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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2022  
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 001-38150

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**KALA PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1167 Massachusetts Avenue  
Arlington, MA**  
(Address of principal executive offices)

**27-0604595**  
(I.R.S. Employer  
Identification No.)

**02476**  
(Zip Code)

**(781) 996-5252**  
(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act		
Title of each class Common Stock, \$0.001 par value per share	Trading symbol(s) KALA	Name of each exchange on which registered The Nasdaq Global Select 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 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

There were 73,208,140 shares of Common Stock, \$0.001 par value per share, outstanding as of August 10, 2022.

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## TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	7
<u>Item 1. Financial Statements (Unaudited)</u>	7
<u>Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021</u>	7
<u>Condensed Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended June 30, 2022 and 2021</u>	8
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the three and six months ended June 30, 2022 and 2021</u>	9
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	12
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Item 4. Controls and Procedures</u>	53
<b><u>PART II – OTHER INFORMATION</u></b>	54
<u>Item 1. Legal Proceedings</u>	54
<u>Item 1A. Risk Factors</u>	54
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	107
<u>Item 6. Exhibits</u>	108
<b><u>SIGNATURES</u></b>	109

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical fact, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this Quarterly Report on Form 10-Q include, among other things, statements about:

- our expectations with respect to the potential impacts the sale of our commercial business to Alcon Pharmaceuticals Ltd. and Alcon Vision, LLC, which we refer collectively as Alcon, will have on our business, results of operations and financial condition;
- our expectations with respect to, and the amount of, future milestone payments we may receive from Alcon in connection with the sale of our commercial business;
- our expectations with respect to our dependency on and potential advantages of KPI-012, our product candidate for the treatment of persistent corneal epithelial defects, or PCED;
- our expectations with respect to the potential financial impact, synergies, growth prospects and benefits of our acquisition of Combangio, Inc., or Combangio, or the Combangio Acquisition, including our expectations with respect to, and the amount of, future milestone payments in connection with the Combangio Acquisition;
- our development efforts for KPI-012 and our ability to discover and develop new programs and product candidates;
- the timing, progress and results of clinical trials for KPI-012, including statements regarding the timing of initiation and completion of clinical trials, dosing of subjects and the period during which the results of the trials will become available;
- the timing, scope and likelihood of regulatory filings, including the filing of any investigational new drug applications and biologics license applications for KPI-012 and any other product candidate we may develop in the future;
- our ability to obtain regulatory approvals for KPI-012;
- our commercialization, marketing and manufacturing capabilities and strategy for KPI-012, if approved;
- our estimates regarding potential future revenue from sales of KPI-012, if approved;
- our ability to negotiate, secure and maintain adequate pricing, coverage and reimbursement terms and processes on a timely basis, or at all, with third-party payors for KPI-012, if approved;
- the rate and degree of market acceptance and clinical utility of KPI-012 and our estimates regarding the market opportunity for KPI-012, if approved;
- plans to pursue the development of KPI-012 for indications in addition to PCED;

- our expectations with respect to our determination to cease the development of our preclinical pipeline programs that are unrelated to our mesenchymal stem cell secretome, or MSC-S, platform, including the development of KPI-287, our receptor tyrosine kinase inhibitor, and our selective glucocorticoid receptor modulators;
- our plans to initiate preclinical studies under our KPI-014 program;
- our expectations regarding our ability to fund our operating expenses, debt service obligations, and capital expenditure requirements with our cash on hand;
- our intellectual property position, including intellectual property acquired in the Combangio Acquisition;
- our ability to identify additional products, product candidates or technologies with significant commercial potential that are consistent with our commercial objectives;
- our estimates regarding expenses, future revenue, timing of any future revenue, capital requirements and needs for additional financing;
- the impact of government laws and regulations;
- our competitive position;
- developments relating to our competitors and our industry;
- our ability to maintain and establish collaborations or obtain additional funding;
- our business and business relationships, including with employees and suppliers;
- our plan to proceed with a workforce reduction and our anticipated annualized reduction in operating expenses associated with such workforce reduction;
- the impact of COVID-19 on our business and operations; and
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart our Business Startups Act of 2012.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made as of the date of this Quarterly Report on Form 10-Q, and we do not assume any obligation to update any forward-looking statements except as required by applicable law.

This Quarterly Report on Form 10-Q includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by us and third parties as well as our estimates of

potential market opportunities. Industry publications, third-party and our own research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. Our estimates of the potential market opportunity for KPI-012 include several key assumptions based on our industry knowledge, industry publications, third-party research and other surveys, which may be based on a small sample size and may fail to accurately reflect market opportunities. While we believe that our internal assumptions are reasonable, no independent source has verified such assumptions.

### **Risk Factor Summary**

Our business is subject to a number of risks that if realized could materially affect our business, financial condition, results of operations, cash flows and access to liquidity. These risks are discussed more fully in the “Risk Factors” section of this Quarterly Report on Form 10-Q. Our principal risks include the following:

- Following the completion of the sale of our commercial business to Alcon, we no longer have any commercial products in our portfolio, and we have only one product candidate which is currently in clinical development. As a result, we are substantially dependent on the development of KPI-012 for the treatment of PCED and any other product candidates we may develop in the future.
- The milestone consideration we are eligible to receive in connection with the sale of our commercial business to Alcon is subject to various risks and uncertainties.
- We may not be able to realize the anticipated benefits from the sale of our commercial business to Alcon.
- We may fail to realize the anticipated benefits of our Combangio Acquisition and those benefits may take longer to realize than expected.
- We have incurred significant losses from operations and negative cash flows from operations since our inception. We expect to incur additional losses and may never achieve or maintain profitability. As of June 30, 2022, we had an accumulated deficit of \$603.4 million.
- Our limited operating history and our limited experience in developing biologics may make it difficult for you to evaluate the success of our business to date and to assess our future viability.
- We will need substantial additional funding. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development efforts.
- Our substantial indebtedness may limit cash flow available to invest in the ongoing needs of our business, and a failure to comply with the covenants under our Loan Agreement could result in an event of default and acceleration of amounts due.
- If we are unable to successfully complete the clinical development of, and obtain marketing approval for, KPI-012 or any other product candidate we may develop in the future, or experience significant delays in doing so, or if, after obtaining marketing approvals, we fail to commercialize such product candidates, our business will be materially harmed.
- If clinical trials of KPI-012 or any other product candidate that we develop fail to demonstrate potency, safety and purity or, for drug products, safety and efficacy to the satisfaction of the U.S. Food and Drug Administration, or FDA, or other regulatory authorities or do not otherwise produce favorable results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of such product candidate.
- If we experience any of a number of possible unforeseen events in connection with our clinical trials, potential marketing approval or commercialization of our product candidates could be delayed or prevented, and our competitors could bring products to market before we do.

- We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.
- KPI-012 has only been evaluated in a clinical trial outside of the United States. We may in the future conduct clinical trials for product candidates at sites outside the United States, and the FDA may not accept data from trials conducted in such locations.
- The ongoing novel coronavirus pandemic and the efforts to prevent its spread have adversely impacted our operations, could impact the development of KPI-012 or any other product candidate we develop, and may continue to adversely affect our business, results of operations and financial condition.
- Even if KPI-012 or any other product candidates that we may develop in the future receives marketing approval, such products may fail to achieve market acceptance by clinicians and patients, or adequate formulary coverage, pricing or reimbursement by third-party payors and others in the medical community, and the market opportunity for these products may be smaller than we estimate.
- If we are unable to establish and maintain sales, marketing and distribution capabilities or enter into sales, marketing and distribution agreements with third parties, if and when necessary, we may not be successful in commercializing KPI-012 or any other product candidate that we may develop if and when they are approved.
- We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do. Our competitors include major pharmaceutical companies with significantly greater financial resources. KPI-012 and any other product candidate we may develop, if and when approved, may also compete with existing branded, generic and off-label products.
- We have relied, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.
- We contract with third parties for the manufacture of KPI-012 and plan to contract with third parties for preclinical, clinical and commercial supply of any other product candidates we develop. 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, which could delay, prevent or impair our development or commercialization efforts.
- The manufacture of biologics is complex and our third-party manufacturers may encounter difficulties in production. If any of our third-party manufacturers encounter such difficulties, our ability to provide supply of product candidates for clinical trials or products for patients, if approved, could be delayed or prevented.
- We may be unable to obtain and maintain patent protection for our technology or product candidates, or the scope of the patent protection obtained may not be sufficiently broad or enforceable, such that our competitors could develop and commercialize technology, products and product candidates similar or identical to ours, and our ability to successfully commercialize our technology product candidates may be impaired.
- KPI-012 is protected by patent rights exclusively licensed from other companies or institutions. If these third parties terminate their agreements with us or fail to maintain or enforce the underlying patents, or we otherwise lose our rights to these patents, our competitive position and our market share in the markets for any of our products, if and when approved, will be harmed.
- Our workforce reduction announced in July 2022 could result in total costs and expenses that are greater than expected and could disrupt our business.
- If we fail to comply with the continued listing requirements of Nasdaq, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**KALA PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**  
**(In thousands, except share and per share amounts)**

	June 30, 2022	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 42,569	\$ 92,136
Short-term investments	1,999	—
Short-term restricted cash	450	2,042
Accounts receivable, net	13,822	15,345
Inventory	25	8,639
Prepaid expenses and other current assets	2,143	6,204
Current assets held for sale (Note 3)	22,507	—
Total current assets	<u>83,515</u>	<u>124,366</u>
Non-current assets:		
Property and equipment, net	891	2,722
Long-term inventory	—	9,578
Right-of-use assets	51	1,299
Restricted cash and other long-term assets	519	1,462
Total assets	<u>\$ 84,976</u>	<u>\$ 139,427</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,542	\$ 4,899
Accrued expenses and other current liabilities	18,306	20,986
Current portion of lease liabilities	52	711
Current portion of contingent consideration	3,772	3,817
Current portion of deferred purchase consideration	219	7,009
Total current liabilities	<u>32,891</u>	<u>37,422</u>
Long-term liabilities:		
Long-term lease liabilities	—	548
Long-term debt	79,800	78,929
Long-term contingent consideration	3,839	4,841
Long-term deferred purchase consideration	—	883
Total long-term liabilities	<u>83,639</u>	<u>85,201</u>
Total liabilities	<u>116,530</u>	<u>122,623</u>
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized as of June 30, 2022 and December 31, 2021; 72,673,785 and 65,500,275 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	73	66
Additional paid-in capital	571,814	559,126
Accumulated other comprehensive loss	(1)	—
Accumulated deficit	(603,440)	(542,388)
Total stockholders' (deficit) equity	<u>(31,554)</u>	<u>16,804</u>
Total liabilities and stockholders' (deficit) equity	<u>\$ 84,976</u>	<u>\$ 139,427</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

