30, 2019. This was the result of decreased spending on clinical trials during the nine months ended September 30, 2020 compared to the two trials in process during the same period in 2019, specifically the completion of razuprotafib TIME-2b and glaucoma Phase 1b clinical trials.

#### General and Administrative

General and administrative expenses for the three months ended September 30, 2020, decreased by approximately \$0.3 million, or 13.2%, compared to the three months ended September 30, 2019. This decrease was primarily attributable to a decrease in employee related expenses.

General and administrative expenses for the nine months ended September 30, 2020, decreased by approximately \$1.9 million, or 22.6%, compared to the nine months ended September 30, 2019. This decrease was primarily attributable to a decrease in employee related expenses of \$0.5 million, legal expenses of \$0.3 million, stock-based compensation of \$0.9 million and general office expenses of \$0.2 million.

#### *Restructuring (Benefit) Expense*

Restructuring (benefit) expense for the three and nine months ended September 30, 2019 was (\$38,810) and \$0.9 million, respectively. The credit in the three months ended September 30, 2019 relates to a one-time true up of the expense recorded as a result of a reduction of headcount during the second quarter of 2019. No such actions were taken in 2020.

#### *Other Income*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Grant income	\$ —	\$ 79,303	\$ 79,900	\$ 99,574
Other income	897,378	—	897,378	—
Interest income	9,002	239,405	145,491	862,904
Total other income	<u>\$ 906,380</u>	<u>\$ 318,708</u>	<u>\$ 1,122,769</u>	<u>\$ 962,478</u>

#### *Grant Income*

Grant income is recognized as earned based on contract work performed. Grant income amounts can vary greatly from period to period depending on the funding and needs of the party for whom we perform the requested services.

#### *Other Income*

Other income for the three and nine months ended September 30, 2020 of \$0.9 million represents reimbursed internal and external qualified expenses related to the ARDS RESECUE clinical trial, per the terms of the MTEC arrangement.

#### *Interest Income*

Interest income in the three and nine months ended September 30, 2020 and 2019, reflects interest earned on short term money market instruments. The net proceeds from our underwritten public offering in June 2018, sale of Company stock and payments received in conjunction with the execution of the Gossamer License Agreement in June 2018 and Amendment No. 1 in May 2020, less cash used in operations, were available for investment. The decrease in interest income in 2020 was due primarily to lower interest rates compared to the prior year.

#### **Liquidity and Capital Resources**

Since inception, we have incurred significant net and comprehensive losses and negative cash flows from operations. For the nine months ended September 30, 2020 and 2019, we had net and comprehensive income (loss) of \$0.4 million and (\$18.8) million, respectively. At September 30, 2020 and December 31, 2019, we had an accumulated deficit of \$141.8 and \$142.2 million, respectively.

At September 30, 2020, we had cash and cash equivalents of \$47.3 million. To date, we have financed our operations principally through private and public offerings of our equity securities, private placements of our redeemable convertible preferred stock, common stock, issuances of secured convertible promissory notes and proceeds from the Amended Gossamer License Agreement and Amendment No. 1 thereto. Based on our current plans, we expect that our existing cash and cash equivalents, will enable us to conduct our planned operations through the fourth quarter of 2022.

In February 2018, we filed a shelf registration statement on Form S-3 with the SEC which was declared effective by the SEC on April 11, 2018 (the “Form S-3”). The shelf registration statement allows us to sell from time-to-time up to \$150.0 million of common stock, preferred stock, debt securities, warrants, or units comprised of any combination of these securities, for our own account in one or more offerings. The shelf registration statement is intended to provide us flexibility to conduct registered sales of our securities, subject to market conditions and our future capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of any such offering.

Additionally, on February 21, 2018, and pursuant to the Form S-3, we entered into a Controlled Equity Offering Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co. (“Cantor”), pursuant to which we may issue and sell, from time to time, shares of our common stock having an aggregate offering price of up to \$75.0 million through Cantor as our sales agent. Cantor may sell our common stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415(a)(4) of the Securities Act, including sales made directly on or through the Nasdaq Capital Market or any other existing trade market for our common stock, in negotiated transactions at market prices prevailing at the time of sale or at prices related to prevailing market prices, or any other method permitted by law. The shares of our common stock to be sold under the Sales Agreement will be sold and issued pursuant to the Form S-3 and the related prospectus and one or more prospectus supplements. We will pay Cantor 3.0% of the aggregate gross proceeds from each sale of shares of common stock under the Sales Agreement.

During the three months ended September 30, 2020, 6,523,655 shares of common stock had been sold under this Sales Agreement and received net proceeds of \$9.3 million, after deducting expenses of approximately \$403,000 (including sales agent compensation of approximately \$292,000) that were direct and incremental to the sale of the Company’s common stock.

In October 2019, we announced the engagement of Evercore, Ladenburg Thalmann & Co. Inc. and Duane Nash, M.D., J.D., M.B.A. to explore a range of strategic alternatives focused on maximizing stockholder value from our clinical assets and cash resources. Such alternatives may include the potential for an acquisition, company sale, merger, business combination, asset sale, in-license, out-license or other strategic transaction. The Company continues to explore strategic alternatives; however, there can be no assurance that the exploration of strategic alternatives will result in any transaction or other alternative.

We could potentially use our available financial resources sooner than we currently expect, and we may incur additional indebtedness to meet future operation liquidity. We continuously evaluate our needs for additional capital and consider opportunities on an ongoing basis, including capital from many different sources including equity capital, strategic alliances, business development debt, collaborations and business combinations. Adequate additional funding may not be available to us on acceptable terms or at all. Market volatility resulting from COVID-19 or other factors could also adversely impact our ability to access capital as and when needed. In addition, although we anticipate being able to obtain additional financing through non-dilutive means, we may be unable to do so. Our failure to raise capital as and when needed could have significant negative consequences for our business, financial condition and results of operations.

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (564,367)	\$ (18,987,454)
Net cash used in investing activities	(19,025)	(236,953)
Net cash provided by financing activities	9,340,842	—
Net increase (decrease) in cash and cash equivalents	<u>\$ 8,757,450</u>	<u>\$ (19,224,407)</u>

### ***Operating Activities***

We have historically experienced negative cash outflows as we developed razuprotafib and our pipeline programs. Our net cash used in operating activities primarily results from our net (loss) income adjusted for non-cash expenses, changes in working capital components, amounts due to contract research organizations to conduct our clinical programs and employee-related expenditures for research and development and general and administrative activities. Our cash flows from operating activities will continue to be affected by spending to advance and support our product candidates in the clinic and other operating and general administrative activities.

For the nine months ended September 30, 2020, operating activities used \$0.6 million in cash as result of \$2.1 million decrease in working capital offset by approximately \$0.4 million of net income and \$1.1 million in non-cash expenses related to stock-based compensation and depreciation expense. For the nine months ended September 30, 2019, operating activities used \$19.0 million in cash as a result of \$2.1 million decrease in working capital and \$18.8 million net loss offset by approximately \$1.9 million in non-cash expenses related to stock-based compensation and depreciation expense.

### ***Investing Activities***

Cash used in investing activities for the nine months ended September 30, 2020 and 2019, was related to capital expenditures to support operations.

### ***Financing Activities***

During the nine months ended September 30, 2020, we received \$9.3 million net proceeds from the sale of our common stock sold under the Sales Agreement with Cantor. No such activity occurred in 2019.

### **Contractual Obligations and Commitments**

There have been no material changes outside the ordinary course of business during the period covered by this Quarterly Report on Form 10-Q from the contractual obligations and commitments as of December 31, 2019 as described in our Annual Report on Form 10-K filed with the SEC on March 16, 2020.

### **Off-Balance Sheet Arrangements**

As of September 30, 2020 and December 31, 2019, we did not have any off-balance sheet arrangements as defined by applicable SEC regulations.

### **Critical Accounting Policies and Estimates**

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

For further information on all our significant accounting policies, see the notes to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on March 16, 2020.

### **JOBS Act Accounting Election**

We are an “emerging growth company” within the meaning of the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”). Section 107 of the JOBS Act 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. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies that are not emerging growth companies.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required by this Item.

**Item 4. Controls and Procedures.*****Management's Evaluation of our Disclosure Controls and Procedures***

Under the supervision of and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as set forth in Rules 13a-15€ and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2020.

***Changes in Internal Control over Financial Reporting***

During the quarter ended September 30, 2020, there have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) promulgated under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 1. Legal Proceedings**

As of the date of this Quarterly Report on Form 10-Q, we are not currently involved in any material legal proceedings. However, from time to time, we could be subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Regardless of the outcome, legal proceedings can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

**Item 1A. Risk Factors**

*The following risk factors and other information included in this Quarterly Report on Form 10-Q and in other documents that we file with the SEC should be carefully considered. The risks and uncertainties summarized above and described below are not intended to be exhaustive and are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem immaterial may also materially impair our business operations. Please see page 18 of this Quarterly Report on Form 10-Q for a discussion of some of the forward-looking statements that are qualified by these risk factors. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected.*

**Risks Related to Our Business and the Clinical Development, Regulatory Review and Approval of Product Candidates**Risks Related to the COVID-19 Pandemic

***The current pandemic of COVID-19 and the future outbreak of other highly infectious or contagious diseases could seriously harm our research, development and potential future commercialization efforts, increase our costs and expenses and have a material adverse effect on our business, financial condition and results of operations.***

Broad-based business or economic disruptions could adversely affect our ongoing or planned research and development activities. For example, in December 2019, an outbreak of a novel strain of coronavirus originated in Wuhan, China, and has since spread to other regions and countries worldwide. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the U.S. government-imposed travel restrictions on travel between the United States, Europe and certain other countries. To date, the COVID-19 pandemic has caused significant disruptions to the U.S. and global economy and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak is continually evolving and, as additional cases of the virus are identified, many countries, including the U.S., have reacted by instituting quarantines, restrictions on travel and other public health safety measures. Such orders, restrictions and recommendations, and the perception that additional orders, restrictions or recommendations could occur, have resulted in widespread closures of businesses not deemed “essential,” work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, as well as record declines in stock prices, among other effects. Although some states are starting to relax quarantines and similar restrictions, the regulations vary on a state by state basis and the impact of loosening of those restrictions is not yet known.

The extent to which COVID-19 may impact our preclinical studies or clinical trial operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, the severity of COVID-19, or the effectiveness of actions to contain and treat COVID-19. For example, while we initiated our ongoing Phase 2 clinical trial of razuprotafib for open angle glaucoma in June 2020, the cost, timeline, completion and conduct of this trial will be subject to potential delays arising from the ongoing COVID-19 pandemic. The continued spread of COVID-19 globally could adversely impact our preclinical studies or clinical trial operations in the United States, including our ability to recruit and retain patients and principal investigators and site staff who, as healthcare providers, may have heightened exposure to COVID-19 if an outbreak occurs in their geography. COVID-19 may also affect employees of third-party CROs located in affected geographies that we rely upon to carry out our clinical trials. Any negative impact COVID-19 has to patient enrollment or treatment or the execution of our current product candidates and any future product candidates could cause costly delays to clinical trial activities, which could adversely affect our ability to obtain regulatory approval for and to commercialize our current product candidate and any future product candidates, increase our operating expenses, and have a material adverse effect on our financial results.

Further, the COVID-19 outbreak may delay enrollment in our clinical trials due to diversion or prioritization of trial site resources away from the conduct of clinical trials and toward the COVID-19 pandemic. Key clinical trial activities, such as site monitoring, may be interrupted due to restrictions in travel, and some patients may be unwilling to enroll in our trials or be unable to comply with clinical trial protocols if quarantines or travel restrictions impede patient movement or interrupt healthcare services, which would delay our ability to conduct clinical trials or release clinical trial results. The spread of COVID-19, or another infectious disease, could also negatively affect the operations at our third-party manufacturers, which could result in delays or disruptions in the supply of our current product candidates and any future product candidates. In addition, we may continue to take temporary precautionary measures intended to help minimize the risk of the virus to our employees, including temporarily requiring all employees to work remotely, suspending all non-essential travel worldwide for our employees, and discouraging employee attendance at industry events and in-person work-related meetings, which could negatively affect our business.

Additionally, timely enrollment in our clinical trials is dependent upon clinical trial sites which may be adversely affected by global health matters, such as pandemics. For example, we are currently conducting our ongoing Phase 2 clinical trial for razuprotafib for open angle glaucoma, and our trial sites are located in geographies that have been affected by COVID-19. Some factors from the COVID-19 outbreak that may adversely affect enrollment in the clinical trials of our product candidates include:

- the potential diversion of healthcare resources away from the conduct of clinical trials to focus on pandemic concerns, including the attention of physicians serving as our clinical trial investigators, hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- limitations on travel that could interrupt key trial activities, such as clinical trial site initiations and monitoring, domestic and international travel by employees, contractors or patients to clinical trial sites, and delay or inability to secure visas or entry permission, as applicable;
- interruption in global shipping affecting the transport of clinical trial materials, such as patient samples, investigational drug product and conditioning drugs and other supplies used in our clinical trials; and
- employee disruptions caused by workplace closures, staffing shortages, travel limitations or mass transit disruptions, that could adversely impact our business operations or delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

We cannot presently predict the scope and severity of any potential business shutdowns or disruptions. If we or any of the third parties with whom we engage were to experience additional shutdowns or other prolonged business disruptions, our ability to conduct our business in the manner and on the timelines presently planned could have a material adverse impact on our business and our results of operation and financial condition.