**KALA PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**(UNAUDITED)**

**(In thousands, except share and per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Product revenues, net	\$ 2,100	\$ 3,051	\$ 3,472	\$ 6,317
Costs and expenses:				
Cost of product revenues	1,774	1,016	2,549	1,771
Selling, general and administrative	22,673	27,986	49,655	55,685
Research and development	4,473	3,094	8,939	6,220
(Gain) loss on fair value remeasurement of deferred purchase consideration	(789)	—	262	—
Gain on fair value remeasurement of contingent consideration	(59)	—	(1,047)	—
Total costs and expenses	28,072	32,096	60,358	63,676
Loss from operations	(25,972)	(29,045)	(56,886)	(57,359)
Other income (expense):				
Interest and other income	68	33	76	76
Interest and other expense	(2,207)	(2,091)	(4,242)	(4,232)
Loss on extinguishment of debt	—	(5,395)	—	(5,395)
Total interest and other expense	(2,139)	(7,453)	(4,166)	(9,551)
Net loss	\$ (28,111)	\$ (36,498)	\$ (61,052)	\$ (66,910)
Net loss per share—basic and diluted	\$ (0.38)	\$ (0.57)	\$ (0.83)	\$ (1.06)
Weighted average shares outstanding—basic and diluted	73,676,819	64,554,506	73,658,924	63,113,194
Net loss	\$ (28,111)	\$ (36,498)	\$ (61,052)	\$ (66,910)
Other comprehensive loss:				
Change in unrealized gains on investments	1	(3)	(1)	(4)
Total other comprehensive loss	1	(3)	(1)	(4)
Total comprehensive loss	\$ (28,110)	\$ (36,501)	\$ (61,053)	\$ (66,914)

See accompanying notes to these unaudited condensed consolidated financial statements.



**KALA PHARMACEUTICALS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
(UNAUDITED)**

(In thousands, except share and per share amounts)

	Three Months Ended June 30, 2022					
	Common Stock		Additional	Accumulated	Accumulated	Total
	\$0.001 Par Value					
	Shares	Amount	Capital	Comprehensive	Income	Equity (Deficit)
<b>Balance as of March 31, 2022</b>	72,594,005	\$ 73	569,974	(2)	(575,329)	(5,284)
Issuance of common stock for vested restricted stock units	79,780	—	—	—	—	—
Stock-based compensation expense	—	—	1,840	—	—	1,840
Change in fair value of investments	—	—	—	1	—	1
Net loss	—	—	—	—	(28,111)	(28,111)
<b>Balance as of June 30, 2022</b>	<u>72,673,785</u>	<u>\$ 73</u>	<u>\$ 571,814</u>	<u>\$ (1)</u>	<u>\$ (603,440)</u>	<u>\$ (31,554)</u>

	Three Months Ended June 30, 2021					
	Common Stock		Additional	Accumulated	Accumulated	Total
	\$0.001 Par Value					
	Shares	Amount	Capital	Comprehensive	Income	Equity
<b>Balance as of March 31, 2021</b>	63,805,108	\$ 64	\$ 539,920	\$ 3	\$ (430,195)	\$ 109,792
At the market offering, net of sales agent commission of \$170	837,257	1	6,020	—	—	6,021
Exercise of stock options	20,074	—	64	—	—	64
Issuance of common stock for vested restricted stock units	107,780	—	—	—	—	—
Stock-based compensation expense	—	—	4,894	—	—	4,894
Change in fair value of investments	—	—	—	(3)	—	(3)
Net loss	—	—	—	—	(36,498)	(36,498)
<b>Balance as of June 30, 2021</b>	<u>64,770,219</u>	<u>\$ 65</u>	<u>\$ 550,898</u>	<u>\$ —</u>	<u>\$ (466,693)</u>	<u>\$ 84,270</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

KALA PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
(UNAUDITED)

(In thousands, except share and per share amounts)

	Six Months Ended June 30, 2022					
	Common Stock \$0.001 Par Value		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
<b>Balance as of December 31, 2021</b>	65,500,275	\$ 66	\$ 559,126	\$ —	\$ (542,388)	\$ 16,804
Exercise of stock options	5,088	—	3	—	—	3
Issuance of common stock for vested restricted stock units	198,244	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	155,106	—	160	—	—	160
Issuance of common stock to satisfy deferred purchase consideration	6,815,072	7	7,929	—	—	7,936
Stock-based compensation expense	—	—	4,596	—	—	4,596
Change in fair value of investments	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	(61,052)	(61,052)
<b>Balance as of June 30, 2022</b>	<u>72,673,785</u>	<u>\$ 73</u>	<u>\$ 571,814</u>	<u>\$ (1)</u>	<u>\$ (603,440)</u>	<u>\$ (31,554)</u>

	Six Months Ended June 30, 2021					
	Common Stock \$0.001 Par Value		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
<b>Balance as of December 31, 2020</b>	58,915,375	\$ 59	\$ 499,715	\$ 4	\$ (399,783)	\$ 99,995
At the market offering, net of offering costs of \$1,161	5,583,329	6	40,724	—	—	40,730
Exercise of stock options	88,888	—	248	—	—	248
Issuance of common stock for vested restricted stock units	107,780	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	74,847	—	431	—	—	431
Stock-based compensation expense	—	—	9,780	—	—	9,780
Change in fair value of investments	—	—	—	(4)	—	(4)
Net loss	—	—	—	—	(66,910)	(66,910)
<b>Balance as of June 30, 2021</b>	<u>64,770,219</u>	<u>\$ 65</u>	<u>\$ 550,898</u>	<u>\$ —</u>	<u>\$ (466,693)</u>	<u>\$ 84,270</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

**KALA PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

	Six Months Ended June 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net loss	\$ (61,052)	\$ (66,910)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	306	504
Non-cash operating lease cost	403	1,118
Loss on extinguishment of debt	—	5,395
Loss on fair value remeasurement of deferred purchase consideration	262	—
Gain on fair value remeasurement of contingent consideration	(1,047)	—
Amortization of debt discount and other non-cash interest	871	645
Stock-based compensation	4,721	9,412
Other non-cash (gains) losses	(27)	22
Change in operating assets and liabilities:		
Accounts receivable	1,523	(2,255)
Prepaid expenses and other current assets	3,467	826
Inventory	(1,584)	(5,387)
Accounts payable	5,643	1,250
Accrued expenses and other current liabilities	(2,670)	1,966
Lease liabilities and other long-term liabilities	(324)	(834)
Net cash used in operating activities	<u>(49,508)</u>	<u>(54,248)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment and other assets	(253)	(545)
Purchases of short-term investments	(4,992)	—
Proceeds from sales or maturities of short-term investments	3,000	71,250
Net cash (used in) provided by investing activities	<u>(2,245)</u>	<u>70,705</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debt, net of debt issuance costs of \$2,218	—	77,782
Payment of principal, prepayment premium and exit fee on debt	—	(78,010)
Proceeds from common stock offerings, net of offering costs	—	40,730
Payment of principal on finance lease	(19)	(17)
Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	163	679
Net cash provided by financing activities	<u>144</u>	<u>41,164</u>
<b>Net (decrease) increase in cash, cash equivalents and restricted cash:</b>	<u>(51,609)</u>	<u>57,621</u>
Cash, cash equivalents and restricted cash at beginning of period	94,878	89,756
Cash, cash equivalents and restricted cash at end of period	<u>\$ 43,269</u>	<u>\$ 147,377</u>
<b>Reconciliation of cash, cash equivalents and restricted cash:</b>		
Cash, cash equivalents, and restricted cash at end of period	\$ 43,269	\$ 147,377
Less restricted cash (Notes 9 and 10)	(700)	(2,742)
Cash and cash equivalents at end of period	<u>\$ 42,569</u>	<u>\$ 144,635</u>
<b>Non-cash investing and financing activities:</b>		
Purchases of property and equipment in accounts payable and accrued expenses	\$ 139	\$ 318
<b>Supplemental disclosure:</b>		
Cash paid for interest	\$ 3,315	\$ 3,030
Right-of-use assets obtained in exchange of operating lease obligations	424	1,218

See accompanying notes to these unaudited condensed consolidated financial statements.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

**Nature of Business**— Kala Pharmaceuticals, Inc. (the “Company”) was incorporated on July 7, 2009, and is a clinical-stage biopharmaceutical company focused on the research, development and commercialization of innovative therapies for rare diseases of the eye.

On November 15, 2021, the Company and its newly formed, direct wholly owned subsidiary, Ceres Merger Sub, Inc. (the “Merger Subsidiary”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Combangio, Inc. (“Combangio”) and Fortis Advisors LLC, solely in its capacity as Combangio Equityholder Representative in connection with the Merger Agreement, pursuant to which on November 15, 2021, the Merger Subsidiary merged with and into Combangio with Combangio surviving such merger and becoming a direct wholly owned subsidiary of the Company (the “Combangio Acquisition”). Combangio is a clinical-stage biotechnology company focused on developing regenerative biotherapeutics for severe ocular diseases based on mesenchymal stem cell secretomes (“MSC-S”) platform, including its lead product candidate, CMB-012 for the treatment of persistent corneal epithelial defects (“PCED”), which the Company now refers to as KPI-012. The Company expects to commercialize in the United States any of its product candidates that receive marketing approval.

In connection with the determination to focus its research and development efforts on KPI-012, the Company has ceased the development of its preclinical pipeline programs that are unrelated to the MSC-S platform, including the development of KPI-287, its receptor tyrosine kinase inhibitor, and its selective glucocorticoid receptor modulators.

The Company previously developed and commercialized two marketed products, EYSUVIS® (loteprednol etabonate ophthalmic suspension) 0.25%, for the short-term (up to two weeks) treatment of the signs and symptoms of dry eye disease, and INVELTYS® (loteprednol etabonate ophthalmic suspension) 1%, a topical twice-a-day ocular steroid for the treatment of post-operative inflammation and pain following ocular surgery. Both products applied a proprietary mucus-penetrating particle drug delivery technology, which the Company referred to as the AMPPLIFY® Drug Delivery Technology. On July 8, 2022, the Company closed the transaction (the “Alcon Transaction”), contemplated by the asset purchase agreement, dated as of May 21, 2022 (the “Asset Purchase Agreement”), by and between the Company, Alcon Pharmaceuticals Ltd. and Alcon Vision, LLC (together referred to as “Alcon”), pursuant to which Alcon purchased the rights to manufacture, sell, distribute, market and commercialize EYSUVIS and INVELTYS and to develop, manufacture, market and otherwise exploit the Company’s AMPPLIFY Drug Delivery Technology (collectively, the “Commercial Business”). Alcon also assumed certain liabilities with respect to the Commercial Business. See Note 3, “Assets Held for Sale”, and Note 17, “Subsequent Events”, for additional information about the Alcon Transaction.

The Company’s success is dependent upon its ability to develop, obtain regulatory approval for and commercialize KPI-012 and any other product candidate it may develop in the future, the success of its research and development efforts, whether it receives the commercial-based sales milestone payments from Alcon, its ability to raise additional capital when needed and, ultimately, attain profitable operations.

**Liquidity**— Since inception, the Company has incurred significant losses from operations and negative cash flows from operations. As of June 30, 2022, the Company had an accumulated deficit of \$603,440. As the Company commenced a full promotional launch of EYSUVIS in early January 2021 and commercially launched its first product, INVELTYS, in January 2019, the Company generated only limited revenues from product sales prior to the sale of its Commercial Business to Alcon in July 2022. The Company has financed its operations primarily through proceeds from its initial public offering of common stock, follow-on public common stock offerings and sales of its common stock under its at-the-market offering (“ATM Offering”) facility, private placements of preferred stock, borrowings under credit facilities and the Loan and Security Agreement with Oxford Finance LLC (“Oxford Finance”), convertible promissory notes and warrants. The Company has devoted substantially all of its financial resources and efforts to

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

research and development, including preclinical studies and clinical trials, and, prior to the sale of its Commercial Business to Alcon in July 2022, engaging in activities to launch and commercialize EYSUVIS and INVELTYS. As a result of the Combango Acquisition and the sale of the Company's Commercial Business to Alcon, the Company intends to devote substantial financial resources to the research and development and potential commercialization of KPI-012. Although the Company is eligible to receive up to \$325,000 in payments from Alcon based upon the achievement of specified commercial sales-based milestones with respect to EYSUVIS and INVELTYS, there can be no assurance when the Company may receive such milestone payments or the amount of milestone payments the Company may receive, if any. The Company expects to continue to incur significant expenses and operating losses for the foreseeable future, including in connection with its continued development, regulatory approval efforts and commercialization, if any, of KPI-012. The Company may never achieve or maintain profitability. Net losses may fluctuate significantly from quarter-to-quarter and year-to-year.

The Company expects that its cash, cash equivalents and short-term investments as of June 30, 2022, together with the upfront payment of \$60,000 received from Alcon upon the closing of the Alcon Transaction in July 2022 and the cash purchase by Alcon of \$5,026 for EYSUVIS and INVELTYS inventory on-hand at the closing of the sale of the Commercial Business, net of a \$40,000 prepayment to Oxford Finance, will enable it to fund its operating expenses, debt service obligations and capital expenditure requirements for at least twelve months from the date these condensed consolidated financial statements were issued. This evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the condensed consolidated financial statements are issued. As a result, the Company could deplete its available capital resources sooner than it currently expects. This evaluation also assumes that the Company remains in compliance with the covenants under the Loan Agreement (defined below), including as a result of the delisting of the Company's common stock from the Nasdaq Global Select Market. On May 24, 2022, the Company received a deficiency letter from the Nasdaq Stock Market LLC ("Nasdaq") notifying it that, for 30 consecutive business days, the bid price of its common stock had closed below the \$1.00 per share minimum bid price requirement for continued inclusion on Nasdaq pursuant to Nasdaq Listing Rule 5450(a)(1), and on July 6, 2022, the Company received another deficiency letter from Nasdaq notifying it that it was not in compliance with Nasdaq Listing Rule 5450(b)(2)(A), as the market value of its common stock was less than \$50,000,000 for the previous 30 consecutive business days. Each of the deficiency letters indicated that if the Company is unable to cure such deficiency or otherwise regain compliance with the Nasdaq Listing Rules within 180 calendar days from the date of the respective deficiency letter, the Company's common stock will be subject to delisting.

**COVID-19**— In order to safeguard the health of its employees from COVID-19, the Company is following, and will continue to follow, recommendations from the U.S. Centers for Disease Control and Prevention, as well as federal, state and local governments, regarding working-from-home practices for non-essential employees.

In addition, government restrictions have at times led to moratoria on elective ocular surgeries in many jurisdictions, which had significantly reduced the demand for INVELTYS, which is indicated for the treatment of post-operative inflammation and pain following ocular surgery. While surgeries have returned to historical levels, the COVID-19 pandemic had negatively impacted revenues from INVELTYS in prior periods. In addition, the COVID-19 pandemic has generally had an adverse impact on the launch of pharmaceutical products, and the Company believes the pandemic impacted the launch of EYSUVIS. The Company cannot predict whether the COVID-19 pandemic will impact Alcon's ability to commercialize EYSUVIS and INVELTYS, and as a result, it cannot be certain whether the COVID-19 pandemic might adversely affect when the Company may receive milestone payments from Alcon, which milestone payments the Company may receive and if the Company will receive any milestone payments at all. The Company also does not know the extent to which the COVID-19 pandemic will impact its development of KPI-012 or any other product candidate it develops. Any impact of COVID-19 on Alcon's commercialization efforts of EYSUVIS and INVELTYS, the Company's development of KPI-012 and any other product candidate it may develop in the future and the Company's operational and financial performance will depend on certain developments, including the length and severity of this pandemic, the timing and extent of any resurgence of the COVID-19 virus or any variant strains of the

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

virus, the availability and effectiveness of vaccines, and the impact of the foregoing on customers, employees, vendors and government agencies, all of which are uncertain and cannot be predicted. The Company cannot reasonably estimate the extent to which the disruption may materially impact its condensed consolidated results of operations or financial position.

**Use of Estimates**— The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense, and related disclosures. The Company bases estimates and assumptions on historical experience when available and on various factors that it believes to be reasonable under the circumstances. The Company evaluates its estimates and assumptions on an ongoing basis. Estimates and assumptions relied upon in preparing these condensed consolidated financial statements relate to, but are not limited to, revenue recognition, inventory, the present value of lease liabilities and the corresponding right-of-use assets, the fair value of warrants, contingent consideration, stock-based compensation, accrued expenses, assets held for sale and the recoverability of the Company’s net deferred tax assets and related valuation allowance. Actual results may differ from these estimates under different assumptions or conditions.

**Net Loss per Share**—Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common shares outstanding during the period and, if dilutive, the weighted average number of potential shares of common stock, including the assumed exercise of stock options and warrants and the issuance of unvested restricted stock units (“RSUs”) and performance-based restricted stock units (“PSUs”).

The weighted average number of common shares included in the computation of diluted net loss gives effect to all potentially dilutive common equivalent shares, including outstanding stock options, warrants and unvested RSUs and PSUs. Common stock equivalent shares are excluded from the computation of diluted net loss per share if their effect is antidilutive. In periods in which the Company reports a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. The Company reported a net loss attributable to common stockholders for the three and six months ended June 30, 2022 and 2021. (See Note 14).

**Unaudited Interim Financial Information**—The condensed consolidated financial statements of the Company included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from this report, as is permitted by such rules and regulations. The accompanying condensed consolidated financial statements reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position, results of operations, statement of stockholders’ equity and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the “Annual Report”).

The unaudited condensed consolidated financial statements include the accounts of Kala Pharmaceuticals, Inc. and its wholly owned subsidiaries, Kala Pharmaceuticals Security Corporation and Combangio, Inc. All intercompany transactions and balances have been eliminated in consolidation.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in the Annual Report. There have been no material changes to the significant accounting policies during the three months ended June 30, 2022, other than as described below.

***Assets Held for Sale***

The Company classifies its long-lived assets to be sold as held for sale, as specified by ASC 360, *Property, Plant, and Equipment*, in the period (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable, (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Company stops recording depreciation and amortization expense on long-lived assets. The Company assesses the fair value of a long-lived asset less any costs to sell at each reporting period and until the asset is no longer classified as held for sale.

As of June 30, 2022, certain assets met the criteria to be classified as held for sale in connection with the Alcon Transaction and the Company concluded that there was no impairment loss related to held for sale assets for the three or six months ended June 30, 2022. The Company reclassified the property and equipment, inventory, and certain other assets, which had a combined carrying value of \$22,507, to current assets held for sale on the condensed consolidated balance sheet as of June 30, 2022. Fair value was determined based on the estimated proceeds from the sale of the Commercial Business utilizing the purchase price as defined in the Asset Purchase Agreement. The sale of these assets was completed on July 8, 2022. See Note 3, "Assets Held for Sale", and Note 17, "Subsequent Events", for additional information. There were no assets that met the criteria for classification as held for sale as of December 31, 2021.

**Recent Accounting Pronouncements**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* ("ASU 2019-10"), which is effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be Smaller Reporting Companies ("SRCs") as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and for all other entities, including SRCs, for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of ASU 2016-13, beginning January 1, 2023, on its consolidated financial statements. The Company does not expect that the adoption of this standard will have a material impact on its condensed consolidated financial statements.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

### 3. ASSETS HELD FOR SALE

As of June 30, 2022, the Company presented assets to be disposed of in connection with the Alcon Transaction that met the criteria as held for sale as a single asset in its condensed consolidated financial statements. The combined net carrying amount of \$22,507 for assets held for sale is equal to the lower of the carrying value and estimated fair value less costs to sell. The Company concluded that the agreed-upon transaction price of the Commercial Business approximates fair value, which exceeded the carrying value of the related assets as of June 30, 2022. As such, the assets related to the sale were recorded and presented at their carrying value and the Company determined that there was no impairment loss related to held for sale assets for the three months and six months ended June 30, 2022. The Company classified the combined carrying value of all assets that met the criteria of held for sale to current assets held for sale on the condensed consolidated balance sheet. Pursuant to ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*, the Company recorded \$758 of transaction costs incurred related to the Alcon Transaction during the three and six months ended June 30, 2022 to selling, general and administrative expense on the condensed consolidated statement of operations. The Company has determined that the disposition of these assets does not qualify for reporting as a discontinued operation as it was not considered a component of an entity that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. There were no assets that met the criteria to be presented as held for sale as of December 31, 2021.

The following is a summary of the major categories of assets that have been reclassified to held for sale on the condensed consolidated balance sheet as of June 30, 2022:

	<u>June 30,</u> <u>2022</u>
Inventories	\$ 19,651
Prepaid expenses and other current assets	594
Property and equipment, net	1,828
Restricted cash and other long-term assets	434
Total assets held for sale	<u>\$ 22,507</u>

See Note 2, “Summary of Significant Accounting Policies”, and Note 17, “Subsequent Events”, for further information on the sale of the Company’s Commercial Business.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company from time to time has short-term investments which are considered financial instruments that are measured on a recurring basis. Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and its own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.