#### Risks Related to Clinical Development

***We depend heavily on the success of our lead product candidate, razuprotafib. Even if we obtain favorable clinical results, we may not be able to obtain regulatory approval for, or successfully commercialize, razuprotafib.***

We rely on our lead product candidate, razuprotafib, and our business depends almost entirely on the successful clinical development, regulatory approval and commercialization of that product candidate, which may never occur. In March 2019, we announced topline results of the Phase 2b clinical trial for razuprotafib in the treatment of non-proliferative diabetic retinopathy. While we believed razuprotafib had the potential to slow down or possibly reverse retinal vascular changes caused by diabetes, the subcutaneous administration of razuprotafib twice daily did not meet the study's primary endpoint of the percentage of patients with an improvement of two or more steps in diabetic retinopathy severity score (DRSS) in the study eye, compared to placebo. In June 2019, we initiated a Phase 1b clinical trial for our lead product candidate, razuprotafib, for a topical drop formulation to treat open angle glaucoma and ocular hypertension. In October 2019, we announced interim results from its Phase 1b clinical trial. The unmasked interim analysis, limited to the first three cohorts, shows the topical ocular administration of razuprotafib was well tolerated. Compared to placebo, there was a dose dependent increase in minimal to mild conjunctival hyperemia with razuprotafib, which was transient and generally considered non-adverse, and a time and dose dependent reduction IOP that, in the highest QD dose cohort peaked at 4 hours post-dose and was sustained through eight hours on day 7, returning to baseline levels at 24 hours post-dose. Based on these data, a cohort of up to 36 patients with OHT/OAG (hypertensive eyes) was added to the ongoing study to assess safety and pilot efficacy in the target patient population, and results were announced in January 2020. These results showed statistically significant decreases in IOP on Day 1 and Day 7 compared to prostaglandin alone. When compared to placebo, razuprotafib plus prostaglandin produced a statistically significant decrease in IOP versus prostaglandin alone on Day 7. Topical ocular administration of razuprotafib was well-tolerated over seven days, with 21.9% of subjects experiencing hyperemia compared with 9.1% of subjects in the prostaglandin alone arm. Based on the preclinical proof of concept and the results of the Phase 1b trial showing a reduction in IOP in patients with OHT and OAG, we initiated our Phase 2 clinical trial in June 2020 and expect to report topline results from the study December or possibly in early January 2021 to coincide with seasonal healthcare industry conference, subject to potential delays in subject enrollment and study completion, including due to the COVID-19 pandemic.

In addition, in May 2020, we were selected by Quantum Leap Healthcare Collaborative to participate in the I-SPY COVID Trial to evaluate razuprotafib for the treatment of COVID-19 related ARDS in adult patients with critical COVID-19. However, investigation into the therapeutic potential of razuprotafib in this indication is in its early stages and is exploratory, and there can be no assurance that the development of razuprotafib will yield promising results in this indication or that such development will be successful or otherwise proceed on the anticipated timelines or within the anticipated budget. The I-SPY COVID trial is an investigator-sponsored clinical trial, which is being conducted by Quantum Leap. While we have provided input to I-SPY with respect to the razuprotafib arm of the I-SPY COVID clinical trial, we have not controlled and do not control the design or administration of investigator-sponsored clinical trials, nor the submission or approval of any IND or foreign equivalent required to conduct these trials. As a result, investigator-sponsored trials could, depending on the actions of such third parties, jeopardize the validity of the clinical data generated, identify significant concerns with respect to our product candidates that could impact our findings or clinical trials, and adversely affect our ability to obtain marketing approval from the FDA or other applicable regulatory authorities. To the extent the results of this or other investigator-sponsored trials are inconsistent with, or different from, the results of our company-sponsored trials or raise concerns regarding our product candidates, the FDA or a foreign regulatory authority may question the results of the company-sponsored trial, or subject such results to greater scrutiny than it otherwise would. In these circumstances, the FDA or such foreign regulatory authorities may require us to obtain and submit additional clinical data, which could delay clinical development or marketing approval of our product candidates. In addition, while investigator-sponsored trials could be useful to inform our own clinical development efforts, there is no guarantee that we will be able to use the data from these trials to form the basis for regulatory approval of our product candidates.

We currently have no products for sale, generate no revenues from sales of any drugs, and may never be able to develop marketable products. Razuprotafib will require substantial additional clinical development, testing, manufacturing process development, and regulatory approval before we are permitted to commence its commercialization. We are currently evaluating development options for ARP-1536, which is our other product candidate that we are developing internally. None of our product candidates has advanced into a pivotal trial, and it may be years before such a trial is initiated, if ever. The clinical trials of our product candidates are, and the manufacturing and marketing of our product candidates will be, subject to extensive and rigorous review and regulation by numerous government authorities in the United States and in other countries where we intend to test and, if approved, market any product candidates. Before obtaining regulatory approval for the commercial sale of any product candidate, we must demonstrate through extensive preclinical testing and clinical trials that any drug candidate is safe and effective and any biological product candidate is safe, pure, and potent for use in each target indication. This process can take many years. Of the large number of drugs in development in the United States, only a small percentage successfully complete the FDA regulatory approval process and are commercialized. Accordingly, even if we are able to obtain the requisite capital to continue to fund our development and clinical programs, we may be unable to successfully develop or commercialize razuprotafib.

We are not permitted to market razuprotafib in the United States until we receive approval of an NDA from the FDA, or in any foreign countries until we receive the requisite approval from such countries. As a condition to submitting an NDA to the FDA for razuprotafib, we must complete our ongoing Phase 2 clinical trial, conduct and complete further Phase 3 clinical trials, and any additional nonclinical studies or clinical trials required by the FDA. To date, we have only completed a Phase 1b clinical trial of razuprotafib in healthy volunteers and in patients with open angle glaucoma or ocular hypertension on standard of care prostaglandin therapy. Razuprotafib may not be successful in clinical trials or receive regulatory approval. Further, razuprotafib may not receive regulatory approval even if it is successful in clinical trials. Obtaining approval of an NDA is a complex, lengthy, expensive and uncertain process that typically takes many years following the commencement of clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, the policies or regulations, or the type and amount of clinical data necessary to gain approval, may change during the course of a product candidate's clinical development and may vary among jurisdictions. Our development activities could be harmed or delayed by a partial shutdown of the U.S. government, including the FDA. We have not obtained regulatory approval for any product candidate and it is possible that razuprotafib will never obtain regulatory approval. The FDA may delay, limit or deny approval of razuprotafib for many reasons, including, among others:

- we may not be able to demonstrate that razuprotafib is safe and effective in treating patients with open angle glaucoma and ocular hypertension, or any other indications that may be pursued for the product candidate, to the satisfaction of the FDA;
- the results of our clinical trials may not meet the level of statistical or clinical significance required by the FDA for marketing approval;
- the FDA may disagree with the number, design, size, conduct or implementation of our clinical trials;
- the FDA may not approve the formulation, labeling or specifications of razuprotafib;
- the FDA may require that we conduct additional clinical trials;
- the contract research organizations ("CROs") or the clinical investigators that we retain to conduct our clinical trials may take actions outside of our control that materially adversely impact our clinical trials;



- we, our CROs or clinical investigators may fail to perform in accordance with the FDA's good clinical practice ("GCP") requirements;
- the FDA may disagree with our interpretation of data from our preclinical studies and clinical trials;
- the FDA may find deficiencies with the manufacturing processes or facilities of third-party manufacturers with which we contract; or
- the policies or regulations of the FDA may significantly change in a manner that renders our clinical data insufficient for approval or may require that we amend or submit new clinical protocols.

In addition, similar reasons may cause the EMA or other regulatory authorities to delay, limit or deny approval of razuprotafib outside the United States.

Any of these factors, many of which are beyond our control, could jeopardize our ability to obtain regulatory approval for and successfully market razuprotafib. Because our business is substantially dependent upon razuprotafib, any such setback in our pursuit of regulatory approval would have a material adverse effect on our business and prospects.

Alternatively, even if we obtain regulatory approval, that approval may be for indications or patient populations that are not as broad as we intend or desire or may require labeling that includes significant use or distribution restrictions or safety warnings. We may also be required to perform additional, unanticipated clinical trials to obtain approval or be subject to additional post marketing testing requirements to maintain regulatory approval. In addition, regulatory authorities may withdraw their approval of a product or the FDA may require a risk evaluation and mitigation strategy ("REMS") for a product, which could impose restrictions on its distribution. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

***We may find it difficult to enroll patients in our clinical trials, which could delay or prevent clinical trials of our product candidates.***

Identifying and qualifying patients to participate in clinical trials of our product candidates is critical to our success. The timing of our clinical trials depends on the speed at which we can recruit patients to participate in testing our product candidates, and there is no guarantee that we can successfully enroll patients in a timely manner for our clinical trials. Our competitors may have ongoing clinical trials for product candidates that could be competitive with our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' product candidates. As a result, the timeline for recruiting patients, conducting trials and obtaining regulatory approval of potential products may be delayed. These delays could result in increased costs, delays in advancing our development of razuprotafib or termination of the clinical trials altogether.

We may not be able to identify, recruit and enroll a sufficient number of patients, or those with required or desired characteristics to achieve diversity in a trial, to complete our clinical trials in a timely manner. Patient enrollment is affected by factors including:

- severity of the disease under investigation;
- design of the trial protocol;
- size and nature of the patient population;
- eligibility criteria for the trial in question;
- perceived risks and benefits of the product candidate under study;
- proximity and availability of clinical trial sites for prospective patients;
- availability of competing therapies and clinical trials and clinicians' and patients' perceptions as to the potential advantages of razuprotafib or any other product candidate in relation to available therapies or other products under development;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians; and
- ability to monitor patients adequately during and after treatment.

We may not be able to initiate or continue clinical trials if we cannot enroll a sufficient number of eligible patients to participate in the clinical trials required by regulatory agencies. If we have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay, limit or terminate ongoing or planned clinical trials, any of which would have an adverse effect on our business.

With respect to the investigator-sponsored I-SPY trial to evaluate razuprotafib for its potential to treat ARDS associated with COVID-19, the trial may encounter enrollment challenges due to the large number of product candidates in development for the indication, all of whom compete for patients. Such enrollment challenges may be exacerbated to the extent additional product candidates enter development or the number of COVID-19 patients eligible for evaluation decline.

***Clinical drug development is a lengthy and expensive process with an uncertain outcome, and positive results from preclinical studies or earlier stage clinical trials are not necessarily predictive of the results of our future clinical trials of razuprotafib. If we cannot replicate the positive results from preclinical studies or earlier stage clinical trials in subsequent clinical trials, we may be unable to successfully develop, obtain regulatory approval for and commercialize our product candidates.***

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. Success in preclinical studies may not be predictive of similar results in humans during clinical trials, and successful results from early or small clinical trials may not be replicated in later and larger clinical trials. For example, we observed encouraging preclinical and clinical results for razuprotafib in non-proliferative diabetic retinopathy, but this product candidate did not meet the study endpoints in our TIME-2b clinical trial. There can be no assurance that the results of our planned and future clinical trials will produce positive results. In addition, later stage clinical trials are expected to enroll a larger number of subjects and will treat subjects for longer periods than earlier stage trials, which will result in a greater likelihood that adverse events may be observed. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in early stage development, and we may face similar setbacks.

If the results of our ongoing or future clinical trials for razuprotafib are inconclusive with respect to efficacy, if we do not meet our clinical endpoints with statistical significance, or if there are safety concerns or adverse events, we may be prevented from or delayed in obtaining marketing approval for razuprotafib.

***We may experience delays in the planned clinical development program for razuprotafib, and we do not know whether planned clinical trials will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all.***

Clinical trials can be delayed or aborted for a variety of reasons, including delay or failure to:

- obtain regulatory approval to commence a clinical trial;
- reach agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- obtain institutional review board (“IRB”) approval at each site;
- recruit, enroll and retain patients through the completion of clinical trials;
- maintain clinical sites in compliance with trial protocols and regulatory requirements through the completion of clinical trials;
- address any patient safety concerns that arise during the course of the trial;
- initiate or add a sufficient number of clinical trial sites; or
- manufacture sufficient quantities of our product candidate for use in clinical trials.

In addition, disruptions caused by the COVID-19 pandemic may increase the likelihood that we encounter such difficulties or delays in initiating, enrolling, conducting or completing our planned and ongoing clinical trials. We could encounter delays if a clinical trial is suspended or terminated by us, by the relevant IRBs at the sites at which such trials are being conducted, by the Data Safety Monitoring Board (“DSMB”) for such trial or by the FDA or other regulatory authorities. Such authorities may impose such a suspension or termination, including a clinical hold, due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities, unforeseen safety issues or adverse side effects including those experienced by other product candidates in the same class as our product candidates, changes in laws or regulations, or lack of adequate funding to continue the clinical trial. Any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences may harm our business, financial condition and prospects significantly.

## Risks Related to Regulatory Review and Approval of Product Candidates

### ***We have not obtained agreement with the FDA, EMA or other regulatory authorities on the design of our development programs.***

While we have interacted with the FDA and received feedback from the agency for the design of our ongoing Phase 2 clinical trial of razuprotafib, we have not obtained agreement with the FDA on the design of such trial or any future trials we may conduct for this product candidate. As a result, we have not yet received additional regulatory input on the development program for razuprotafib beyond our ongoing clinical trial or any other product candidate. As we progress this candidate through clinical trials, the FDA may determine that we would be required to conduct additional clinical trials. The FDA could also disagree with our proposed design of our planned development programs and could suggest a larger number of subjects or a longer course of treatment than our current expectations. If the FDA takes such positions, the costs of our razuprotafib development program could increase materially and the potential market introduction of razuprotafib could be delayed or we could risk not obtaining FDA approval even if our clinical trials meet their primary endpoints. The FDA also may require that we conduct additional clinical, nonclinical or manufacturing validation studies and submit that data before it will consider an NDA application.

We have not yet sought guidance for the regulatory path for the topical formulation of razuprotafib for open angle glaucoma and ocular hypertension with the FDA, EMA or other regulatory authorities, nor have we interacted with such agencies with respect to the development of razuprotafib for any other indications, including for COVID-19. We cannot predict what additional requirements may be imposed by these regulatory authorities or how such requirements might delay or increase costs for our planned development programs. Because our business is almost entirely dependent upon the successful development, regulatory approval, and commercialization of razuprotafib, any such delay or increase in costs would have an adverse effect on our business.

### ***Even if we receive regulatory approval for our product candidates, such products will be subject to ongoing regulatory review, which may result in significant additional expense. Additionally, our product candidates, if approved, could be subject to labeling and other restrictions, and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.***

Any regulatory approvals that we receive for our product candidates may be subject to limitations on the approved indicated uses for which the product may be marketed or to conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the products. In addition, if the FDA approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, establishment registration, as well as continued compliance with current Good Manufacturing Practice (“cGMP”) requirements and GCP requirements for any clinical trials that we conduct post-approval.

Post-approval discovery of previously unknown problems with an approved product, including adverse events of unanticipated severity or frequency or relating to manufacturing operations or processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or product recalls;
- fines, untitled or warning letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications submitted by us, or suspension or revocation of product approvals;
- product seizure or detention, or refusal to permit the import or export of products;
- a REMS program; and
- injunctions or the imposition of civil or criminal penalties.