**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company's financial instruments as of June 30, 2022 consisted primarily of cash equivalents, short-term investments in U.S. treasury securities and contingent consideration. The Company's financial instruments as of December 31, 2021 consisted primarily of cash equivalents and contingent consideration. Cash equivalents, short-term investments and contingent consideration are reported at their respective fair values on the Company's condensed consolidated balance sheets. See Note 5, "Investments" for additional information.

The Company acquired Combangio in November 2021 and in connection with the closing of the Combangio Acquisition, the Company agreed to issue an aggregate of 7,788,637 shares (the "Deferred Purchase Consideration") of the Company's common stock to former Combangio stockholders and other equityholders (the "Combangio Equityholders") consisting of (i) an aggregate of 6,815,072 shares of common stock issued on January 3, 2022 (the "Upfront Shares") and (ii) an aggregate of 973,565 shares of common stock that have been held back by the Company and will be issuable subject to the terms of the Merger Agreement to the Combangio Equityholders on the date that is fifteen months after the closing (the "Escrow Release Date"). The Company established liabilities for the Deferred Purchase Consideration. The Deferred Purchase Consideration related to the Combangio Acquisition is measured at fair value each reporting period using Level 3 unobservable inputs. The fair value of the Deferred Purchase Consideration was based on the fair value of the underlying stock and a discount for lack of marketability. Changes in these estimates and assumptions could have a significant impact on the fair value of the Deferred Purchase Consideration. Any change in the fair value of the Deferred Purchase Consideration is included in loss from operations in the condensed consolidated statements of operations and comprehensive loss. During the six months ended June 30, 2022, the Company settled \$7,935 of the liability upon the issuance of the Upfront Shares. The change in the fair value of the Deferred Purchase Consideration was a gain of \$789 and a loss of \$262 during the three and six months ended June 30, 2022, respectively, primarily due to the change in the fair value of the underlying stock price and is recognized as the (gain) loss on fair value remeasurement of deferred purchase consideration in the condensed consolidated statements of operations and comprehensive loss.

Additionally, the purchase price in connection with the Combangio Acquisition included potential future payments of up to \$105,000 that are contingent upon the achievement of specified development, regulatory and commercialization milestones and are required to be recorded at fair value. Contingent consideration liabilities related to acquisitions are measured at fair value each reporting period using Level 3 unobservable inputs. The fair values of the contingent consideration liabilities were based on a probability-adjusted discounted cash flow calculation using Level 3 fair value measurements. Changes in these estimates and assumptions could have a significant impact on the fair value of the contingent consideration liabilities. Any changes in the fair value of these contingent consideration liabilities are included in loss from operations in the condensed consolidated statements of operations and comprehensive loss. During the three and six months ended June 30, 2022, the change in fair value of the contingent consideration liabilities was \$59 and \$1,047, respectively, primarily due to changes in discount rates, partially offset by the passage of time, and were recognized as a gain on fair value remeasurement of contingent consideration in the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2022.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The following tables set forth the fair value of the Company's financial instruments by level within the fair value hierarchy as of June 30, 2022 and December 31, 2021:

	June 30, 2022			
	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 34,184	\$ 34,184	\$ —	\$ —
Short-term investments	1,999	1,999	—	—
<b>Total Assets</b>	<b>\$ 36,183</b>	<b>\$ 36,183</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Deferred purchase consideration	\$ 219	\$ —	\$ —	\$ 219
Contingent consideration	7,611	—	—	7,611
<b>Total Liabilities</b>	<b>\$ 7,830</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,830</b>

  

	December 31, 2021			
	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 86,135	\$ 86,135	\$ —	\$ —
<b>Total Assets</b>	<b>\$ 86,135</b>	<b>\$ 86,135</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Deferred purchase consideration	\$ 7,892	\$ —	\$ —	\$ 7,892
Contingent consideration	8,658	—	—	8,658
<b>Total Liabilities</b>	<b>\$ 16,550</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 16,550</b>

The following tables summarize quantitative information and assumptions pertaining to the fair value measurement of the Level 3 inputs as of June 30, 2022 and December 31, 2021:

Financial Instrument	Fair Value at June 30, 2022	Valuation Technique	Unobservable Input	Range (Average)
Deferred purchase consideration	\$ 219	Option pricing model	Discount for lack of marketability	25%
Contingent consideration	\$ 7,611	Probability-adjusted discounted cash flow model	Period of expected milestone achievement	2022 - 2027 (2025)
			Probabilities of achievement	18.9% - 90.0% (42.5%)
			Discount rate	17.5%
			Discount for lack of marketability	20.0%

  

Financial Instrument	Fair Value at December 31, 2021	Valuation Technique	Unobservable Input	Range (Average)
Deferred purchase consideration	\$ 7,892	Option pricing model	Discount for lack of marketability	15.0% - 25.0% (20.0%)
Contingent consideration	\$ 8,658	Probability-adjusted discounted cash flow model	Period of expected milestone achievement	2022 - 2027 (2025)
			Probabilities of achievement	18.9% - 90.0% (42.5%)
			Discount rate	10.3%
			Discount for lack of marketability	12.0%

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The following table summarizes the changes in the Deferred Purchase Consideration and contingent consideration liabilities measured at fair value using Level 3 inputs for the three and six months ended June 30, 2022:

Deferred purchase consideration

Balance at January 1, 2022	\$	7,892
Fair value adjustments		1,051
Settlements		(7,935)
Balance at March 31, 2022	\$	1,008
Fair value adjustments		(789)
Balance at June 30, 2022	\$	219

Contingent consideration

Balance at January 1, 2022	\$	8,658
Fair value adjustments		(988)
Balance at March 31, 2022	\$	7,670
Fair value adjustments		(59)
Balance at June 30, 2022	\$	7,611

During the three and six months ended June 30, 2022 and the year ended December 31, 2021, there were no transfers between Level 1, Level 2, and Level 3.

## 5. INVESTMENTS

Investments by security type consisted of the following as of June 30, 2022:

	June 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ 2,000	\$ —	\$ (1)	\$ 1,999
Total	\$ 2,000	\$ —	\$ (1)	\$ 1,999

As of June 30, 2022, all of the Company's investments had a contractual maturity within one year. The fair value of all of the Company's investments are classified as short-term on its condensed consolidated balance sheets. The Company held no short-term investments as of December 31, 2021.

## 6. REVENUE & ACCOUNTS RECEIVABLE, NET

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Under ASC Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to be entitled in exchange for those goods or services. The Company performs the following five steps to recognize revenue under ASC Topic 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only recognizes revenue when it is probable that it will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

*Product revenues, net*

The Company sells EYSUVIS and INVELTYS primarily to wholesalers in the United States (collectively, “Customers”). These Customers subsequently resell the Company’s products to specialty and other retail pharmacies. In addition to agreements with Customers, the Company enters into arrangements with third-party payors that provide for government-mandated and/or privately-negotiated rebates, chargebacks and discounts for the purchase of the Company’s products.

The goods promised in the Company’s product sales contracts represent a single performance obligation. The Company recognizes revenue from product sales at the point the Customer obtains control of the product, which occurs upon delivery. The transaction price (“net sales price”) that is recognized as revenue for product sales includes the selling price to the Customer and an estimate of variable consideration. Components of variable consideration include prompt pay and other discounts, product returns, government rebates, third-party payor rebates, coverage gap rebates, incentives such as patient co-pay assistance, and other fees paid to Customers and other third-party payors where a distinct good or service is not received. Variable consideration is recorded on the condensed consolidated balance sheet as either a reduction of accounts receivable, if payable to a Customer, or as a current liability, if payable to a third-party other than a Customer. The Company considers all relevant information when estimating variable consideration such as assessment of its current and anticipated sales and demand forecasts, actual payment history, information from third parties regarding the payor mix for products, information from third parties regarding the units remaining in the distribution channel, specific known market events and trends, industry data and current contractual and statutory requirements that are reasonably available. The Company includes estimated amounts for variable consideration in the net sales price to the extent it is determined probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

Payment terms with Customers do not exceed one year and, therefore, the Company does not account for a significant financing component in its arrangements. The Company expenses incremental cost of obtaining a contract with a Customer when incurred as the period of benefit is generally less than one year.

*Reserves for Variable Consideration:*

*Trade Discounts and Allowances*

The Company provides its Customers with certain trade discounts and allowances including discounts for prompt payments and other discounts and fees paid for distribution, data and administrative services. These discounts and fees are based on contractually-determined percentages and are recorded as a reduction of revenue and accounts receivable in the period in which the related product revenue is recognized.

*Chargebacks*

Chargebacks for fees and discounts to providers represent the estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices charged to Customers who directly purchase the product from the Company. Customers charge the Company for the difference between what they pay for the product and the ultimate selling price to the qualified healthcare providers. These components of variable consideration are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and accounts receivable. Reserves for chargebacks consist of credits the Company expects to issue for units that remain in the distribution channel at the end of each reporting period and that the Company expects will be sold to qualified healthcare providers, as well as chargebacks that Customers have claimed, but for which the Company has not yet issued a credit.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

*Product Returns*

Consistent with industry practice, the Company has a product returns policy that provides Customers right of return for product purchased within a specified period prior to and subsequent to the product's expiration date. The Company estimates the amount of its products that may be returned and presents this amount as a reduction of revenue in the period the related product revenue is recognized, in addition to establishing a liability. The Company's estimates for product returns are based upon available industry data and its own sales information, including its visibility into the inventory remaining in the distribution channel as well as historical returns, which develop over time.