The FDA’s policies may change and additional government regulations may be enacted. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or are not able to maintain regulatory compliance, we may lose any marketing approval that may have been obtained and we may not achieve or sustain profitability, which would adversely affect our business.

***We may not be able to comply with requirements of foreign jurisdictions in conducting trials outside of the United States. In addition, we may not be able to obtain regulatory approval in foreign jurisdictions.***

We may conduct our clinical trials for our product candidates in trial sites outside of the United States, including Japan and the European Union, and seek regulatory approval for our product candidates in major markets in addition to the United States, including the European Union and Japan. Our ability to successfully initiate, enroll and complete a clinical trial in any foreign country, should we attempt to do so, is subject to numerous risks unique to conducting business in international markets, including:

- difficulty in establishing or managing relationships with qualified CROs and physicians;
- different local standards for the conduct of clinical trials;
- the potential burden of complying with a variety of foreign laws, medical standards and regulatory requirements, including the regulation of pharmaceutical and biotechnology products and treatments; and
- the acceptability of data obtained from trials conducted in the United States to the EMA and other regulatory authorities.

If we fail to successfully meet requirements for the conduct of clinical trials outside of the United States, we may be delayed in obtaining, or be unable to obtain, regulatory approval for our product candidates in countries outside of the United States.

Regulatory authorities outside the United States will require compliance with numerous and varying regulatory requirements. The approval procedures vary among jurisdictions and may involve requirements for additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. In addition, in many countries outside the United States, a product must be approved for reimbursement before it can be approved for sale in that country. In some cases, the price that we intend to charge for our products is also subject to approval. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. However, the failure to obtain approval in one jurisdiction may negatively impact our ability to obtain approval in another jurisdiction. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. We may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

***Inadequate funding for the FDA, the SEC and other government agencies could hinder their ability to hire and retain key leadership and other personnel, prevent new products and services from being developed or commercialized in a timely manner or otherwise prevent those agencies from performing normal business functions on which the operation of our business may rely, which could negatively impact our business.***

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept the payment of user fees, and statutory, regulatory and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of the SEC and other government agencies on which our operations may rely, including those that fund research and development activities, is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years, including beginning on December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA and the SEC, have had to furlough critical FDA, SEC and other government employees and stop critical activities. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business. Further, future government shutdowns could impact our ability to access the public markets and obtain necessary capital in order to properly capitalize and continue our operations.

Separately, in response to the COVID-19 pandemic, on March 10, 2020 the FDA announced its intention to postpone most inspections of foreign manufacturing facilities while local, national and international conditions warrant. On March 18, 2020, the FDA announced its intention to temporarily postpone routine surveillance inspections of domestic manufacturing facilities and provided guidance regarding the conduct of clinical trials which the FDA continues to update. As of June 23, 2020, the FDA noted it was conducting mission critical domestic and foreign inspections to ensure compliance of manufacturing facilities with FDA quality standards. On July 10, 2020, the FDA announced its goal of restarting domestic on-site inspections during the week of July 20, 2020, but such activities will depend on data about the virus' trajectory in a given state and locality and the rules and guidelines that are put in place by state and local governments. The FDA has developed a rating system to assist in determining when and where it is safest to conduct prioritized domestic inspections. Should FDA determine that an inspection is necessary for approval and an inspection cannot be completed during the review cycle due to restrictions on travel, FDA has stated that it generally intends to issue a complete response letter. Further, if there is inadequate information to make a determination on the acceptability of a facility, FDA may defer action on the application until an inspection can be completed. Regulatory authorities outside the U.S. may adopt similar restrictions or other policy measures in response to the COVID-19 pandemic and may experience delays in their regulatory activities.

## Risks Related to Our Intellectual Property

### Risks Related to Protecting Our Intellectual Property

***If our efforts to protect our proprietary technologies are not adequate, we may not be able to compete effectively in our market.***

We rely upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to our technologies. We will only be able to protect our product candidates, proprietary technologies and their uses from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them. Any disclosure to or misappropriation by third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market.

The patenting process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. In addition, we may not pursue or obtain patent protection in all relevant markets. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Our pending and future patent applications may not result in issued patents that protect our technology or products, in whole or in part. In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technology or from developing competing products and technologies. Composition-of-matter patents on the active pharmaceutical ingredient are generally considered to be the strongest form of intellectual property protection for pharmaceutical products, as such patents provide protection without regard to any method of use. Method-of-use patents protect the use of a product for the specified method.

This type of patent does not prevent a competitor from making and marketing a product that is identical to our products for an indication that is outside the scope of the patented method. Likewise, a competitor may make and market a product similar to our products but that are not covered by the scope of our patents. Moreover, even if competitors do not actively promote their product for our targeted indications, physicians may prescribe these products “off-label.” Although off-label prescriptions may infringe or contribute to the infringement of method-of-use patents, the practice is common and such infringement is difficult to prevent or prosecute. In addition, our patents will eventually expire, and the active pharmaceutical ingredients in our current product candidates will become commercially available in generic drug products. Thus, no patent protection may be available with regard to formulation or method of use.

The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The patent applications that we own or license may fail to result in issued patents in the United States or in other foreign countries. Even if the patents do successfully issue, third parties may challenge the validity, enforceability, inventorship, or scope thereof, which may result in such patents being narrowed, invalidated or held unenforceable. Furthermore, even if they are unchallenged, our patents and patent applications may not adequately protect our intellectual property or prevent others from designing around our claims. If the breadth or strength of protection provided by the patent applications we hold with respect to our product candidates is threatened, it could dissuade companies from collaborating with us to develop, and threaten our ability to commercialize, our product candidates. Moreover, the inventors of our patents or patent applications or our scientific consultants may become involved with competitors, develop products or processes which design around our patents, or become hostile to us or the patents or patent applications on which they are named as inventors. Likewise, our collaborators may become hostile to us or develop products or processes that are adjacent to or compete with us, including products and processes outside the scope of our patents. For example, a hostile collaborator may use technology similar to ours to pursue treatment of an indication that we plan to pursue, and may obtain approval for a product before we do. A hostile collaborator may file patent applications based on information learned from us. Such patent applications may become prior art that will be detrimental to future patent applications by us on similar technology.

Further, if we encounter delays in our clinical trials, the period of time during which we could market our product candidates under patent protection would be reduced. Since patent applications in the United States and most other countries are confidential for a period of time after filing, we cannot be certain that we were the first to file any patent application related to our product candidates. Furthermore, for applications in which all claims are entitled to a priority date before March 16, 2013, an interference proceeding can be provoked by a third-party or instituted by the United States Patent and Trademark Office (“USPTO”) to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. For applications containing a claim not entitled to priority before March 16, 2013, there is greater level of uncertainty in the patent law with the passage of the America Invents Act (2011), which brings into effect significant changes to the U.S. patent laws and which introduces new procedures for challenging pending patent applications and issued patents. A primary change under this reform is creating a “first to file” system in the United States. We, or our collaborators, might not have been the first to file patent applications on certain inventions. Likewise, our collaborators may file patent applications on certain inventions without our knowledge, prior to our filing patent applications on those inventions. This will require us to be cognizant of the time from invention to filing of a patent application.

In addition to the protection afforded by patents, we seek to rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and any other elements of our drug discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. Although we require all of our employees to assign their inventions to us, and require all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology to enter into confidentiality agreements, we cannot be certain that our trade secrets and other confidential proprietary information will not be disclosed, willfully or unintentionally, or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Trade secrets are difficult to protect, and we have limited control over the protection of trade secrets used by our licensors, collaborators, and suppliers. Furthermore, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. If we are unable to prevent unauthorized material disclosure of our intellectual property to third parties, we will not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, operating results and financial condition.

We currently have a non-exclusive license to one U.S. patent, which we have licensed to Gossamer as part of the June 24, 2018 license agreement. We rely on the licensor to maintain this patent and otherwise protect the intellectual property covered by this non-exclusive license. We have limited control over these activities or over any other intellectual property that may be related to our in-licensed intellectual property. For example, we cannot be certain that activities by the licensor have been or will be conducted in compliance with applicable laws and regulations. We may have no control or input over whether, and in what manner, our licensor may enforce or defend the patent against a third-party. The licensor may enforce or defend the patent less vigorously than if we had enforced or defended the patent ourselves. Further, the licensor may not necessarily seek enforcement in scenarios in which we would feel that enforcement was in our best interests. For example, the licensor may not enforce the patent against a competitor of ours who is not a direct competitor of the licensor. If our in-licensed intellectual property is found to be invalid or unenforceable, then the licensor may not be able to enforce the patent against a competitor of ours. Our non-exclusive license does not prevent a third party from seeking and obtaining a non-exclusive license to the same patent that we license. If we fail to meet our obligations under the non-exclusive license agreement, then the licensor may terminate the license agreement. If the license agreement is terminated, the former licensor may seek to enforce the intellectual property against us. We may choose to terminate the license agreement, and doing so would allow a third party to seek and obtain an exclusive license to the patent. If a third party obtains an exclusive license to intellectual property formerly licensed to us, then the third party may seek to enforce the intellectual property against us. The occurrence of any of the foregoing may negatively impair our collaboration with Gossamer and prevent us from realizing the intended benefits of this collaboration.

***Our patents covering one or more of our products or product candidates could be found invalid or unenforceable if challenged.***

Any of our intellectual property rights could be challenged or invalidated despite measures we take to obtain patent and other intellectual property protection with respect to our product candidates and proprietary technology. For example, if we were to initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the U.S. and in some other jurisdictions, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld material information from the USPTO or the applicable foreign counterpart, or made a misleading statement, during prosecution. A litigant or the USPTO itself could challenge our patents on this basis even if we believe that we have conducted our patent prosecution in accordance with the duty of candor and in good faith. The outcome following such a challenge is unpredictable.

With respect to challenges to the validity of our patents, for example, there might be invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on a product candidate. Even if a defendant does not prevail on a legal assertion of invalidity and/or unenforceability, our patent claims may be construed in a manner that would limit our ability to enforce such claims against the defendant and others. The cost of defending such a challenge, particularly in a foreign jurisdiction, and any resulting loss of patent protection could have a material adverse impact on one or more of our product candidates and our business. Enforcing our intellectual property rights against third parties may also cause such third parties to file other counterclaims against us, which could be costly to defend, particularly in a foreign jurisdiction, and could require us to pay substantial damages, cease the sale of certain products or enter into a license agreement and pay royalties (which may not be possible on commercially reasonable terms or at all). Any efforts to enforce our intellectual property rights are also likely to be costly and may divert the efforts of our scientific and management personnel, even if we are successful in stopping infringement of our patents.

There is also the risk that, even if the validity of these patents is upheld, the court will refuse to stop the third party on the ground that such third party's activities do not infringe our patents. In addition, the U.S. Supreme Court has recently changed some legal principles that affect patent applications, granted patents and assessment of the eligibility or validity of these patents.

As a consequence, issued patents may be found to contain invalid claims according to the newly revised eligibility and validity standards. Some of our patents may be subject to challenge and subsequent invalidation or significant narrowing of claim scope in proceedings before the USPTO, or during litigation, under the revised criteria which could also make it more difficult to obtain patents.

We may not be able to detect infringement against our patents, as the case may be, which may be especially difficult for formulation patents. Even if we detect infringement by a third party of our patents, we may choose not to pursue litigation against or settlement with the third party. If we later sue such third party for patent infringement, the third party may have certain legal defenses available to it, which otherwise would not be available except for the delay between when the infringement was first detected and when the suit was brought. Such legal defenses may make it impossible for us to enforce our patents against such third party.

If another party questions the patentability of any of our claims in our U.S. patents, the third party can request that the USPTO review the patent claims such as in an *inter partes* review, *ex parte* re-exam or post-grant review proceedings. These proceedings are expensive and may result in a loss of scope of some claims or a loss of the entire patent. In addition to potential USPTO review proceedings, we may become a party to patent opposition proceedings in the European Patent Office (“EPO”) or similar proceedings in other foreign patent offices, where our foreign patents are challenged. The costs of these opposition or similar proceedings could be substantial, and may result in a loss of scope of some claims or a loss of the entire patent. An unfavorable result at the USPTO, EPO or other patent office may result in the loss of our right to exclude others from practicing one or more of our inventions in the relevant country or jurisdiction, which could have a material adverse effect on our business.

***Our reliance on third parties requires us to share our trade secrets, which increases the possibility that a competitor will discover them or that our trade secrets will be misappropriated or disclosed.***

Because we rely on third parties to research and develop and to manufacture our product candidates, we must, at times, share trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, consulting agreements or other similar agreements with our advisors, employees, third-party contractors and consultants prior to beginning research or disclosing proprietary information. These agreements typically limit the rights of the third parties to use or disclose our confidential information, including our trade secrets. Despite the contractual provisions employed when working with third parties, the need to share trade secrets and other confidential information increases the risk that such trade secrets become known by our competitors, are inadvertently incorporated into the technology of others, or are disclosed or used in violation of these agreements. Given that our proprietary position is based, in part, on our know-how and trade secrets, a competitor’s discovery of our trade secrets or other unauthorized use or disclosure would impair our competitive position and may have a material adverse effect on our business. Moreover, enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. If we choose to go to court to stop a third party from using any of our trade secrets, we may incur substantial costs. These lawsuits may consume our time and other resources even if we are successful. These lawsuits also may impact our ability to pursue agreements with third parties in the future.

In addition, these agreements typically restrict the ability of our advisors, employees, third-party contractors and consultants to publish data potentially relating to our trade secrets, although our agreements may contain certain limited publication rights. For example, any academic institution that we may collaborate with in the future will usually expect to be granted rights to publish data arising out of such collaboration, provided that we are notified in advance and given the opportunity to delay publication for a limited time period in order for us to secure patent protection of intellectual property rights arising from the collaboration, in addition to the opportunity to remove confidential or trade secret information from any such publication. In the future we may also conduct joint research and development programs that may require us to share trade secrets under the terms of our research and development or similar agreements. A collaborator at such academic institution may use the information learned from the collaboration to compete with us, either in an academic or commercial setting. The collaborator may use the results obtained through the academic collaboration for the benefit of another commercial entity. The collaborator may use technology for the benefit of a third party even if we were entitled to a license or the right to negotiate for a license to the technology from the academic institution. Despite our efforts to protect our trade secrets, our competitors may discover our trade secrets, either through breach of our agreements with third parties, independent development or publication of information by any of our third-party collaborators. A competitor’s discovery of our trade secrets would impair our competitive position and have an adverse impact on our business.

Moreover, our reliance on third parties may be exploited by a third party with knowledge of our Company, including knowledge of our Company strategies, intellectual property, research programs, trade secrets, and scientific discovery including, for example, drug targets, pharmaceutically active ingredients, dosing regimens and mechanisms of action. A third party may start a competing company or may join a competing company. If a third party with whom we have an agreement does become a competitor, this may lead to questions of intellectual property ownership, ownership of physical assets, inventorship and breach of contracts in place with the third party. If we seek to resolve this issue by a lawsuit, then we expect counter claims that may jeopardize the validity and enforceability of our patents. The third parties with whom we collaborate also may have business or legal conflicts of interest. These conflicts of interest can lead to litigation or impact the ability of the third party to fulfill their obligations to us.

***Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies also require compliance with a number of procedural, documentary, fee payment (such as annuities) and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market, which would have a material adverse effect on our business.

***We may not be able to protect our intellectual property rights throughout the world.***

Filing, prosecuting and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some countries do not protect intellectual property rights to the same extent as laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other countries. Competitors may use our technologies in countries where we have not obtained patent protection to develop their own products and further, may infringe our patents in territories where we have patent protection, but enforcement is not as strong as in the United States. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in certain countries. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets and other intellectual property, particularly those relating to pharmaceutical and biotechnology products, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign countries could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

#### Risks Related to Intellectual Property Litigation

***Third-party claims of intellectual property infringement may be costly and time consuming and may delay or harm our drug discovery and development efforts.***

Our commercial success depends in part on our avoiding infringement of the patents and proprietary rights of third parties. The pharmaceutical and biotechnology industries are characterized by extensive litigation over patent and other intellectual property rights. We may become a party to, or threatened with, future adversarial litigation or other proceedings regarding intellectual property rights with respect to our drug candidates. As the pharmaceutical and biotechnology industries expand and more patents are issued, the risk increases that our drug candidates may give rise to claims of infringement of the patent rights of others.

While our product candidates are in preclinical studies and clinical trials, we believe that the use of our product candidates in these preclinical studies and clinical trials in the United States falls within the scope of the exemptions provided by 35 U.S.C. Section 271(e), which provides that it shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention solely for uses reasonably related to the development and submission of information to the FDA. As our product candidates progress toward commercialization, the possibility of a patent infringement claim against us increases. We attempt to ensure that our product candidates and the methods we employ to manufacture them, as well as the methods for their use we intend to promote, do not infringe other parties' patents and other proprietary rights. There can be no assurance they do not, however, and competitors or other parties may assert that we infringe their proprietary rights in any event.



Third parties may hold or obtain patents or other intellectual property rights and allege in the future that the use of our product candidates infringes these patents or intellectual property rights, or that we are employing their proprietary technology without authorization. Under U.S. law, a party may be able to patent a discovery of a new way to use a previously known compound, even if such compound itself is patented, provided the newly discovered use is novel and nonobvious. Such a method-of-use patent, however, if valid, only protects the use of a claimed compound for the specified methods claimed in the patent. This type of patent does not prevent persons from using the compound for any previously known use of the compound. Further, this type of patent does not prevent persons from making and marketing the compound for an indication that is outside the scope of the patented method.

There may be patents of third parties of which we are currently unaware with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of our drug candidates. Also, because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may infringe. Notwithstanding the above, third parties may in the future claim that our product candidates and other technologies infringe upon these patents and may file suit against us.

Parties making claims against us may seek and obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize razuprotafib or other product candidates. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of any of our product candidates, any molecules formed during the manufacturing process or any final product itself, then the holders of any such patents may be able to block our ability to commercialize such product candidate unless we obtained a license under the applicable patents, or until such patents expire or they are finally determined to be held invalid or unenforceable. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of our formulations, processes for manufacture or our intended methods of use, then the holders of any such patent may be able to block or impair our ability to develop and commercialize the applicable product candidate unless we obtained a license or until such patent expires or is finally determined to be held invalid or unenforceable. We may also elect to enter into a license in order to settle litigation or in order to resolve disputes prior to litigation. Furthermore, even in the absence of litigation, we may need to acquire or obtain licenses from third parties to advance our research or allow commercialization of our product candidates, and there can be no assurance that we will be able to do so on commercially reasonable terms or at all.

Additionally, we may in the future from time to time collaborate with academic institutions to accelerate our preclinical research or development under written agreements with these institutions. In certain cases, these institutions may provide us with an option to negotiate a license to any of the institution's rights in technology resulting from the collaboration. Regardless of such option, we may be unable to negotiate a license within the specified timeframe or under terms that are acceptable to us. If we are unable to do so, the institution may offer the intellectual property rights to others, potentially blocking our ability to pursue our program. The institution also may only offer a nonexclusive license, providing an opportunity for competitors to license intellectual property important to us. If we are unable to successfully obtain rights to required third-party intellectual property or to maintain the existing intellectual property rights we have, we may have to abandon development of such program and our business and financial condition could suffer. The academic institutions, or our collaborators at those institutions, also may violate the terms of our agreements with them. For example, a collaborator could use proprietary knowledge based on the collaboration to compete with us. These violations may result in litigation, which can be costly and may impact our ability to use resources for product development or other necessary functions.

The licensing and acquisition of third-party intellectual property rights is a competitive practice, and companies that may be more established, or have greater resources than we do, may also be pursuing strategies to license or acquire third-party intellectual property rights that we may consider necessary or attractive in order to commercialize our product candidates. More established companies may have a competitive advantage over us due to their larger size and cash resources or greater clinical development and commercialization capabilities. There can be no assurance that we will be able to successfully complete such negotiations and ultimately acquire the rights to the intellectual property surrounding the additional product candidates that we may seek to acquire.

Further, defense of infringement claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, pay royalties or redesign our products, which may be impossible or require substantial time and monetary expenditure.

***We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.***

Competitors may infringe or otherwise violate our patents, trademarks, copyrights or other intellectual property. To counter infringement or other violations, we may be required to file claims, which can be expensive and time consuming. Any such claims could provoke these parties to assert counterclaims against us, including claims alleging that we infringe their patents or other intellectual property rights. In addition, in a patent infringement proceeding, a court may decide that one or more of the patents we assert is invalid or unenforceable, in whole or in part, construe the patent's claims narrowly or refuse to prevent the other party from using the technology at issue on the grounds that our patents do not cover the technology. Similarly, if we assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In such a case, we could ultimately be

forced to cease use of such marks. In any intellectual property litigation, even if we are successful, any award of monetary damages or other remedy we receive may not be commercially valuable. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

## **Risks Related to Our Business and Industry**

### Risks Related to Our Employee Matters

***If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our products.***

We are highly dependent on members of our senior management, including Joseph Gardner, our President and Founder and former Chief Executive Officer, Kevin G. Peters, our Chief Scientific Officer and acting Chief Medical Officer, and Regina Marek, our Vice President of Finance. The loss of the services of any of these persons could impede the achievement of our research, development and commercialization objectives.

Recruiting and retaining qualified scientific, clinical, manufacturing and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize products. We may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the intense competition among numerous biopharmaceutical companies for similar personnel. In addition, in April 2019, we adopted a realignment plan to reduce operating costs and better align our workforce with the needs of our ongoing business. The realignment plan reduced our workforce by 11 employees, representing approximately 41% of our workforce. As a result, while we have undertaken efforts to retain our current employees, we may experience challenges in doing so.

We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to conduct our business will be limited.

***Our employees, independent contractors, principal investigators, contract research organizations, consultants and vendors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.***

We are exposed to the risk that our employees, independent contractors, principal investigators, CROs, consultants and vendors may engage in fraudulent conduct or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or unauthorized activities that violate: (1) FDA regulations, including those laws that require the reporting of true, complete and accurate information to the FDA, (2) manufacturing standards, (3) federal and state healthcare fraud and abuse laws and regulations, or (4) laws that require the reporting of true and accurate financial information and data. Specifically, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. It is not always possible to identify and deter misconduct by employees and other third parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and if we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

***We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.***

We have received confidential and proprietary information from collaborators, prospective licensees and other third parties. In addition, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of these third parties or our employees' former employers. We may also be subject to claims that former

employees, collaborators or other third parties have an ownership interest in our patents or other intellectual property. We may be subject to ownership disputes in the future arising, for example, from conflicting obligations of consultants or others who are involved in developing our drug candidates. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees.

#### Risks Related to Our Business Operations and Growth

##### ***We may encounter difficulties in managing our growth and expanding our operations successfully.***

As we seek to advance our product candidates through clinical trials and commercialization, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various strategic collaborators, suppliers and other third parties. Future growth will impose significant added responsibilities on members of management. Our future financial performance and our ability to commercialize razuprotafib, if approved, and any other product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to manage our development efforts and clinical trials effectively and hire, train and integrate additional management, administrative and, if necessary, sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing our Company.

##### ***If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.***

We face an inherent risk of product liability as a result of the clinical testing of our product candidates and will face an even greater risk if we commercialize any products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even a successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals, or labeling, marketing or promotional restrictions;
- loss of revenue;
- the inability to commercialize any product candidates that we may develop; and
- a decline in our stock price.

Failure to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop. We currently carry product liability insurance covering our clinical trials in the amount of \$10 million in the aggregate. Although we maintain product liability insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

***If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.***

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products.

We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

### **Risks Related to Our Reliance on Third Parties**

***We rely on third parties to conduct preclinical studies and clinical trials for our product candidates, and if they do not properly and successfully perform their obligations to us, we may not be able to obtain regulatory approvals for our product candidates.***

We rely on third party CROs and other third parties to assist in managing, monitoring and otherwise carrying out our clinical trials. We expect to continue to rely on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators to conduct our clinical trials in the future, including our ongoing Phase 2 clinical trial for razuprotafib. We compete with many other companies for the resources of these third parties. The third parties on whom we rely may terminate their engagements with us at any time, and having to enter into alternative arrangements would delay development and commercialization of our product candidates.

Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our responsibilities. For example, the FDA and foreign regulatory authorities require compliance with regulations and standards, including GCP requirements, for designing, conducting, monitoring, recording, analyzing and reporting the results of clinical trials to ensure that the data and results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Although we rely on third parties to conduct our clinical trials, we are responsible for ensuring that each of these clinical trials is conducted in accordance with its general investigational plan and protocol under legal and regulatory requirements. Regulatory authorities enforce these GCP requirements through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our investigators or CROs fail to comply with applicable GCP requirements, the clinical data generated in our clinical trials may be deemed unreliable and the FDA, EMA or other regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP requirements. In addition, our clinical trials must be conducted with product produced under applicable cGMP regulations. Failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If these third parties do not successfully carry out their duties under their agreements, if the quality or accuracy of the data they obtain is compromised due to their failure to adhere to clinical trial protocols or to regulatory requirements, or if they otherwise fail to comply with clinical trial protocols or meet expected deadlines, the clinical trials of our product candidates may not meet regulatory requirements. If clinical trials do not meet regulatory requirements or if these third parties need to be replaced, preclinical development activities or clinical trials may be extended, delayed, suspended or terminated. If any of these events occur, we may not be able to obtain regulatory approval of our product candidates on a timely basis or at all.

Further, if these third parties experience disruptions due to the COVID-19 pandemic and government measures taken in response to the COVID-19 pandemic, it may adversely affect our ability to initiate and complete our preclinical studies and clinical trials.

We also expect to rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

***We intend to rely on third parties to conduct some or all aspects of our product manufacturing, and these third parties may not perform satisfactorily.***

We do not have any manufacturing facilities and do not expect to independently conduct our product candidate manufacturing for research and preclinical and clinical testing. We currently rely, and expect to rely, on third parties to manufacture and supply drug products for our razuprotafib clinical trials, and we expect to continue to rely on third parties for the manufacture of clinical and, if necessary, commercial quantities of our product candidates. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or such quantities at an acceptable cost or quality, which could delay, prevent or impair our development or commercialization efforts. For example, the extent to which the COVID-19 pandemic impacts our ability to procure sufficient supplies for the development of our product candidates will depend on the severity and duration of the spread of the virus, and the actions undertaken to contain COVID-19 or treat its effects.

Any of these third parties may terminate their engagement with us at any time. We currently have arrangements in place for the manufacturing of drug substance and drug product for our development programs. Although we believe that there are several potential alternative manufacturers who could manufacture our product candidates, we may incur significant delays and added costs in identifying, qualifying and contracting with any such replacement, as well as producing the drug product. The FDA or comparable foreign regulatory authorities may find deficiencies with the manufacturing processes or facilities of third-party manufacturers with which we contract for clinical and commercial supplies. Manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents. In addition, we have to enter into technical transfer agreements and share our know-how with the third-party manufacturers, which can be time-consuming and may result in delays. These delays could result in a suspension of our clinical trials or, if razuprotafib is approved and marketed, a failure to satisfy patient demand.

Reliance on third party manufacturers entails risks to which we would not be subject if we manufactured the product candidates ourselves, including:

- the inability to negotiate manufacturing agreements with third parties under commercially reasonable terms;
- reduced control as a result of using third party manufacturers for all aspects of manufacturing activities, including regulatory compliance and quality assurance;
- termination or nonrenewal of manufacturing agreements with third parties in a manner or at a time that is costly or damaging to us;
- the possible misappropriation of our proprietary information, including our trade secrets and know-how; and
- disruptions to the operations of our manufacturers or suppliers caused by conditions unrelated to our business or operations, including the bankruptcy of the manufacturer or supplier or a catastrophic event affecting our manufacturers or suppliers.

Any of these events could lead to clinical study delays or failure to obtain regulatory approval or affect our ability to successfully commercialize future products. Some of these events could be the basis for FDA action, including injunction, recall, seizure or total or partial suspension of production.

The facilities used by our contract manufacturers to manufacture our product candidates must be evaluated by the FDA pursuant to inspections that will be conducted after we submit our NDA to the FDA. We do not control the manufacturing process of, and are completely dependent on, our contract manufacturers for compliance with cGMP requirements for manufacture of both drug substance and finished drug product. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA, we will not be able to secure and/or maintain regulatory approval for our product candidates. In addition, we have no control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA, EMA or other regulatory authorities find deficiencies with or do not approve these facilities for the manufacture of our product candidates, or if they find deficiencies or withdraw any such approval in the future, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market our product candidates, if approved.