*Commercial Payor and Medicare Part D Rebates*

The Company contracts with certain third-party payors, primarily pharmacy benefit managers ("PBMs") and health plans ("Plans"), for the payment of rebates with respect to utilization of its product. These rebates are based on contractual percentages applied to the amount of product prescribed to patients who are covered by the PBMs or the Plans with which it contracts. The Company estimates the rebates for commercial and Medicare Part D payors based on the contractual discount percentage, the various payor mix for EYSUVIS and INVELTYS as well as future rebates that will be made for product that has been recognized as revenue but remains in the distribution channel at the end of each reporting period. The Company also estimates the number of patients in the prescription drug coverage gap for whom it will owe an additional liability under the Medicare Part D program. Such estimates are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

*Government Rebates*

The Company is subject to discount obligations under Medicaid and other government programs. For Medicaid, reserves are based on actual payment history, and estimates of future Medicaid beneficiary utilization applied to the Medicaid unit rebate formula established by the Centers for Medicaid and Medicare Services. The Company's liability for these rebates consists of estimates of claims for the current period and estimated future claims that will be made for product that has been recognized as revenue but remains in the distribution channel at the end of each reporting period. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

*Co-pay Assistance Programs*

The Company offers co-pay assistance programs (the "co-pay programs"), which are intended to provide financial assistance to patients who may or may not be covered by commercial insurance or, with respect to INVELTYS, who opt out of Medicare Part D programs. The calculation of accruals for the co-pay programs is based on actual claims processed during the period as well as an estimate of the number and cost per claim that the Company expects to receive associated with product that has been recognized as revenue but remains in the distribution channel at the end of each reporting period. Allowances for estimated co-pay claims are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The following tables summarize activity in each of the Company's product revenue provision and allowance categories for the three and six months ended June 30, 2022 and 2021:

	Trade Discounts, Allowances and Chargebacks (1)	Product Returns (2)	Rebates and Incentives (3)
Balance as of December 31, 2021	\$ 2,672	\$ 1,140	\$ 11,280
Provision related to current period sales	2,133	210	13,359
Changes in estimate related to prior period sales	(1)	(138)	(242)
Credit/payments made	(3,261)	(415)	(10,108)
Balance as of March 31, 2022	<u>\$ 1,543</u>	<u>\$ 797</u>	<u>\$ 14,289</u>
Provision related to current period sales	2,602	214	15,413
Changes in estimate related to prior period sales	(41)	(199)	(107)
Credit/payments made	(2,041)	(112)	(14,878)
Balance as of June 30, 2022	<u>\$ 2,063</u>	<u>\$ 700</u>	<u>\$ 14,717</u>

	Trade Discounts, Allowances and Chargebacks (1)	Product Returns (2)	Rebates and Incentives (3)
Balance as of December 31, 2020	\$ 1,157	\$ 600	\$ 4,904
Provision related to current period sales	2,201	245	10,216
Changes in estimate related to prior period sales	3	30	(26)
Credit/payments made	(1,823)	(419)	(7,880)
Balance as of March 31, 2021	<u>\$ 1,538</u>	<u>\$ 456</u>	<u>\$ 7,214</u>
Provision related to current period sales	2,103	356	11,193
Changes in estimate related to prior period sales	30	142	(353)
Credit/payments made	(2,260)	(253)	(9,801)
Balance as of June 30, 2021	<u>\$ 1,411</u>	<u>\$ 701</u>	<u>\$ 8,253</u>

- (1) Trade discounts, allowances and chargebacks include fees for distribution service fees, prompt pay and other discounts, and chargebacks. Estimated trade discounts, allowances and chargebacks are deducted from gross revenue at the time revenues are recognized and are recorded as a reduction to accounts receivable on the Company's condensed consolidated balance sheets.
- (2) Estimated provisions for product returns are deducted from gross revenues at the time revenues are recognized and are included in accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets.
- (3) Rebates and incentives include managed care rebates, government rebates, co-pay program incentives, and sales incentives and allowances. Estimated provisions for rebates and discounts are deducted from gross revenues at the time revenues are recognized and are included in accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets.

**Accounts Receivable, net**

Accounts receivable are reported on the condensed consolidated balance sheets at outstanding amounts due from customers for product sales. The Company deducts sales discounts for prompt payments and other discounts, contractual fees for service arrangements and chargebacks from accounts receivable. The Company evaluates the collectability of accounts receivable on a regular basis, by reviewing the financial condition and payment history of customers, an overall review of collections experience on other accounts, and economic factors or events expected to

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

affect future collections experience. An allowance for doubtful accounts is recorded when a receivable is deemed to be uncollectible.

The Company recorded no allowance for doubtful accounts as of June 30, 2022 or December 31, 2021. The Company recorded an allowance of \$2,063 and \$2,672 for expected sales discounts, related to prompt pay discounts and other discounts, contractual fee for service arrangements and chargebacks, to wholesalers and distributors as of June 30, 2022 and December 31, 2021, respectively.

## 7. INVENTORY

Inventory held and used consisted of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Raw materials	\$ —	\$ 1,328
Work in progress	—	9,799
Finished goods	25	7,090
Total inventory	<u>\$ 25</u>	<u>\$ 18,217</u>

As of June 30, 2022, the Company had \$25 of current inventory and \$19,651 of inventory classified as held for sale (see Note 3, "Assets Held for Sale"). As of December 31, 2021, the Company had \$8,639 of current inventory and \$9,578 of long-term inventory.

## 8. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Accrued revenue reserves (1)	\$ 7,320	\$ 10,300
Compensation and benefits	5,480	6,324
Commercial costs	2,293	2,134
Professional services	1,147	881
Contract manufacturing	1,075	396
Development costs	522	127
Other	469	824
Accrued expenses	<u>\$ 18,306</u>	<u>\$ 20,986</u>

(1) There were additional revenue reserves included in accounts payable of \$8,097 and \$2,120, as of June 30, 2022 and December 31, 2021, respectively.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**9. LEASES**

**Operating leases**

*Terminated Watertown Lease*

On February 28, 2018, the Company entered into a lease agreement with 480 Arsenal Group LLC for the lease of a portion of the building located at 490 Arsenal Way, Watertown, Massachusetts (the “Watertown Lease”). The initial term of the Watertown Lease was eight years with an option to extend for an additional five years, which were recognized as part of the Company’s right-of-use asset and lease liability. The Company occupied the premises in Watertown in early 2019 as its corporate headquarters and for research and development. The lease commencement date was November 15, 2018 and the Company concluded that it controlled the space as of the lease commencement date.

On November 12, 2021, the Company entered into a lease termination agreement (the “Lease Termination Agreement”) with the landlord of the Watertown Lease, which Lease Termination Agreement was amended on December 22, 2021, which modified the lease to accelerate the lease termination date to January 11, 2022 (the “Lease Termination Date”). Under the terms of the Lease Termination Agreement, the Company was entitled to receive a payment of \$2,000 due from the landlord in January 2022, which was collected during the six months ended June 30, 2022. The Company was obligated to make rent payments outlined in the lease agreement until the Lease Termination Date.

In connection with the signing of the Lease Termination Agreement, the Company remeasured the lease liability and right-of-use asset and recognized a gain of approximately \$1,311, which was included in gain on lease modification in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2021. Additionally, pursuant to the Lease Termination Agreement, \$2,042 of restricted cash was released during the six months June 30, 2022 that was pledged as collateral under a letter of credit with cash on deposit. The restricted cash was included within short-term restricted cash on the consolidated balance sheet as of December 31, 2021.

*Vehicle Fleet lease*

During the year ended December 31, 2019, the Company entered into a master fleet lease agreement (the “Vehicle Fleet Lease”). The Vehicle Fleet Lease commenced upon the delivery of the initial vehicles in March 2019 and has been subject to modifications as the number of leased vehicles has increased or decreased. As of June 30, 2022 and in connection with the closing of the Alcon Transaction, the Company initiated the termination of the Vehicle Fleet Lease and remeasured the right-of-use asset and corresponding lease liability for the estimated lease term of two months which were *de minimis*. In connection with the Vehicle Fleet Lease, the Company issued a letter of credit for \$450, which is reported as restricted cash on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021.



**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The components of lease expense and related cash flows were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Lease cost</b>				
Operating lease cost	\$ 219	\$ 1,268	\$ 395	\$ 2,484
Short-term lease cost	54	—	94	—
Variable lease cost	179	584	626	1,093
<b>Total lease cost</b>	<b>\$ 452</b>	<b>\$ 1,852</b>	<b>\$ 1,115</b>	<b>\$ 3,577</b>
Operating cash outflows from operating leases	\$ 251	\$ 1,659	\$ 970	\$ 3,243

The weighted average remaining lease term and weighted average discount rate of operating leases are as follows:

	June 30,	December 31,
	2022	2021
Weighted average remaining lease term	0.8 years	2.4 years
Weighted average discount rate	10.2%	2.6%

**10. DEBT**

*Athyrium Credit Facility*

On October 1, 2018, the Company entered into a credit agreement (the “Athyrium Credit Facility”) with Athyrium Opportunities III Acquisition LP (“Athyrium”) for up to \$110,000. The Athyrium Credit Facility provided for a Term Loan A in the aggregate principal amount of \$75,000 (the “Term Loan A”), and a Term Loan B in the aggregate principal amount of \$35,000 (the “Term Loan B”). On October 1, 2018, the Company borrowed the entire principal amount of the Term Loan A, which bore interest at a rate of 9.875% per annum, with quarterly, interest-only payments until the fourth anniversary of the Term Loan A. The maturity date of the Athyrium Credit Facility was October 1, 2024, the six-year anniversary of the close.

As of March 31, 2021, the unpaid principal balance on the Athyrium Credit Facility was \$75,000. On May 4, 2021, the Company repaid all amounts owed under the Athyrium Credit Facility and terminated all commitments by Athyrium to extend further credit thereunder and all guarantees and security interests granted by the Company to the lenders thereunder. In connection with the termination of the Athyrium Credit Facility, the Company paid to the lenders a prepayment premium of \$2,250 and an exit fee of \$750. The transaction resulted in a loss on extinguishment of debt of \$5,395 for the year ended December 31, 2021, consisting of the prepayment premium, the unamortized debt discount and issuance costs and the unaccreted exit fee. Additionally, in May 2021, the Company released \$10,000 of restricted cash previously recorded to comply with a financial covenant required by the Athyrium Credit Facility.

*Loan and Security Agreement*

On May 4, 2021 (the “Closing Date”), the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Oxford Finance, in its capacity as lender (in such capacity, the “Lender”), and in its capacity as collateral agent (in such capacity, the “Agent”), pursuant to which a term loan of up to an aggregate principal amount of \$125,000 is available to the Company, consisting of (i) a tranche A term loan that was disbursed on the Closing Date in the aggregate principal amount of \$80,000; (ii) a contingent tranche B term loan in the aggregate principal amount of \$20,000 available to the Company through June 30, 2023 and within 90 days of the Company achieving trailing 6-month

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

product revenue equal to or greater than \$75,000, subject to certain other terms and conditions; and (iii) a contingent tranche C term loan in the aggregate principal amount of \$25,000 available to the Company through December 31, 2023 and within 90 days of the Company achieving trailing 6-month product revenue equal to or greater than \$100,000, subject to certain other terms and conditions. The Company utilized substantially all of the proceeds from the tranche A term loan to repay the Athyrium Credit Facility (as more fully described above).

The term loans bear interest at a floating rate equal to the greater of (i) 30-day LIBOR and (ii) 0.11%, plus 7.89%. The Loan Agreement, prior to the Loan Amendment (as defined below), provided for interest-only payments until December 1, 2024 if neither the tranche B term loan nor the tranche C term loan are made, and until June 1, 2025 if either the tranche B term loan or the tranche C term loan is made (the "Amortization Date"). The aggregate outstanding principal balance of the term loans were required to be repaid in monthly installments starting on the Amortization Date based on a repayment schedule equal to (i) 18 months if neither the tranche B term loan nor the tranche C term loan is made and (ii) 12 months if either the tranche B term loan or the tranche C term loan is made. All unpaid principal and accrued and unpaid interest with respect to each term loan is due and payable in full on May 1, 2026 (the "Maturity Date").