Moreover, our failure, or the failure of our third party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our drug products or product candidates.

In addition, our product candidates and any products that we may develop may compete with other product candidates and products for access to manufacturing facilities. Certain of these manufacturing facilities may be contractually prohibited from manufacturing our product due to non-compete agreements with our competitors. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us. Furthermore, changes in manufacturers often involve changes in manufacturing procedures and processes, which could require that we conduct bridging studies between our prior clinical supply used in our clinical trials and that of any new manufacturer. We may be unsuccessful in demonstrating the comparability of clinical supplies which could require the conduct of additional clinical trials.

Our current and anticipated future dependence upon others for the manufacture of our product candidates or products may adversely affect our future profit margins and our ability to commercialize any products that receive marketing approval on a timely and competitive basis.

***We may not be successful in establishing and maintaining strategic collaborations, which could adversely affect our ability to develop and commercialize our product candidates, negatively impacting our operating results.***

If approved, we plan to commercialize razuprotafib ourselves in the United States and intend to seek one or more strategic collaborators to commercialize razuprotafib in additional markets. With respect to ARP-1536, we are evaluating its development options. We face competition in seeking appropriate collaborators for our product candidates, and the negotiation process is time-consuming and complex. In order for us to successfully collaborate with a third party on our product candidates, potential collaborators must view these product candidates as economically valuable. Even if we are successful in our efforts to establish strategic collaborations, the terms that we agree upon may not be favorable to us, and we may not be able to maintain such strategic collaborations if, for example, development or approval of a product is delayed or sales of an approved product are disappointing. Any delay in entering into strategic collaboration agreements related to our product candidates could delay the development and commercialization of our product candidates and reduce their competitiveness even if they reach the market. In addition, our strategic collaborators may terminate any agreements they enter into with us, and we may not be able to adequately protect our rights under these agreements. Furthermore, our strategic collaborators will likely negotiate for certain rights to control decisions regarding the development and commercialization of our product candidates, if approved, and may not conduct those activities in the same manner as we do.

On June 24, 2018, we entered into a license agreement with Gossamer (the “Gossamer License Agreement”) pursuant to which we granted to Gossamer an exclusive, sublicensable license to develop and commercialize AKB-4924 and other structurally related products worldwide. We received an upfront payment of \$20.0 million in connection with the Gossamer License Agreement and are eligible to receive additional payments contingent upon the achievement of specified milestones. On May 12, 2020, we entered into that certain Amendment No. 1 to the Gossamer License Agreement (“Amendment No. 1” and together with the Gossamer License Agreement, as amended by Amendment No. 1, the “Amended Gossamer License Agreement”) and received a payment of \$15.0 million in conjunction with the terms of the Amendment 1. We are also eligible to receive tiered royalties on sales of licensed products and additional payments upon the occurrence of specified events involving the licensed products. However, there can be no assurance that we will satisfy the conditions to receive any such payments from Gossamer in a timely manner or at all. While Gossamer is obligated to use its commercially reasonable efforts to develop and commercialize the licensed products, there can be no assurance that such products would be successfully developed and commercialized. In addition, the Amended Gossamer License Agreement contains an exclusivity provision pursuant to which we are prohibited from developing, manufacturing or commercializing certain HIF stabilizing compounds as described in the agreement. While the license agreement expires on a licensed product-by-licensed product and country-by-country basis on the later of fifteen years from the date of first commercial sale or when there is no longer a valid patent claim covering such licensed product in such country, either party may terminate the Amended Gossamer License Agreement for an uncured material breach by the other party or upon the bankruptcy or insolvency of the other party. In addition, Gossamer may terminate the Amended Gossamer License Agreement in the event it determines that there is a potential safety or efficacy issue with the licensed products. Therefore, there can be no assurance that the Amended Gossamer License Agreement will continue for its full duration or that we will realize the intended benefits.

If we fail to establish and maintain strategic collaborations related to our product candidates for the indications and in the geographies in which we do not intend develop and commercialize ourselves, we will bear all of the risk and costs related to the development and commercialization of any such product candidate, and we may need to seek additional financing, hire additional employees and otherwise develop expertise. This could negatively affect the development of any product candidate for which we do not locate a suitable strategic partner.

***If we are unable to manufacture our product candidates in sufficient quantities, at sufficient yields, we may experience delays in product development, clinical trials, regulatory approval and commercial distribution.***

Completion of our clinical trials and commercialization of our product candidates require access to, or development of, facilities to manufacture our product candidates at sufficient yields and at commercial scale. We have limited experience manufacturing, or managing third parties in manufacturing, any of our product candidates in the volumes that will be necessary to support large-scale clinical trials or commercial sales. Efforts to establish these capabilities may not meet initial expectations as to scheduling, scale-up, reproducibility, yield, purity, cost, potency or quality.

Our reliance on contract manufacturers may adversely affect our operations or result in unforeseen delays or other problems beyond our control. Because of contractual restraints and the limited number of third-party manufacturers with the expertise and facilities to manufacture our bulk drug product on a commercial scale, replacement of a manufacturer may be expensive and time-consuming and may cause interruptions in the production of our drug product. A third-party manufacturer may also encounter difficulties in production. These problems may include:

- difficulties with production costs, scale-up and yields;
- availability of raw materials and supplies;
- quality control and assurance;
- shortages of qualified personnel;
- compliance with strictly enforced federal, state and foreign regulations that vary in each country where a product might be sold; and
- lack of capital funding.

Any delay or interruption in our supply of product candidates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

## **Risks Related to Our Financial Position and Need for Additional Capital**

### Risks Related to Past Financial Condition

***Our limited operating history may make it difficult for you to evaluate the success of our business to date and to assess our future viability.***

We commenced active operations in 2011, and our operations to date have been limited to organizing and staffing our Company, business planning, raising capital, identifying potential product candidates, undertaking preclinical studies and conducting clinical trials. We currently have two product candidates that we are developing internally, one of which is in preclinical development. Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. Only a small fraction of biopharmaceutical development programs ultimately results in commercial products or even product candidates and a number of events could delay our development efforts and negatively impact our ability to obtain regulatory approval for, and to manufacture, market and sell, a product. We have not yet demonstrated our ability to successfully complete later stage clinical trials, obtain regulatory approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as a young business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to expand our capabilities to support commercial activities. We may not be successful in adding such capabilities.

***We have incurred significant losses since inception and anticipate that we will continue to incur significant losses for the foreseeable future and may never achieve or maintain profitability.***

We have incurred net and comprehensive losses each year since our inception, with the exception of the three months ended September 30, 2018 and June 30, 2020, as a result of the upfront Gossamer payments discussed above. For the three months ended September 30, 2020 and 2019, we incurred net and comprehensive loss of \$5.0 million and \$4.6 million, respectively. As of September 30, 2020, we had an accumulated deficit of \$141.8 million. To date, we have not commercialized any products or generated any revenues from the sale of products, and we do not expect to generate any product revenues in the foreseeable future. We do not know whether or when we will generate revenue or become profitable.

We have devoted most of our financial resources to research and development, including our clinical and preclinical development activities. The amount of our future net losses will depend, in part, on the rate of our future expenditures, and our financial position will depend, in part, on our ability to obtain funding through equity or debt financings, strategic collaborations or grants. In June 2019 we initiated a Phase 1b clinical trial for our lead product candidate, razuprotafib (formerly AKB-9778), for a topical drop formulation to treat open angle glaucoma and ocular hypertension. Our other product candidates, including ARP-1536, are in preclinical development. As a result, we expect that it will be several years, if ever, before we have a product candidate ready for commercialization. Even if we obtain regulatory approval to market razuprotafib or any of our other product candidates, our future revenues will depend upon the size of any markets in which razuprotafib or any of our other product candidates has received approval, our ability to achieve sufficient market acceptance, reimbursement from third-party payors and other factors.

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will likely increase significantly if and as we:

- advance a topical drop formulation of razuprotafib for the treatment of open angle glaucoma and ocular hypertension, including as we plan to advance into a Phase 2 clinical trial of this product candidate;
- seek regulatory approvals for our product candidates that successfully complete clinical trials;
- have our product candidates manufactured for clinical trials and for commercial sale;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;
- initiate additional preclinical, clinical or other studies for razuprotafib, ARP-1536 and other product candidates that we may develop or acquire, including additional indications for one or more of these product candidates, such as razuprotafib for the treatment of ARDS in adult patients with critical COVID-19;
- seek to discover and develop additional product candidates;
- acquire or in-license other commercial products, product candidates and technologies;
- make royalty, milestone or other payments under any future in-license agreements;
- maintain, protect and expand our intellectual property portfolio;
- attract and retain skilled personnel; and
- create additional infrastructure to support our operations as a public company.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when, if at all, we will be able to achieve profitability. If we are required by the United States Food and Drug Administration (“FDA”) the European Medicines Agency (“EMA”) or other regulatory authorities to perform studies in addition to those currently expected, or if there are any delays in completing our clinical trials or the development of any of our product candidates, our expenses could increase.

The net and comprehensive income (loss) we incur may fluctuate significantly from quarter to quarter and year to year, such that a period-to-period comparison of our results of operations may not be a good indication of our future performance. In any particular quarter or quarters, our operating results could be below the expectations of securities analysts or investors, which could cause our stock price to decline.

To become and remain profitable, we must succeed in developing and commercializing our product candidates, which must generate significant revenue. This will require us to be successful in a range of challenging activities, including completing preclinical testing and clinical trials of our product candidates, discovering additional product candidates, obtaining regulatory approval for these product candidates and manufacturing, marketing and selling any products for which we may obtain regulatory approval. We are only in the preliminary stages of most of these activities. We may never succeed in these activities and, even if we do, may never generate revenues that are significant enough to achieve profitability.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable could depress the value of our Company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations. A decline in the value of our Company could cause you to lose all or part of your investment.

***Our corporate restructuring and the associated headcount reduction may not result in anticipated savings, could result in total costs and expenses that are greater than expected and could disrupt our business.***

In April 2019, we adopted a realignment plan to reduce operating costs and better align our workforce with the needs of our ongoing business. The realignment plan reduced our workforce by 11 employees, representing approximately 41% of our workforce. We may not realize, in full or in part, the anticipated benefits, savings and improvements in our cost structure from our restructuring efforts due to unforeseen difficulties, delays or unexpected costs. If we are unable to realize the expected operational efficiencies and cost savings from the restructuring, our operating results and financial condition would be adversely affected. Furthermore, our restructuring plan may be disruptive to our operations. For example, our headcount reductions could yield unanticipated consequences, such as increased difficulties in implementing our business strategy, including retention of our remaining employees.



## Risks Related to Future Financial Condition

***We cannot assure you that our exploration of strategic alternatives will result in a transaction or that any such transaction would be successful, and the process of exploring strategic alternatives or its conclusion could adversely impact our business and our stock price.***

In October 2019, we announced the engagement of Evercore, Ladenburg Thalmann & Co. Inc. and Duane Nash, M.D., J.D., M.B.A. to assist us in identifying and evaluating a range of potential strategic alternatives, including an acquisition, company sale, merger, business combination, asset sale, in-license, out-license or other strategic transaction. This strategic alternative process is ongoing and we continue to engage Duane Nash to assist us with this process. There can be no assurances that the strategic alternatives process will result in the announcement or consummation of any strategic transaction, or that any resulting plans or transactions will yield additional value for shareholders. Any potential transaction would be dependent on a number of factors that may be beyond our control, including, among other things, market conditions, industry trends, the interest of third parties in a potential transaction with us and the availability of financing to potential buyers on reasonable terms.

The process of exploring strategic alternatives could adversely impact our business, financial condition and results of operations. We could incur substantial expenses associated with identifying and evaluating potential strategic alternatives, including those related to equity compensation, severance pay and legal, accounting and financial advisory fees. In addition, the process may be time consuming and disruptive to our business operations, could divert the attention of management and the Board of Directors from our business, could negatively impact our ability to attract, retain and motivate key employees, and could expose us to potential litigation in connection with this process or any resulting transaction. Further, speculation regarding any developments related to the review of strategic alternatives and perceived uncertainties related to the future of the Company could cause our stock price to fluctuate significantly.

***We will require substantial additional financing. A failure to obtain this necessary capital when needed could force us to delay, limit, reduce or terminate our product development or commercialization efforts.***

As of September 30, 2020, our cash and cash equivalents were \$47.3 million. We believe that we will continue to expend substantial resources for the foreseeable future developing razuprotafib for the indications that we are pursuing, such as OAG and ocular hypertension. Additionally, we expect to expend substantial resources to further develop ARP-1536. We may also expend substantial resources to develop any other product candidates that we may develop or acquire. These expenditures will include costs associated with research and development, potentially obtaining regulatory approvals and having our products manufactured, as well as marketing and selling products approved for sale, if any. In addition, other unanticipated costs may arise. Because the outcome of our current and anticipated clinical trials is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates.

Our future capital requirements depend on many factors, including:

- the rate of progress, results and cost of commencing our planned Phase 2 program of razuprotafib for open angle glaucoma and ocular hypertension and our operating costs incurred as we conduct these trials, including any unforeseen costs we may incur as a result of clinical trial delays due to the COVID-19 pandemic or other causes;
- the scope, size, rate of progress, results and costs of initiating and completing additional development of razuprotafib;
- assuming favorable clinical results, the cost, timing and outcome of our efforts to obtain marketing approval for razuprotafib in the United States, Europe and in other jurisdictions, including to fund the preparation and filing of regulatory submissions for razuprotafib with the FDA, the EMA and other regulatory authorities;
- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials that we may undertake for ARP-1536 and any other product candidates that we may develop or acquire;
- the timing of, and the costs involved in, obtaining regulatory approvals for ARP-1536 if clinical trials of this product candidate are successful;
- the cost and timing of future commercialization activities for our products, if any of our product candidates are approved for marketing, including product manufacturing, marketing, sales and distribution costs;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- the cost of having our product candidates manufactured for clinical trials in preparation for regulatory approval and in preparation for commercialization;

- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements; and
- the costs involved in preparing, filing, prosecuting patent applications, maintaining, defending and enforcing our intellectual property rights, including litigation costs and the outcome of such litigation.