The Company paid a facility fee of \$400 on the Closing Date and has agreed to pay a facility fee of \$100 upon closing of the tranche B term loan and a \$125 facility fee upon the closing of the tranche C term loan. The Company will be required to make a final payment fee of 7.00% of the original principal amount of any funded term loan payable on the earlier of (i) the prepayment of the term loan in full or (ii) the Maturity Date. At the Company's option, the Company may elect to make partial repayments of the term loan to the Lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid.

In connection with its entry into the Loan Agreement, the Company granted the Agent a security interest in substantially all of the Company's personal property owned or later acquired, including intellectual property and the Commercial Business. The Loan Agreement also contains customary representations and warranties and affirmative and negative covenants, as well as customary events of default, including the delisting of its common stock from The Nasdaq Global Select Market. On May 24, 2022, the Company received a deficiency letter from the Nasdaq Stock Market LLC ("Nasdaq") notifying it that, for 30 consecutive business days, the bid price of its common stock had closed below the \$1.00 per share minimum bid price requirement for continued inclusion on Nasdaq pursuant to Nasdaq Listing Rule 5450(a)(1), and on July 6, 2022, the Company received another deficiency letter from Nasdaq notifying it that it was not in compliance with Nasdaq Listing Rule 5450(b)(2)(A), as the market value of its common stock was less than \$50,000,000 for the previous 30 consecutive business days. Each of the deficiency letters indicated that if the Company is unable to cure such deficiency or otherwise regain compliance with the Nasdaq Listing Rules within 180 calendar days from the date of the respective deficiency letter, the Company's common stock will be subject to delisting. Certain of the customary negative covenants limit the ability of the Company and certain of its subsidiaries, among other things, to incur future debt, grant liens, make investments, make acquisitions, distribute dividends, make certain restricted payments and sell assets, subject in each case to certain exceptions.

The Loan Agreement includes features requiring (i) additional interest rate upon an event of default accrued at an additional 5%, and (ii) the Lender's right to declare all outstanding principal and interest immediately payable upon an event of default. These two features were analyzed and determined to be embedded derivatives to be valued as separate financial instruments. These embedded derivatives were bundled and valued as one compound derivative in accordance with the applicable accounting guidance for derivatives and hedging transactions. The Company determined that, due to the unlikely event of default, the embedded derivatives have a *de minimis* value as of June 30, 2022. The derivative liability will be remeasured at fair value at each reporting date, with changes in fair value being recorded as other income (expense) in the condensed consolidated statements of operations and comprehensive loss.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

In addition, in connection with the Loan Agreement, the Company paid certain fees to the Lender and other third-party service providers. The fees paid to the Lender were recorded as a debt discount while the fees paid to other third-party service providers were recorded as debt issuance cost. These costs are being amortized using the effective interest method over the term of the Loan Agreement. The amortization of debt discount and debt issuance cost is included in interest expense within the condensed consolidated statements of operations and comprehensive loss. As of June 30, 2022, the effective interest rate was 11.43%, which takes into consideration the non-cash accretion of the exit fee and the amortization of the debt discount and issuance costs.

On May 21, 2022, in connection with its entry into the Asset Purchase Agreement, the Company entered into an amendment to the Loan Agreement (the "Loan Amendment"). Pursuant to the Loan Amendment, the Lender and Agent consented to the entry by the Company into the Asset Purchase Agreement and the sale of the Commercial Business to Alcon and agreed to release its liens on the Commercial Business in consideration for the payment by the Company at the closing of the Alcon Transaction of an aggregate amount of \$40,000 (the "Prepayment") to the Lender and Agent, representing a partial prepayment of principal in the amount of \$36,697 of the \$80,000 principal amount outstanding under the term loan advanced by the Lender under the Loan Agreement, plus a prepayment fee of \$734 and a final payment fee of \$2,569. In addition, the Company was required to pay all accrued and unpaid interest on the principal amount of the term loan being repaid.

In addition, under the Loan Amendment, the Lender and Agent agreed that, following the closing of the Alcon Transaction and the Prepayment, the Amortization Date would be extended from December 1, 2024 to January 1, 2026, at which time the aggregate principal balance of the term loan then outstanding under the Loan Agreement is required to be repaid in five monthly installments. Pursuant to the Loan Amendment, the Company may also make partial prepayments of the term loan to the Lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid.

On July 8, 2022, the Prepayment was paid in connection with the closing of Alcon Transaction, and as such, the Amortization Date was extended to January 1, 2026. See Note 17, "Subsequent Events" for more information.

During the three months ended June 30, 2022, the Company recognized interest expense of \$2,124 for the Loan Agreement and during the three months ended June 30, 2021, the Company recognized interest expense of \$2,077 for the Loan Agreement and Athyrium Credit Facility. This consisted of amortization of debt discount of \$116 and \$150 for the three months ended June 30, 2022 and June 30, 2021, respectively, accretion of the final payment fee of \$323 and \$217 for the three months ended June 30, 2022 and June 30, 2021, respectively, and the contractual coupon interest expense of \$1,685 and \$1,710 for the three months ended June 30, 2022 and June 30, 2021, respectively. During the six months ended June 30, 2022, the Company recognized interest expense of \$4,156 for the Loan Agreement and during the six months ended June 30, 2021, the Company recognized interest expense of \$4,206 for the Loan Agreement and Athyrium Credit Facility. This consisted of amortization of debt discount of \$229 and \$390 for the six months ended June 30, 2022 and June 30, 2021, respectively, accretion of the final payment fee of \$642 and \$254 for the six months ended June 30, 2022 and June 30, 2021, respectively, and the contractual coupon interest expense of \$3,285 and \$3,562 for the six months ended June 30, 2022 and June 30, 2021, respectively.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The components of the carrying value of the debt as of June 30, 2022 and December 31, 2021 are detailed below:

	June 30, 2022	December 31, 2021
Principal loan balance	\$ 80,000	\$ 80,000
Unamortized debt discount and issuance cost	(1,698)	(1,927)
Cumulative accretion of exit fee	1,498	856
Long-term debt, net	<u>\$ 79,800</u>	<u>\$ 78,929</u>

The annual principal payments due under the Loan Agreement as of June 30, 2022 were as follows:

Years Ending December 31,	
2022 (remaining six months)	\$ —
2023	—
2024	4,445
2025	53,333
2026	22,222
Total (1)	<u>\$ 80,000</u>

(1) In connection with the entry into the Loan Amendment, the remaining principal payments all became due in the year ended December 31, 2026.

#### 11. WARRANTS

The following table summarizes the common stock warrants outstanding as of June 30, 2022 and December 31, 2021, each exercisable into the number of shares of common stock set forth below as of the specified dates:

Issued	Exercise Price	Expiration Date	Exercisable From	Shares Exercisable at	
				June 30, 2022	December 31, 2021
2014	\$ 7.50	November 2024	July 2017	16,000	16,000
2016	\$ 8.27	October 2026	September 2017	14,512	14,512
2018	\$ 12.18	October 2025	October 2018	184,660	184,660
				<u>215,172</u>	<u>215,172</u>

#### 12. EQUITY FINANCINGS

On August 9, 2018, the Company filed a shelf registration statement on Form S-3 with the SEC, which was declared effective on August 27, 2018 (the “2018 Shelf Registration”) and registered up to \$250,000 of a variety of securities, including common stock. Under the 2018 Shelf Registration, which expired in August 2021, the Company issued an aggregate of 30,549,976 shares of common stock, including under the ATM Offering, resulting in aggregate gross proceeds of \$231,666.

On May 7, 2020, the Company filed a shelf registration statement on Form S-3 with the SEC, which was declared effective on May 19, 2020 (the “2020 Shelf Registration”). Under the 2020 Shelf Registration, the Company may offer and sell up to \$350,000 of a variety of securities including common stock, preferred stock, warrants, depositary shares, debt securities or units during the three-year period that commenced upon the 2020 Shelf Registration becoming effective. In connection with the filing of the 2020 Shelf Registration, the Company entered into an amended and restated sales agreement with Jefferies pursuant to which it may issue and sell, from time to time, up to an aggregate

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

of \$75,000 of its common stock under its ATM Offering through Jefferies, as a sales agent. Through December 31, 2021, the Company issued and sold an aggregate of 8,581,257 shares of its common stock under the ATM Offering, resulting in net proceeds of \$61,843, which included 837,257 and 5,583,329 shares of common stock issued and sold during the three and six months ended June 30, 2021, respectively, resulting in net proceeds of \$6,021 and \$40,730, respectively. The Company did not sell any shares of its common stock under the ATM Offering during the six months ended June 30, 2022. As of June 30, 2022, there were \$11,344 of shares of common stock remaining under the ATM Offering and, excluding the shares of common stock that may be offered under the ATM Offering, there was approximately \$275,000 of securities available to be issued under the 2020 Shelf Registration.

### 13. STOCK-BASED COMPENSATION

During the six months ended June 30, 2022, the Company granted options for the purchase of 4,001,408 shares of common stock, including options with performance criteria as described below, options to directors and inducement grant options to purchase 65,000 shares of common stock to new employees made outside of our 2017 Equity Incentive Plan and 345,865 restricted stock units. In January 2022, employees of the Company purchased an aggregate of 155,106 shares under the Employee Stock Purchase Plan.

The assumptions used in determining fair value of the stock options granted during the six months ended June 30, 2022 are as follows:

	<u>Six Months Ended June 30, 2022</u>		
Expected volatility	72.9%	–	84.3%
Risk-free interest rate	1.43%	–	3.36%
Expected dividend yield		0%	
Expected term (in years)	5.50	–	6.10

During the six months ended June 30, 2022, the weighted average grant-date fair value of options granted was \$0.83.

In January 2022, the Company granted stock options to purchase up to 742,500 shares of common stock to certain executives tied to certain performance criteria. The options will vest, if at all, upon satisfying the performance criteria. The Company has assessed the probability of achievement of the performance criteria and has recorded related stock compensation expense to the extent they are determined to be probable as of June 30, 2022.

In June 2020, the Company issued 693,537 PSUs to certain executives and other employees tied to certain performance criteria, which vested as to 50% of the PSUs in October 2021 on the first anniversary of satisfying the performance criteria and the remaining 50% will vest upon the second anniversary of satisfying the performance criteria. The Company has determined that the performance criteria for these awards has been achieved but not all of the awards have vested as of June 30, 2022. As of June 30, 2022, a total of 853,478 RSUs and PSUs were outstanding, consisting of 680,478 unvested shares and 173,000 vested and deferred shares by directors.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

Stock-based compensation expense was classified in the condensed consolidated statements of operations and comprehensive loss as follows for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of product revenues	\$ 114	\$ 37	\$ 162	\$ 71
Research and development	322	986	847	1,952
Selling, general and administrative	1,480	3,687	3,712	7,389
Total	<u>\$ 1,916</u>	<u>\$ 4,710</u>	<u>\$ 4,721</u>	<u>\$ 9,412</u>

**14. LOSS PER SHARE**

Basic and diluted net loss per share attributable to common stockholders was calculated as follows for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Numerator:</b>				
Net loss attributable to common stockholders	<u>\$ (28,111)</u>	<u>\$ (36,498)</u>	<u>\$ (61,052)</u>	<u>\$ (66,910)</u>
<b>Denominator:</b>				
Weighted-average common shares outstanding, basic and diluted (1)	<u>73,676,819</u>	<u>64,554,506</u>	<u>73,658,924</u>	<u>63,113,194</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.38)</u>	<u>\$ (0.57)</u>	<u>\$ (0.83)</u>	<u>\$ (1.06)</u>

(1) Included in the weighted-average common shares outstanding, basic and diluted for the three and six months ended June 30, 2022 is an aggregate of 973,565 shares of common stock that have been held back by the Company and will be issuable subject to the terms of the Merger Agreement to the Combangio Equityholders on the Escrow Release Date of February 15, 2023.

The following potential common stock equivalents, presented based on amounts outstanding at each period end, were excluded from the calculation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect for the three and six months ended June 30:

	2022	2021
Options to purchase shares of common stock	12,414,950	10,043,748
Unvested RSUs and PSUs	680,478	1,282,830
Unexercised warrants	215,172	215,172
	<u>13,310,600</u>	<u>11,541,750</u>

**15. INCOME TAXES**

The Company did not record a provision or benefit for income taxes during the three and six months ended June 30, 2022 and 2021. The Company continues to maintain a full valuation allowance for its U.S. federal and state deferred tax assets.

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

The Company has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets. Management has considered the Company's history of cumulative net losses incurred since inception and its generation of limited revenue from product sales since inception and has concluded that it is more likely than not that the Company will not realize the benefits of the deferred tax assets. Management reevaluates the positive and negative evidence at each reporting period.

Realization of the future tax benefits is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended, certain substantial changes in the Company's ownership, including a sale of the Company, or significant changes in ownership due to sales of equity, may have limited, or may limit in the future, the amount of net operating loss carryforwards, which could be used annually to offset future taxable income. The Company previously completed an analysis and determined that an ownership change has materially limited the net operating loss carryforwards and research and development tax credits available to offset future tax liabilities. The Company may be further limited by any changes that may have occurred or may occur subsequent to December 31, 2021.

The Company files its corporate income tax returns in the United States and various states. All tax years since the date of incorporation remain open to examination by the major taxing jurisdictions (state and federal) to which the Company is subject, as carryforward attributes generated in years past may still be adjusted upon examination by the Internal Revenue Service ("IRS") or other authorities if they have or will be used in a future period. The Company is not currently under examination by the IRS or any other jurisdictions for any tax year.

As of June 30, 2022 and December 31, 2021, the Company had no uncertain tax positions. The Company's policy is to recognize interest and penalties related to income tax matters as a component of income tax expense, of which no interest or penalties were recorded for the three and six months ended June 30, 2022 and 2021.

## **16. COMMITMENTS AND CONTINGENCIES**

**Johns Hopkins University License Agreement**— In 2009, the Company entered into an exclusive license agreement with The Johns Hopkins University ("JHU"), as amended in November 2012, May 2014, August 2014, October 2014, June 2018 and July 2020, which licensed to the Company a portfolio of specified patent rights and remains in full force and effect. Pursuant to the terms of the agreement, as amended, the Company agreed to pay an initial license fee, minimum annual payments beginning in 2017, certain development and commercial milestone payments, royalties on product sales and reimburse all or a portion of the costs associated with the preparation, filing, prosecution and maintenance of the agreed-upon patents and patent applications to JHU.

After 2016 and until the first commercial sale of product, which occurred in January 2019, the minimum annual payment was \$38. Upon the first commercial sale of INVELTYS, the annual minimum payment increased to \$113. The Company was obligated to pay JHU low single-digit running royalties based upon a percentage of net sales of the licensed products, which was applied to the annual minimum payment. During the three and six months ended June 30, 2022 and 2021, amounts paid to JHU for royalties were *de minimis*. The Company also had an obligation to pay JHU certain one-time development and commercial milestone payments. The Company paid JHU a \$150 milestone payment during the six months ended June 30, 2021, which was triggered by the first commercial sale of EYSUVIS in the United States in December 2020. Additional amounts paid to JHU during the three and six months ended June 30, 2022 and 2021 were *de minimis*. In connection with the closing of the Alcon Transaction on July 8, 2022 the exclusive license agreement with JHU was assigned to Alcon, and the Company has no further obligations under the agreement.

**Stanford License Agreement**— In October 2019, Combangio entered into a license agreement with The Board of Trustees of The Leland Stanford Junior University ("Stanford"), which was amended in February 2020 and subsequently transferred to the Company by operation of law upon the Combangio Acquisition. Pursuant to the license

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

agreement with Stanford (the “Stanford Agreement”), the Company has a worldwide, exclusive, sublicensable license under certain patent rights (“licensed patents”), directed to methods to promote eye wound healing, to make, have made, use, import, offer to sell and sell products (“licensed products”) that are covered by the licensed patents for use in all fields. Under the Stanford Agreement, the Company is required to pay Stanford annual license maintenance fees and milestone payments upon the achievement of specified development, regulatory and sales milestones, as well as tiered royalties on net sales of licensed products that are covered by a valid claim of a licensed patent. Amounts paid to Stanford in the three and six months ended June 30, 2022 were *de minimis*. There were no amounts paid to Stanford in the three and six months ended June 30, 2021.

**Litigation**— The Company is not currently subject to any material legal proceedings.

**Other Commitments**— The Company entered into a commercial supply agreement with Woodstock Sterile Solutions, Inc. (formerly known as Catalent Pharma Solutions, LLC) to manufacture commercial supplies of EYSUVIS and INVELTYS. The commercial supply agreement contains annual minimum purchase requirements, which follow the contract year from July 1st to June 30th.

The Company had the following remaining minimum purchase obligations for EYSUVIS and INVELTYS as of June 30, 2022:

Years Ending December 31,	
2022 (remaining six months) (1)	\$ 3,033
2023	6,190
2024	6,380
2025 (2)	9,370
2026 (2)	7,028
Thereafter (2)	14,411
<b>Total minimum purchase commitments</b>	<b>\$ 46,412</b>

- (1) Amount presented is net of amounts paid towards the minimum purchase obligation as of June 30, 2022.
- (2) Beginning with the contract year July 1, 2025 to June 30, 2026, the minimum contract amounts above are 75% of the actual dollar value of the units ordered for commercial products, in the aggregate, in the contract year immediately prior to the applicable contract year. The table above assumes purchases are 75% of the prior year purchases in each contract year beginning July 1, 2025.

The commitments due under the commercial supply agreement for 2023 and beyond were transferred to Alcon upon the closing of the Alcon Transaction.

**Contingencies related to the Merger Agreement**— In connection with the Combangio Acquisition, the Company agreed to make additional payments based on the achievement of certain milestone events related to KPI-012. The Company recognized certain contingent consideration liabilities at fair value on the acquisition date, and revalues the remaining obligations each reporting period. The total potential maximum payout for the milestone payments, which have been recorded as liabilities at fair value, is \$40,000 and the milestone payments are contingent upon the achievement of specified development, regulatory and commercialization milestones. Additionally, pursuant to the Merger Agreement, the Company could trigger potential future sales-based milestone payments of up to \$65,000. Because the achievement of these sales-based milestones related to KPI-012 was not considered probable as of June 30, 2022, such contingencies have not been recorded in the Company’s financial statements. Amounts related to contingent milestone payments are not considered contractual obligations as they are contingent on the successful achievement of certain development, regulatory or commercial milestones.



**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**17. SUBSEQUENT EVENTS**

*Sale of Commercial Business to Alcon*

On July 8, 2022, the Company closed the Alcon Transaction contemplated by the Asset Purchase Agreement, pursuant to which Alcon purchased the Commercial Business and assumed certain liabilities with respect to the Commercial Business. Alcon paid to the Company an upfront cash payment of \$60,000 upon the closing of the Alcon Transaction. In addition, pursuant to the Asset Purchase Agreement, the Company is eligible to receive from Alcon up to four commercial-based sales milestone payments as follows: (1) \$25,000 upon the achievement of \$50,000 or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (2) \$65,000 upon the achievement of \$100,000 or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (3) \$75,000 upon the achievement of \$175,000 or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029 and (4) \$160,000 upon the achievement of \$250,000 or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029. Each milestone payment will only become payable once, if at all, upon the first time such milestone is achieved, and only one milestone payment will be paid with respect to a calendar year. In the event that more than one milestone is achieved in a calendar year, the higher milestone payment will become payable and the lower milestone payment will become payable only if the corresponding milestone is achieved again in a subsequent calendar year.

Pursuant to the Asset Purchase Agreement, on July 8, 2022, the Company entered into supply and commercial agreements under which the Company agreed to supply EYSUVIS and INVELTYS to Alcon and distribute EYSUVIS and INVELTYS to third-party customers of the Commercial Business on behalf of Alcon for a period of six months following the closing of the Alcon Transaction, subject to early termination. In addition, the Company entered into a transition services agreement under which the Company agreed to provide agreed upon transition services to Alcon on a cost-plus pricing arrangement for up to six months following the closing of the Alcon Transaction. Pursuant to the supply agreement, Alcon purchased from the Company, at the closing of the Alcon Transaction, \$5,026 of EYSUVIS and INVELTYS inventory on-hand at the Company.

The Asset Purchase Agreement further provides that the Company and the Buyers will indemnify each other for losses arising from certain breaches of the Asset Purchase Agreement, including breaches of certain representations and warranties, and for certain other matters and subject to certain limitations as more fully described in the Asset Purchase Agreement.