Based on our current operating plan, and absent any future financings or strategic partnerships, we believe that our existing cash and cash equivalents will be sufficient to fund our projected operating expenses and capital expenditure requirements through the fourth quarter of 2022. However, our operating plan may change as a result of many factors currently unknown to us, and we may need additional funds sooner than planned. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. Additional funds may not be available when we need them on terms that are acceptable to us, or at all. Market volatility resulting from the COVID-19 pandemic or other factors could also adversely impact our ability to access capital as and when needed. If adequate funds are not available to us on a timely basis, we may be required to delay, limit, reduce or terminate preclinical studies, clinical trials or other development activities for razuprotafib, ARP-1536 or any other product candidates that we develop or acquire, or delay, limit, reduce or terminate our establishment of sales and marketing capabilities or other activities that may be necessary to commercialize our product candidates.

***Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to product candidates on unfavorable terms to us.***

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings and license, development and commercialization agreements with collaborators. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences and anti-dilution protections that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through strategic collaborations with third parties, we may have to relinquish valuable rights to our product candidates, future revenue streams, research programs or product candidates or grant licenses on terms that are not favorable to us. For example, in June 2018, we entered into a license agreement with Gossamer for the development and commercialization of AKB-4924.

If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts for razuprotafib, ARP-1536 or any other product candidates that we develop or acquire, or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

## **Risks Related to Commercialization**

### Risks Related to Sales, Marketing and Competition

***Our future commercial success depends upon attaining significant market acceptance of our product candidates, if approved, among physicians, patients, third-party payors and others in the medical community.***

Even if we obtain marketing approval for razuprotafib or any other product candidates that we may develop or acquire in the future, these product candidates may not gain market acceptance among physicians, third-party payors, patients and others in the medical community. In addition, market acceptance of any approved products depends on a number of other factors, including:

- the efficacy and safety of the product, as demonstrated in clinical trials;
- the clinical indications for which the product is approved and the label approved by regulatory authorities for use with the product, including any warnings that may be required on the label;
- acceptance by physicians and patients of the product as a safe and effective treatment and the willingness of the target patient population to try new therapies and of physicians to prescribe new therapies;
- the cost, safety and efficacy of treatment in relation to alternative treatments;
- the availability of adequate coverage and reimbursement by third party payors and government authorities;
- relative convenience and ease of administration;
- the prevalence and severity of adverse side effects;
- the effectiveness of our sales and marketing efforts; and
- the restrictions on the use of our products together with other medications, if any.

For example, the current established treatments for glaucoma are predominantly eye drop drugs such as prostaglandins (e.g., latanoprost), beta blockers (e.g., timolol), carbonic anhydrase inhibitors (e.g., dorzolamide) and alpha agonists (e.g., brimonidine), many of which are generic, and are used as single agent therapies or combinations of a prostaglandin along with another agent. Recently there have been new agents approved including netarsidil (Rhopressa TM, and in combination with latanoprost, Rhoclatan TM) and latanoprostene bunod (Vyzulta TM) In addition, razuprotafib is being explored for its potential to treat ARDS associated with COVID-19, an indication in which many companies have devoted substantial time and resources and for which a large number of agents are in various stages of development, such as remdesivir and dexamethasone. If one or more of these competing agents are approved for commercial sale and receive market acceptance as the standard of care in this indication, physicians may be resistant to prescribing razuprotafib even if it receives regulatory approval.

Unless we demonstrate that razuprotafib has single agent efficacy as effective as or more effective than current single-agent standard of care, or as effective or more effective in combination with a prostaglandin such as latanoprost as other combination products, prescribers may be resistant to prescribing it for glaucoma.

Market acceptance is critical to our ability to generate significant revenue. In addition, any product candidate, if approved and commercialized, may be accepted in only limited capacities or not at all. If any approved products are not accepted by the market at all or to the extent that we expect, we may not be able to generate significant revenue and our business would suffer.

***We face substantial competition, which may result in others discovering, developing or commercializing products before, or more successfully, than we do.***

The development and commercialization of new products is highly competitive. Our future success depends on our ability to demonstrate and maintain a competitive advantage with respect to the development and commercialization of our product candidates. Our objective is to develop and commercialize new products with superior efficacy, convenience, tolerability and safety. In many cases, the products that we commercialize will compete with existing, market-leading products.

If razuprotafib is approved and launched commercially, competing drugs may include generic agents that comprise current standard of care (e.g., latanoprost, timolol, and others) as well as newly approved agents such as Rhopressa, Rhoclatan (Aerie Pharmaceuticals) and Vyzulta (Bausch + Lomb), and others that are in development for the treatment of glaucoma. In addition, razuprotafib is being explored for its potential to treat ARDS associated with COVID-19, an indication in which many companies have devoted substantial time and resources and for which a large number of agents are in various stages of development.

Many of our potential competitors have significantly greater financial, manufacturing, marketing, drug development, technical and human resources than we do. Large pharmaceutical companies, in particular, have extensive experience in clinical testing, obtaining regulatory approvals, recruiting patients and in manufacturing pharmaceutical products. Large and established companies such as Aerie Pharmaceuticals, Bausch + Lomb, Santen, Novartis, ONO, Takeda, Allergan and others compete in the market for products for the treatment of glaucoma. Companies developing product candidates for the treatment or prevention of ARDS as it relates to COVID-19 include, but not limited to the following, Lilly, Regeneron, Takeda, Amgen, Abbvie, Edesa Biotech, Implicit Bioscience, Athersys and Biomarck Pharmaceuticals. In particular, these companies have greater experience and expertise in securing government contracts and grants to support their research and development efforts, conducting testing and clinical trials, obtaining regulatory approvals to market products, manufacturing such products on a broad scale and marketing approved products. These companies also have significantly greater research and marketing capabilities than we do and may also have products that have been approved or are in late stages of development, and have collaborative arrangements in our target markets with leading companies and research institutions. Established pharmaceutical companies may also invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make the product that we develop obsolete. As a result of all of these factors, our competitors may succeed in obtaining patent protection and/or FDA approval or discovering, developing and commercializing products before, or more effectively than, we do. In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to overcome price competition and to be commercially successful. If we are not able to compete effectively against potential competitors, our business will not grow and our financial condition and operations will suffer.

***If we are unable to establish sales, marketing and distribution capabilities or to enter into agreements with third parties to market and sell our product candidates, we may not be successful in commercializing our product candidates if and when they are approved.***

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of pharmaceutical products. To achieve commercial success for any product for which we obtain marketing approval, we will need to establish a sales and marketing organization or make arrangements with third parties to perform these services. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force are expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel. Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future products;
- state and federal transparency reporting requirements that require us to register our sales representatives and report any gifts, payments for speaking engagements, travel costs, donations, or other support offered to physicians or teaching hospitals which may create additional burden on sales and marketing personnel;
- our inability to effectively manage a geographically dispersed sales and marketing team;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unable to establish our own sales, marketing and distribution capabilities and have to enter into arrangements with third parties to perform these services, our profitability, if any, is likely to be materially diminished in relation to if we were to market, sell and distribute any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

***Our product candidates may cause undesirable side effects or have other properties that delay or prevent their regulatory approval or limit their commercial potential.***

Undesirable side effects caused by our product candidates or even competing products in development that utilize a common mechanism of action could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other regulatory authorities and potential products liability claims. Serious adverse events deemed to be caused by our product candidates could have a material adverse effect on the development of our product candidates and our business as a whole. The most common drug-related adverse events to date in the clinical trials evaluating the safety and tolerability of subcutaneous razuprotafib have been dizziness and asymptomatic decreases in blood pressure, and these adverse events may occur in future development by this route of administration. The most common adverse event seen in the Phase 1b clinical trial evaluating the safety and tolerability of topical ocular razuprotafib was mild conjunctival hyperemia. Our understanding of the relationship between razuprotafib and these events, as well as our understanding of adverse events in future clinical trials of other product candidates, may change as we gather more information, and additional unexpected adverse events may be observed.

If we or others identify undesirable side effects caused by our product candidates either before or after receipt of marketing approval, a number of potentially significant negative consequences could result, including:

- our clinical trials may be put on hold;
- patient recruitment could be slowed, or enrolled patients may not want to complete a clinical trial;
- we may be unable to obtain regulatory approval for our product candidates or regulatory authorities may withdraw approvals of product candidates;
- regulatory authorities may require additional warnings on the label;
- a medication guide outlining the risks of such side effects for distribution to patients may be required;

- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

With respect to the potential use of razuprotafib for the treatment of ARDS associated with COVID-19, we have not conducted clinical development of this product candidate for such indication. As a result, while we believe razuprotafib may have a favorable tolerability profile in this patient population, there can be no assurance that we will not observe the incidence of adverse events or serious adverse events upon further development of razuprotafib. For example, the incidence of adverse events and serious adverse events may be magnified in this patient population due to the critical and often life-threatening nature of the underlying disease.

Any of these events could prevent us from achieving or maintaining market acceptance of our products and could substantially increase commercialization costs.

#### Risks Related to Healthcare Regulation

##### ***Coverage and reimbursement may be limited or unavailable in certain market segments for any approved products, which could make it difficult for us to sell our products profitably.***

Our future revenues and profitability will be adversely affected if United States and foreign governmental, private third-party insurers and payors and other third-party payors, including Medicare and Medicaid, do not agree to defray or reimburse the cost of our products to the patients. If these entities fail to provide coverage and reimbursement with respect to our products or provide an insufficient level of coverage and reimbursement, our products may be too costly for some patients to afford them and physicians may not prescribe them. Market acceptance and sales of any approved products will depend significantly on the availability of adequate coverage and reimbursement from third-party payors and may be affected by existing and future healthcare reform measures. Government authorities and third-party payors decide which drugs they will pay for and establish formularies and reimbursement levels. Coverage and reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining coverage and reimbursement approval for a product from a government or other third-party payor is a time consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to the payor. Additionally, we may be required to enter into contracts with third-party payors to obtain favorable formulary status. We may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement. We cannot be sure that coverage or adequate reimbursement will be available for any of our product candidates. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement rates, but also have their own methods and approval process apart from Medicare determinations. Therefore, coverage and reimbursement for drug products can differ significantly from payor to payor. Even if we obtain coverage for our product candidates, third-party payors may not establish adequate reimbursement amounts, which may reduce the demand for, or the price of, our products. If reimbursement is not available or is available only to limited levels, we may not be able to commercialize certain of our products. In addition, in the United States, third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs. As a result, significant uncertainty exists as to whether and how much third-party payors will reimburse patients for their use of newly approved drugs, which in turn will put pressure on the pricing of drugs. Further, due to the COVID-19 pandemic, millions of individuals have lost or will be losing employer-based insurance coverage, which may adversely affect our ability to commercialize our product candidates even if there is adequate coverage and reimbursement from third party payors.

##### ***Price controls may be imposed, which may adversely affect our future profitability.***

In the United States and some foreign jurisdictions, there have been, and we expect there will continue to be, actions and proposals to control and reduce healthcare costs. There have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval for our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any of our products or product candidates for which we obtain marketing approval.

In some countries, particularly member states of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after receipt of marketing approval for a product. In addition, there can be considerable pressure by governments and other stakeholders on prices and reimbursement levels, including as part of cost containment measures. Political, economic and regulatory developments may further

complicate pricing negotiations, and pricing negotiations may continue after reimbursement has been obtained. Reference pricing used by various European Union member states and parallel distribution, or arbitrage between low-priced and high-priced member states, can further reduce prices. In some countries, we may be required to conduct a clinical trial or other studies that compare the cost-effectiveness of our product candidates to other available products in order to obtain or maintain reimbursement or pricing approval. Publication of discounts by third-party payors or authorities may lead to further pressure on the prices or reimbursement levels within the country of publication and other countries. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be adversely affected.

***The impact of recent healthcare reform and other changes in the healthcare industry and in healthcare spending is currently unknown and may adversely affect our business model.***

Our revenue prospects could be affected by changes in healthcare spending and policy in the United States and abroad. We operate in a highly regulated industry and new laws, regulations or judicial decisions, or new interpretations of existing laws, regulations or decisions related to healthcare availability, the method of delivery or payment for healthcare products and services could negatively impact our business, operations and financial condition.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. As a result of this legislation and the expansion of federal coverage of products, we expect that there will be additional pressure to reduce costs. While the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policies and payment limitations in setting their own reimbursement rates, and any reduction in reimbursement that results from the MMA may cause a similar reduction in payments from private payors. Similar regulations or reimbursement policies may be enacted in international markets which could similarly impact our business.

In addition, the Affordable Care Act (“ACA”) was enacted in 2010 with a goal of reducing the cost of healthcare and substantially changing the way healthcare is financed by both government and private insurers. The ACA, among other things, increases the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extends the rebate program to individuals enrolled in Medicaid managed care organizations, establishes annual fees and taxes on manufacturers of certain branded prescription drugs and biologic products, and creates a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% (increased to 70% as of January 1, 2019 pursuant to subsequent legislation) point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period as a condition for the manufacturer’s outpatient drugs to be covered under Medicare Part D. In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. On August 2, 2011, the Budget Control Act of 2011 created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation’s automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of up to 2% per fiscal year, which went into effect on April 1, 2013. Pursuant to the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, these reductions are suspended from May 1, 2020 through December 31, 2020 due to the COVID-19 pandemic. As the legislation currently stands, the reductions will go back into effect January 2021 and will remain in effect through 2030 unless additional Congressional action is taken.

It is likely that federal and state legislatures within the United States and foreign governments will continue to consider changes to existing healthcare legislation. Some of the provisions of the ACA have yet to be fully implemented, while certain provisions have been subject to judicial and Congressional challenges. Since January 2017, President Trump has signed two Executive Orders designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. One such Executive Order directed federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from or delay the implementation of any provision of the ACA that would impose a fiscal burden on states or a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health insurers or manufacturers of pharmaceuticals or medical devices. The second Executive Order terminates the cost-sharing subsidies that reimburse insurers under the ACA. Several state Attorneys General filed suit to stop the administration from terminating the subsidies, but their request for a restraining order was denied by a federal judge in California on October 25, 2017. The loss of the cost share reduction payments is expected to increase premiums on certain policies issued by qualified health plans under the ACA. Further, on June 14, 2018, U.S. Court of Appeals for the Federal Circuit ruled that the federal government was not required to pay more than \$12 billion in ACA risk corridor payments to third-party payors who argued were owed to them. This decision was appealed to the U.S. Supreme Court, which on April 27, 2020, reversed the U.S. Court of Appeals for the Federal Circuit’s decision and remanded the case to the U.S. Court of Federal Claims, concluding the government has an obligation to pay these risk corridor payments under the relevant formula. It is not clear what effect this result will have on our business, but we will continue to monitor any developments.

Other legislative changes have been proposed and adopted since the ACA was enacted. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. While Congress has not passed comprehensive repeal legislation, it has enacted laws that modify certain provisions of the ACA, including eliminating a tax-based shared responsibility payment imposed on certain individuals who fail to maintain qualifying health coverage for all or part of a year, which is commonly referred to as the “individual mandate”. On December 14, 2018, a U.S. District Court judge in the Northern District of Texas ruled that the individual mandate portion of the ACA is an essential and inseparable feature of the ACA, and therefore because the mandate was repealed, the remaining provisions of the ACA are invalid as well. On December 18, 2019, the Fifth Circuit U.S. Court of Appeals held the individual mandate is unconstitutional, and remanded the case to the lower court to reconsider its earlier invalidation of the full ACA. In March 2020, the U.S. Supreme Court agreed to hear this case, with arguments likely to take place later this year. Pending review, the ACA remains in effect, but it is unclear at this time what effect the latest ruling will have on the status of the ACA. Litigation and legislation related to the ACA are likely to continue, with unpredictable and uncertain results. We will continue to evaluate the effect that the ACA and its possible repeal and replacement has on our business.

Further, the Trump administration’s budget for fiscal year 2021 includes a \$135 billion allowance (over a period of time) to support legislative proposals seeking to reduce drug prices, increase competition, lower out-of-pocket drug costs for patients, and increase patient access to lower-cost generic and biosimilar drugs. Additionally, in 2018, the Trump administration released a “Blueprint” to lower drug prices and reduce out of pocket costs of drugs that contains additional proposals to increase manufacturer competition, increase the negotiating power of certain federal healthcare programs, incentivize manufacturers to lower the list price of their products and reduce the out of pocket costs of drug products paid by consumers. The U.S. Department of Health and Human Services (“HHS”) has already started the process of soliciting feedback on some of these measures and, at the same time, is immediately implementing others under its existing authority. For example, in May 2019, the Centers for Medicare & Medicaid Services (“CMS”) issued a final rule to allow Medicare Advantage Plans the option of using step therapy, a type of prior authorization, for Part B drugs beginning January 1, 2020. This final rule codified CMS’s policy change that was effective January 1, 2019. It is unclear what effect such changes will have on our business and our ability to receive adequate reimbursement for our future products. We cannot predict the reform initiatives that may be adopted in the future or whether initiatives that have been adopted will be repealed or modified. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect:

- the demand for any products for which we may obtain regulatory approval;
- our ability to set a price that we believe is fair for our products;
- our ability to obtain coverage and reimbursement approval for a product;
- our ability to generate revenues and achieve or maintain profitability;
- and the level of taxes that we are required to pay.

We expect that changes and challenges to the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies, and additional downward pressure on the price that we receive for any future approved product.

***If we obtain regulatory approval for any of our product candidates, we may be subject to various federal and state laws targeting fraud and abuse in the healthcare industry. These laws may impact, among other things, our proposed sales, marketing and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business.***

Healthcare providers, physicians and third-party payors in the United States and elsewhere play a primary role in the recommendation and prescription of pharmaceutical products. Arrangements with third-party payors and customers can expose pharmaceutical manufacturers to broadly applicable fraud and abuse and other healthcare laws and regulations, which may constrain the business or financial arrangements and relationships through which such companies sell, market and distribute pharmaceutical products. In particular, the promotion, sales and marketing of healthcare items and services, as well as a wide range of pricing, discounting, marketing and promotion, structuring and commission(s), certain customer incentive programs and other business arrangements, are subject to extensive laws designed to prevent fraud, kickbacks, self-dealing and other abusive practices. The applicable federal and state healthcare laws and regulations laws that may affect our ability to operate include, but are not limited to:

- The federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. Although there are several

statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution, they are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exception or safe harbor. In addition, the government may assert that a claim including items or services resulting from a violation of the AKS constitutes a false or fraudulent claim for purposes of the federal False Claims Act or federal civil money penalties statute. Violations of the AKS carry potentially significant civil and criminal penalties, including imprisonment, fines, administrative civil monetary penalties, and exclusion from participation in federal healthcare programs.

- The federal anti-inducement law which prohibits, among other things, the offering or giving of remuneration, which includes, without limitation, any transfer of items or services for free or for less than fair market value (with limited exceptions), to a Medicare or Medicaid beneficiary that the person knows or should know is likely to influence the beneficiary's selection of a particular supplier of items or services reimbursable by a federal or state governmental program.
- Federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, or the FCA, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, to the federal government, claims for payment or approval that are false, fictitious or fraudulent; knowingly making, using or causing to be made or used, a false statement or record material to a false or fraudulent claim or obligation to pay or transmit money or property to the federal government; or knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay money to the federal government. Manufacturers can be held liable under the FCA even when they do not submit claims directly to government payors if they are deemed to "cause" the submission of false or fraudulent claims. Companies that submit claims directly to payors may also be liable under the FCA for the direct submission of such claims. The FCA also permits a private individual acting as a "whistleblower" to bring actions on behalf of the federal government alleging violations of the FCA and to share in any monetary recovery. When an entity is determined to have violated the federal civil False Claims Act, the government may impose civil fines and penalties for each false claim, plus treble damages, and exclude the entity from participation in Medicare, Medicaid and other federal healthcare programs.
- The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, and its implementing regulations, which prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.
- HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH, and its implementing regulations, which imposes certain requirements on certain covered healthcare providers, health plans, and healthcare clearinghouses, otherwise known as covered entities, relating to the privacy, security and transmission of individually identifiable health information, including mandatory contractual terms and required implementation of technical safeguards of such information. HITECH also created new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorneys' fees and costs associated with pursuing federal civil actions.
- The federal transparency requirements under the Affordable Care Act, including the Physician Payment Sunshine Act, which require drug and biologics manufacturers eligible for payment under Medicare, Medicaid or the Children's Health Insurance Program to report annually to HHS, information related to payments or other "transfers of value" made or distributed to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by the physicians described above and their immediate family members. Failure to submit required information may result in civil monetary penalties for all payments, transfers of value or ownership or investment interests that are not timely, accurately, and completely reported in an annual submission. Effective January 1, 2022, these reporting obligations will extend to include transfers of value made to certain non-physician providers such as physician assistants and nurse practitioners.
- Federal consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers.
- State and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.



The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal and state enforcement bodies continue to give regular and close scrutiny to interactions between healthcare companies and healthcare providers, and such scrutiny often leads to investigations, prosecutions, convictions and settlements in the healthcare industry. Ensuring business arrangements comply with applicable healthcare laws, as well as responding to possible investigations by government authorities, can be time- and resource-consuming and can divert a company's attention from the business.

The Affordable Care Act broadened the reach of the fraud and abuse laws by, among other things, amending the intent requirement of the federal Anti-Kickback Statute and the applicable criminal healthcare fraud statutes contained within 42 U.S.C. § 1320a-7b. Pursuant to the statutory amendment, a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it in order to have committed a violation. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act or the civil monetary penalties statute. Many states have adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

We are also subject to the U.S. Foreign Corrupt Practices Act, or FCPA, which prohibits improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business and requires companies to maintain accurate books and records and a system of internal accounting controls. Safeguards we implement to discourage improper payments or offers of payments by our employees, consultants, and others may be ineffective, and violations of the FCPA and similar laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, any of which would likely harm our reputation, business, financial condition and result of operations.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, including environmental, health and safety laws and regulations, we may be subject to penalties, including administrative, civil and criminal penalties, exclusion from participation in government healthcare programs, such as Medicare and Medicaid and imprisonment, damages, fines and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. Any action for violation of these laws, even if successfully defended, could cause a pharmaceutical manufacturer to incur significant legal expenses and divert management's attention from the operation of the business. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, that person or entity may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs. Prohibitions or restrictions on sales or withdrawal of future marketed products could materially affect business in an adverse way.

Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent inappropriate conduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations.

In addition, the approval and commercialization of any of our products outside the United States will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

## **Risks Related to Ownership of Our Common Stock**

### Risks Related to Investments in Our Securities

***The market price of our common stock may be highly volatile, and may be influenced by numerous factors, some of which are beyond our control.***

The market price of our common stock is likely to be volatile. Since our common stock became listed on Nasdaq Capital Market on June 26, 2018, the trading price of our common stock has ranged from \$0.42 to \$4.35 per share. The market price of our common stock may continue to fluctuate substantially due to a variety of factors, including market perception of our ability to meet our growth projections and expectations, quarterly operating results of other companies in the same industry, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our business and the business of others in our industry. In addition, the stock market itself is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons related and unrelated to their operating performance and could have the same effect on our common stock. The market price of shares of our common stock may continue to be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- results of clinical trials of our product candidates;
- the timing of the release of results of our clinical trials;

- results of clinical trials of our competitors' products;
- safety issues with respect to our products or our competitors' products;
- regulatory actions with respect to our products or our competitors' products;
- actual or anticipated fluctuations in our financial condition and operating results;
- publication of research reports by securities analysts about us or our competitors or our industry;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the passage of legislation or other regulatory developments affecting us or our industry;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- sales of our common stock by us, our insiders or our other stockholders;
- speculation in the press or investment community;
- announcement or expectation of additional financing efforts;
- changes in accounting principles;
- terrorist acts, acts of war or periods of widespread civil unrest;
- natural disasters and other calamities;
- changes in market conditions for biopharmaceutical stocks; and
- changes in general market and economic conditions.

In addition, the stock market has recently experienced significant volatility, particularly with respect to pharmaceutical, biotechnology and other life sciences company stocks. The volatility of pharmaceutical, biotechnology and other life sciences company stocks often does not relate to the operating performance of the companies represented by the stock. As we operate in a single industry, we are especially vulnerable to these factors to the extent that they affect our industry or our products, or to a lesser extent our markets. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources and could also require us to make substantial payments to satisfy judgments or to settle litigation.

***We are eligible to be treated as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an "emerging growth company", as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"). For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;
- not being required to comply with the auditor attestation requirements regarding the assessment of our internal control over financial reporting;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We have taken advantage of these reduced reporting burdens. In particular, we have provided only two years of audited consolidated financial statements and have not included all of the executive compensation related information that would be required if we were not an emerging growth company. Investors may find our common stock less attractive if we continue to rely on these exemptions. If

some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We could be an emerging growth company for up to five years following the date of completion of our initial public offering, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds \$700 million as of any June 30 before that time or if we have total annual gross revenue of \$1.07 billion (as may be inflation-adjusted by the SEC from time to time) or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31 or, if we issue more than \$1.07 billion in non-convertible debt during any three-year period before that time, we would cease to be an emerging growth company immediately. Even after we no longer qualify as an emerging growth company, we may still qualify as a “smaller reporting company” if the market value of our common stock held by non-affiliates is below \$250 million as of June 30 in any given year (or \$700 million if we had less than \$100 million in revenues), which would allow us to take advantage of many of the same exemptions from disclosure requirements, including exemption from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

***FINRA sales practice requirements may limit a stockholder’s ability to buy and sell our stock.***

The Financial Industry Regulatory Authority (“FINRA”) has adopted rules requiring that, in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative or low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA has indicated its belief that there is a high probability that speculative or low-priced securities will not be suitable for at least some customers. If these FINRA requirements are applicable to us or our securities, they may make it more difficult for broker-dealers to recommend that at least some of their customers buy our common stock, which may limit the ability of our stockholders to buy and sell our common stock and could have an adverse effect on the market for and price of our common stock.

***If we are unable to maintain compliance with Nasdaq Capital Market listing standards, including maintenance of at least \$2.5 million of stockholders’ equity and maintenance of a \$1.00 minimum bid price, our common stock may be delisted from the Nasdaq Capital Market and you may face significant restrictions on the resale of your shares due to state “blue sky” laws.***

There can be no assurances that we will be able to maintain our Nasdaq Capital Market listing in the future. On July 24, 2019, we were notified by Nasdaq Stock Market, LLC (“Nasdaq”) that we were not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share and Nasdaq Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. To regain compliance, the bid price of our common stock must have a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days. In June 2020, we were notified by Nasdaq that the closing bid price of our common stock was maintained for a minimum of 10 consecutive business days and, therefore, we regained compliance with the minimum bid price requirement. However, there can be no assurance that we will not encounter challenges with maintaining compliance with Nasdaq Capital Market listing standards in the future.

In the event we are unable to maintain compliance with the Nasdaq Capital Market listing standards and our common stock is delisted from the Nasdaq Capital Market, it would, among other things, likely lead to a number of negative implications, including an adverse effect on the price of our common stock, reduced liquidity in our common stock, the loss of federal preemption of state securities laws and greater difficulty in obtaining financing. In the event of a de-listing, we would take actions to restore our compliance with Nasdaq’s listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq Capital Market minimum bid price requirement in the future, or prevent future non-compliance with Nasdaq’s listing requirements. If we cannot restore our compliance with Nasdaq’s listing requirements, we would pursue eligibility for trading of these securities on other markets or exchanges, such as the OTCQB or OTCQX, which are unorganized, inter-dealer, over-the-counter markets which provides significantly less liquidity than the Nasdaq Capital Market or other national securities exchanges.

Furthermore, each state has its own securities laws, often called “blue sky” laws, which (1) limit sales of securities to a state’s residents unless the securities are registered in that state or qualify for an exemption from registration, and (2) govern the reporting requirements for broker-dealers doing business directly or indirectly in the state. Before a security is sold in a state, there must be a registration in place to cover the transaction, or it must be exempt from registration. The applicable broker-dealer must also be

registered in that state. If we fail to maintain our Nasdaq Capital Market listing, then we may not be considered to be on a national exchange and do not know whether our securities will be registered or exempt from registration under the laws of any state.

A determination regarding registration will be made by those broker-dealers, if any, who agree to serve as market makers for our common stock. There may be significant state blue sky law restrictions on the ability of investors to sell, and on purchasers to buy, our securities. You should therefore consider the resale market for our common stock to be limited, as you may be unable to resell your shares without the significant expense of state registration or qualification.

***Our principal stockholders and management own a significant percentage of our stock and will be able to exercise significant influence over matters subject to stockholder approval.***

As of September 30, 2020, our executive officers, directors and principal stockholders, together with their respective affiliates, owned approximately 32.4% of our common stock, including shares subject to outstanding options that are exercisable within 60 days after such date. Accordingly, these stockholders will be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of our Board of Directors and approval of significant corporate transactions. This concentration of ownership could have the effect of entrenching our management and/or the Board of Directors, delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the fair market value of our common stock.

***Because we became a reporting company under the Exchange Act by means other than a traditional underwritten initial public offering, we may not be able to attract the attention of research analysts at major brokerage firms.***

Because we did not become a reporting company by conducting an underwritten initial public offering of our common stock, and because we only recently became listed on a national securities exchange, we may obtain research coverage from fewer analysts than we would have obtained. In addition, investment banks may be less likely to agree to underwrite secondary offerings on our behalf or recommend the purchase of our common stock than if we became a public reporting company by means of an underwritten initial public offering, because they may be less familiar with our Company as a result of more limited coverage by analysts and the media, and because we became public at an early stage in our development. The failure to receive research coverage or support in the market for our shares could have an adverse effect on our ability to develop a liquid market for our common stock.

***The resale of shares covered by a registration statement could adversely affect the market price of our common stock in the public market, should one develop, which result would in turn negatively affect our ability to raise additional equity capital.***

The sale, or availability for sale, of our common stock in the public market may adversely affect the prevailing market price of our common stock and may impair our ability to raise additional capital by selling equity or equity-linked securities. We filed and caused to become effective a registration statement with the SEC registering the resale of 27,367,117 shares of our common stock issued in connection with the reverse merger and the concurrent private placement offering in March 2017 and an additional registration statement covering 9,497,337 shares purchased by certain stockholders in June 2018 and subsequent open market purchases. This registration statement permits the resale of these shares at any time. The resale of a substantial number of shares of our common stock in the public market could adversely affect the market price for our common stock and make it more difficult for you to sell shares of our common stock at times and prices that you feel are appropriate. Furthermore, we expect that, because there will be a large number of shares registered pursuant to a registration statement, selling stockholders will continue to offer shares covered by such registration statement for a significant period of time, the precise duration of which cannot be predicted. Accordingly, the adverse market and price pressures resulting from an offering pursuant to a registration statement may continue for an extended period of time and continued negative pressure on the market price of our common stock could have a material adverse effect on our ability to raise additional equity capital.

***Issuance of stock to fund our operations may dilute your investment and reduce your equity interest.***

We may need to raise capital in the future to fund the development of our drug candidates or for other purposes. Any equity financing may have significant dilutive effect to stockholders and a material decrease in our stockholders' equity interest in us. Equity financing, if obtained, could result in substantial dilution to our existing stockholders. At its sole discretion, our Board of Directors may issue additional securities without seeking stockholder approval, and we do not know when we will need additional capital or, if we do, whether it will be available to us.

***We have broad discretion in the use of our cash and may not use them effectively.***

We currently intend to use our cash and cash equivalents for continuing clinical development of razuprotafib in ocular and other indications, early research on antibody therapies that inhibit VE-PTP, and for working capital and other general corporate purposes. Although we currently intend to use our cash and cash equivalents in such a manner, we will have broad discretion in the application of such cash and cash equivalents. Our failure to apply these funds effectively could affect our ability to continue to develop and

commercialize our product candidates. Pending their use, we may invest our cash and cash equivalents in a manner that does not produce income or loses value.

***As a result of becoming a public company, we are incurring increased costs and our management devotes substantial time to public company compliance programs.***

As a public company, we incur significant legal, insurance, accounting and other expenses that we did not incur as a private company. In addition, our administrative staff is required to perform additional tasks. We are investing resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management's time and attention from product development activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. In connection with the reverse merger, pursuant to which we acquired Aerpio, we increased our directors' and officers' insurance coverage, which increased our insurance cost. In the future, it will be more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

In addition, in order to comply with the requirements of being a public company, we may need to undertake various actions, including implementing new internal controls and procedures and hiring new accounting or internal audit staff. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports under the Exchange Act, is accumulated and communicated to our principal executive and financial officers. Any failure to develop or maintain effective controls could adversely affect the results of periodic management evaluations. In the event we are not able to demonstrate compliance with the Sarbanes-Oxley Act, our internal control over financial reporting is perceived as inadequate, or we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the price of our ordinary shares could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to maintain our listing on a national securities exchange.

Our management team and Board of Directors will need to devote significant efforts to maintaining adequate and effective disclosure controls and procedures and internal control over financial reporting in order to comply with applicable regulations, which may include hiring additional legal, financial reporting and other finance and accounting staff and engaging consultants to assist in designing and implementing such procedures. Additionally, any of our efforts to improve our internal controls and design, implement and maintain an adequate system of disclosure controls may not be successful and will require that we expend significant cash and other resources. In addition, our management will be required to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report. This assessment will need to include the disclosure of any material weaknesses in our internal control over financial reporting identified by our management or our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed timeframe or at all, that our internal control over financial reporting is effective as required by Section 404. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements.

Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting following this annual report until the first annual report required to be filed with the SEC following the date we are no longer an "emerging growth company" as defined in the JOBS Act. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal controls in the future.

***Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.***

You should not rely on an investment in our common stock to provide dividend income. We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our operations. In addition, any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Accordingly, investors must rely on sales of their common stock after

price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase our common stock.

***An active trading market for our common stock may not develop or be sustainable. If an active trading market does not develop, investors may not be able to resell their shares at or above the purchase price and our ability to raise capital in the future may be impaired.***

Our common stock has been listed on The Nasdaq Capital Market since June 26, 2018. The initial listing price for our common stock was determined through negotiations with the underwriters. This price may not reflect the price at which investors in the market will be willing to buy and sell our shares. Although our common stock is listed on The Nasdaq Capital Market, an active trading market for our shares may never develop or, if developed, be maintained. If an active market for our common stock does not develop or is not maintained, it may be difficult for you to sell shares you purchase without depressing the market price for the shares or at all. An inactive trading market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

#### Risks Related to Our Charter and Bylaws

***Provisions in our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.***

Provisions in our amended and restated certificate of incorporation and amended and restated by-laws may have the effect of discouraging, delaying or preventing a change in control of us or changes in our management. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our Board of Directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors. Among other things, these provisions:

- authorize “blank check” preferred stock, which could be issued by our Board of Directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock; create a classified Board of Directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our Board of Directors pursuant to a resolution adopted by a majority of the directors then in office;
- prohibit stockholder action by written consent;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our Board of Directors;
- prohibit the consummation of a liquidation event unless approved by a supermajority (66 2/3% and majority of the minority, if applicable) vote of the holders of our voting stock;
- prohibit the consummation of an affiliate transaction with a majority stockholder that holds more than 50% of the voting power of our capital stock unless approved by a supermajority (66 2/3%) vote of directors then in office;
- provide that the number of directors on our Board of Directors may only be changed with a supermajority (66 2/3%) of directors then in office, even though less than a quorum;
- provide that our directors may be removed only for cause and by a supermajority (66 2/3%) vote of the holders of our voting stock;
- provide that vacancies on our Board of Directors may be filled only by a supermajority (66 2/3%) of directors then in office, even though less than a quorum;
- require a supermajority (66 2/3% and majority of the minority, if applicable) vote of the holders of our voting stock or the supermajority (66 2/3%) vote of the members of our Board of Directors then in office to amend our amended and restated by-laws; and
- require a supermajority (66 2/3% and majority of the minority, if applicable) vote of the holders of our voting stock and a supermajority (66 2/3%) vote of the holders of each class of our voting stock entitled to vote thereon to amend certain provisions of our amended and restated certificate of incorporation.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Any provision of our amended and restated certificate of incorporation, our amended and restated by-laws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

#### Risks Related to Tax

##### ***Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.***

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating losses (“NOLs”), to offset future taxable income. Our existing NOLs may be subject to substantial limitations arising from previous ownership changes under Section 382 of the Code. Future analysis will still be required on any historical NOLs as no studies have been performed to evaluate a change in ownership. In addition, future changes in our stock ownership, many of which are outside of our control, could result in an ownership change under Section 382 of the Code. Our NOLs may also be impaired under state law. Accordingly, we may not be able to utilize a material portion of our NOLs. Furthermore, our ability to utilize our NOLs is conditioned upon our attaining profitability and generating U.S. federal taxable income. As described above under “—Risks Related to Our Financial Position and Need for Additional Capital,” we have incurred significant net losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future; thus, we do not know whether or when we will generate the U.S. federal taxable income necessary to utilize our NOLs. A full valuation allowance has been provided for the entire amount of our NOLs.

#### **General Risk Factors**

##### ***Changes in tax law may adversely affect us or our investors.***

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service, or IRS, and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect us or holders of our common stock. In recent years, many such changes have been made and changes are likely to continue to occur in the future. It cannot be predicted whether, when, in what form or with what effective dates tax laws, regulations and rulings may be enacted, promulgated or issued, which could result in an increase in our or our shareholders’ tax liability or require changes in the manner in which we operate in order to minimize or mitigate any adverse effects of changes in tax law.

##### ***Our business and operations would suffer if we sustain cyber-attacks or other privacy or data security incidents that result in security breaches.***

Our information technology may be subject to cyber-attacks, security breaches or computer hacking. Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise sensitive personal, proprietary or confidential information, create system disruptions or cause shutdowns. They also may be able to develop and deploy malicious software programs that attack our systems or otherwise exploit any security vulnerabilities. Our systems and the data stored on those systems may also be vulnerable to security incidents or security attacks, acts of vandalism or theft, misplaced or lost data, human errors, or other similar events that could negatively affect our systems and our data, as well as the data of our business partners. Further, third parties that provide services to us, could also be a source of security risk in the event of a failure of their own security systems and infrastructure.

The costs to eliminate or address the foregoing security threats and vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers, manufacturers or other third parties. In addition, breaches of our security measures and the unauthorized dissemination of sensitive personal, proprietary or confidential information about us, our business partners, participants in our clinical trials or other third parties could expose us to significant potential liability and reputational harm. In addition, the loss of clinical trial data from completed or ongoing or planned clinical trials as a result of a data security incident or other systems failure could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. As threats related to cyber-attacks develop and grow, we may also find it necessary to make additional investments to protect our data and infrastructure, which may impact our profitability. We could also be negatively impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, data privacy, data localization and data protection such as GDPR.

***We face risks arising from the results of the public referendum held in United Kingdom and its membership in the European Union.***

On June 23, 2016, the United Kingdom held a referendum in which a majority of the eligible members of the electorate voted to leave the European Union, commonly referred to as Brexit. Pursuant to Article 50 of the Treaty on European Union, the United Kingdom ceased being a Member State of the European Union on January 31, 2020. However, the terms of the withdrawal have yet to be fully negotiated. The implementation period began February 1, 2020 and will continue until December 31, 2020. During this 11-month period, the United Kingdom will continue to follow all of the European Union's rules, the European Union's pharmaceutical law remains applicable to the United Kingdom and the United Kingdom's trading relationship will remain the same. However, regulations (including financial laws and regulations, tax and free trade agreements, intellectual property rights, data protection laws, supply chain logistics, environmental, health and safety laws and regulations medicine licensing and regulations, immigration laws and employment laws), have yet to be addressed. This lack of clarity on future United Kingdom laws and regulations and their interaction with the European Union laws and regulations may negatively impact foreign direct investment in the United Kingdom, increase costs, depress economic activity and restrict access to capital.

The uncertainty concerning the United Kingdom's legal, political and economic relationship with the European Union after Brexit may be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) beyond the date of Brexit.

These developments, or the perception that any of them could occur, may have a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and limit the ability of key market participants to operate in certain financial markets. In particular, it could also lead to a period of considerable uncertainty in relation to the United Kingdom financial and banking markets, as well as on the regulatory process in Europe. Asset valuations, currency exchange rates and credit ratings may also be subject to increased market volatility.

If the United Kingdom and the European Union are unable to negotiate acceptable agreements or if other European Union Member States pursue withdrawal, barrier-free access between the United Kingdom and other European Union Member States or among the European Economic Area overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the United Kingdom and the European Union and, in particular, any arrangements for the United Kingdom to retain access to European Union markets either during a transitional period or more permanently.

Such a withdrawal from the European Union is unprecedented, and it is unclear how the United Kingdom's access to the European single market for goods, capital, services and labor within the European Union, or single market, and the wider commercial, legal and regulatory environment, will impact our current and future operations, including our relationships with existing and potential suppliers, manufacturers and other third parties.

We may also face new regulatory costs and challenges that could have an adverse effect on our operations. Depending on the terms of the United Kingdom's withdrawal from the European Union, the United Kingdom could lose the benefits of global trade agreements negotiated by the European Union on behalf of its members, which may result in increased trade barriers that could make our doing business in the European Union or European Economic Area more difficult. In addition, the measures could potentially have corporate structural consequences, adversely change tax benefits or liabilities in these or other jurisdictions and could disrupt some of the markets and jurisdictions in which we operate. Any of these effects of Brexit, among others, could materially adversely affect the business, business opportunities, and financial condition of our Company.

**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.**

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

<b>Exhibit Number</b>	<b>Description</b>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1**	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2**	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to be furnished with this Quarterly Report on Form 10-Q and will not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates them by reference.



**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph Gardner, certify that:

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

Date: November 10, 2020

By: \_\_\_\_\_ /s/ Joseph Gardner, Ph.D.

**Joseph Gardner, Ph.D.**

**President**

*(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Regina Marek, certify that:

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

Date: November 10, 2020

By: \_\_\_\_\_ /s/ Regina Marek

**Regina Marek**  
**Vice President Finance**  
*(Principal Financial Officer and  
Principal Accounting Officer)*

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

In connection with the Quarterly Report of Aerpio Pharmaceuticals, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Gardner, President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 10, 2020

By: \_\_\_\_\_ /s/ Joseph Gardner, Ph.D.

**Joseph Gardner, Ph.D.**

**President**

*(Principal Executive Officer)*

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

In connection with the Quarterly Report of Aerpio Pharmaceuticals, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Regina Marek, Vice President Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: November 10, 2020

By: \_\_\_\_\_ /s/ Regina Marek  
**Regina Marek**  
**Vice President Finance**  
*(Principal Financial Officer and  
Principal Accounting Officer)*