*Amendment to Loan and Security Agreement and Partial Prepayment*

On May 21, 2022, in connection with its entry into the Asset Purchase Agreement, the Company entered into the Loan Amendment. Pursuant to the Loan Amendment, the Lender and Agent consented to the entry by the Company into the Asset Purchase Agreement and the sale of the Commercial Business to Alcon and agreed to release its liens on the Commercial Business in consideration for the Prepayment at the closing of the Alcon Transaction of an aggregate amount of \$40,000 to the Lender and Agent. The Prepayment, which represented a partial prepayment of principal in the amount of \$36,697 of the \$80,000 principal amount outstanding under the term loan advanced by the Lender under the Loan Agreement, plus a prepayment fee of \$734 and a final payment fee of \$2,569, was paid on July 8, 2022 in connection with the closing of the Alcon Transaction. The Company was also required to pay all accrued and unpaid interest on the principal amount of the term loan being repaid.

In addition, under the Loan Amendment, the Lender and Agent agreed that, following the closing of the Alcon Transaction and the Prepayment, the Amortization Date would be extended from December 1, 2024 to January 1, 2026, at which time the aggregate principal balance of the term loan then outstanding under the Loan Agreement is required to

**KALA PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
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be repaid in five monthly installments. Pursuant to the Loan Amendment, the Company may also make partial prepayments of the term loan to the Lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid.

*Workforce Reduction*

On June 16, 2022, the Board of Directors of the Company committed to a course of action to terminate 113 employees, consisting of the Company's entire commercial sales force and certain employees in its commercial, scientific, manufacturing, finance and administrative functions. The determination to proceed with the workforce reduction was made in the context of the anticipated closing of the Alcon Transaction and the Company's determination to focus its resources on the development of KPI-012.

The Company expects to incur a charge of approximately \$2,500 primarily in the third quarter of 2022 related to the workforce reduction, consisting of severance, benefits and related costs, all of which are anticipated to be paid prior to the end of the first quarter of 2023. The Company expects to substantially complete the workforce reduction by December 31, 2022.

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

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements and related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the Securities and Exchange Commission on March 29, 2022.*

*This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. The words “anticipate,” “believe,” “continue” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “would,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by forward-looking statements. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the section entitled “Risk Factors” in Part II, Item 1A that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make.*

We are a clinical-stage biopharmaceutical company focused on the research, development and commercialization of innovative therapies for rare diseases of the eye. Our product candidate, KPI-012, which we acquired from Combango, Inc., or Combango, on November 15, 2021, is a mesenchymal stem cell secretome, or MSC-S, and is currently in clinical development for the treatment of persistent corneal epithelial defects, or PCED, a rare disease of impaired corneal healing. Based on the positive results of a Phase 1b clinical efficacy trial of KPI-012 in patients with PCED, we plan to submit an investigational new drug application, or IND, to the U.S. Food and Drug Administration, or FDA, for KPI-012 and, subject to regulatory clearance, commence a Phase 2/3 clinical trial for PCED in the United States in the fourth quarter of 2022.

We believe the multifactorial mechanism of action of KPI-012 also makes MSC-S a platform technology. We are evaluating KPI-012 in indications for rare front of the eye diseases, such as for the treatment of Partial Limbal Stem Cell Deficiency and ocular manifestations of moderate-to-severe Sjögren’s. In addition, we are planning to initiate preclinical studies under our KPI-014 program to evaluate the utility of our MSC-S platform for retinal degenerative diseases, such as Retinitis Pigmentosa and Stargardt Disease, with the goal to select a retinal indication for development in the second half of 2023. In connection with the determination to focus our research and development efforts on KPI-012, we determined to cease the development of our preclinical pipeline programs that are unrelated to our MSC-S platform, including the development of KPI-287, our receptor tyrosine kinase inhibitor, and our selective glucocorticoid receptor modulators. We expect to commercialize in the United States any of our product candidates that receive marketing approval. For a further description of our acquisition of Combango, KPI-012 and PCED, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

We previously developed and commercialized two marketed products, EYSUVIS® (loteprednol etabonate ophthalmic suspension) 0.25%, for the short-term (up to two weeks) treatment of the signs and symptoms of dry eye disease, and INVELTYS® (loteprednol etabonate ophthalmic suspension) 1%, a topical twice-a-day ocular steroid for the treatment of post-operative inflammation and pain following ocular surgery. Both products applied a proprietary mucus-penetrating particle drug delivery technology, which we referred to as the AMPPLIFY® Drug Delivery Technology.

On July 8, 2022, we closed the transaction, or the Alcon Transaction, contemplated by the asset purchase agreement, dated as of May 21, 2022, or the Asset Purchase Agreement, by and between us, Alcon Pharmaceuticals Ltd. and Alcon Vision, LLC, or together referred to as Alcon, pursuant to which Alcon purchased the rights to manufacture, sell, distribute, market and commercialize EYSUVIS and INVELTYS and to develop, manufacture, market and

otherwise exploit the AMPPLIFY Technology, which we collectively refer to as the Commercial Business. Alcon also assumed certain liabilities with respect to the Commercial Business at the closing of the Alcon Transaction.

Alcon paid us an upfront cash payment of \$60.0 million upon the closing of the Alcon Transaction. Pursuant to the Asset Purchase Agreement, we are also eligible to receive from Alcon up to four commercial-based sales milestone payments as follows: (1) \$25.0 million upon the achievement of \$50.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (2) \$65.0 million upon the achievement of \$100.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (3) \$75.0 million upon the achievement of \$175.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029 and (4) \$160.0 million upon the achievement of \$250.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029. Each milestone payment will only become payable once, if at all, upon the first time such milestone is achieved, and only one milestone payment will be paid with respect to a calendar year. In the event that more than one milestone is achieved in a calendar year, the higher milestone payment will become payable and the lower milestone payment will become payable only if the corresponding milestone is achieved again in a subsequent calendar year.

In connection with our entry into the Asset Purchase Agreement, on May 21, 2022, we entered into an amendment, or the Loan Amendment, with Oxford Finance LLC, or Oxford Finance, to the Loan and Security Agreement, or the Loan Agreement, by and among us, Combangio, Inc. and Oxford Finance, in its capacity as Lender, and in its capacity as Agent. Pursuant to the Loan Amendment, the Lender and Agent consented to the entry by us into the Asset Purchase Agreement and the sale of the Commercial Business to Alcon and agreed to release its liens on the Commercial Business in consideration for the payment by us at the closing of the Alcon Transaction of an aggregate amount of \$40.0 million, or the Prepayment, to the Lender and Agent. The Prepayment, which represented a partial prepayment of principal in the amount of \$36.7 million of the \$80.0 million principal amount outstanding under the term loan advanced by the Lender under the Loan Agreement, plus a prepayment fee of \$0.7 million and a final payment fee of \$2.6 million, was paid on July 8, 2022 in connection with the closing of the Alcon Transaction. In addition, we were required to pay all accrued and unpaid interest on the principal amount of the term loan being repaid.

Under the Loan Amendment, the Lender and Agent agreed that, following the closing of the Alcon Transaction and the Prepayment, the start date for amortization payments under the Loan Agreement would be extended from December 1, 2024 to January 1, 2026, at which time the aggregate principal balance of the term loan then outstanding under the Loan Agreement is required to be repaid in five monthly installments. Pursuant to the Loan Amendment, we may also make partial prepayments of the term loan to the Lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid.

On July 8, 2022, we announced that we had committed to a course of action to terminate 113 employees, consisting of our entire commercial sales force and certain employees in our commercial, scientific, manufacturing, finance and administrative functions. The determination to proceed with the workforce reduction was made in the context of the closing of the Alcon Transaction and the changes to the scope of our research and development activities of KPI-012 as more fully described above. We expect to complete the workforce reduction, to streamline our corporate infrastructure, by December 31, 2022, we expect the workforce reduction to result in approximately \$27.6 million in reduced annualized operating expenses once the workforce reduction is fully implemented. In addition, we expect to incur a charge of approximately \$2.5 million primarily in the third quarter of 2022 related to the workforce reduction, consisting of severance, benefits and related costs, all of which are anticipated to be paid prior to the end of the first quarter of 2023.

Since inception, we have incurred significant losses from operations and negative cash flows from operations. Our net losses were \$28.1 million and \$61.1 million for the three and six months ended June 30, 2022, respectively, and \$142.6 million for the year ended December 31, 2021. As of June 30, 2022, we had an accumulated deficit of \$603.4 million. As we commenced a full promotional launch of EYSUVIS in early January 2021 and commercially launched our first product, INVELTYS, in January 2019, we had generated only limited revenues from product sales prior to the sale of the Commercial Business to Alcon in July 2022. We had financed our operations primarily through proceeds from the sale of our Commercial Business to Alcon in July 2022, our initial public offering, or IPO, follow-on public common stock offerings and sales of our common stock under our sales agreement with Jefferies, LLC, or Jefferies, in

at-the-market offerings, or ATM Offerings, private placements of preferred stock, borrowings under credit facilities and our Loan and Security Agreement, or Loan Agreement, with Oxford Finance, convertible promissory notes and warrants. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and clinical trials and, prior to the sale of our Commercial Business to Alcon in July 2022, engaging in activities to launch and commercialize EYSUVIS and INVELTYS. As a result of our acquisition of Combangio and the sale of our Commercial Business to Alcon, we intend to devote substantial financial resources to the research and development and potential commercialization of KPI-012. We have no revenue-generating commercial products, and although we are eligible to receive up to \$325.0 million in payments from Alcon based upon the achievement of specified commercial sales-based milestones with respect to EYSUVIS and INVELTYS, there can be no assurance when we may receive such milestone payments or the amount of milestone payments we may receive, if any. We expect to continue to incur significant expenses and operating losses for the foreseeable future, including in connection with our continued development, regulatory approval efforts and commercialization, if any, of KPI-012. We may never achieve or maintain profitability. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year.

### **Business Impact of COVID-19 Pandemic**

In order to safeguard the health of our employees from the ongoing COVID-19 pandemic, we are following, and will continue to follow, recommendations from the U.S. Centers for Disease Control and Prevention, as well as federal, state, and local governments, regarding working-from-home practices for non-essential employees.

In addition, government restrictions have at times led to moratoria on elective ocular surgeries in many jurisdictions, which had significantly reduced the demand for INVELTYS, which is indicated for the treatment of inflammation and pain following ocular surgery. While surgeries have returned to historical levels, the COVID-19 pandemic had negatively impacted revenues from INVELTYS in prior periods. In addition, the COVID-19 pandemic has generally had an adverse impact on the launch of pharmaceutical products, and we believe the pandemic impacted the launch of EYSUVIS. We cannot predict whether the COVID-19 pandemic will impact Alcon's ability to commercialize EYSUVIS and INVELTYS, and as a result, it cannot be certain whether the COVID-19 pandemic might adversely affect when we may receive milestone payments from Alcon, which milestone payments we may receive and if we will receive any milestone payments at all. We also do not know the extent to which the COVID-19 pandemic will impact our development of KPI-012 or any other product candidate we develop. Any impact of the COVID-19 pandemic on Alcon's commercialization efforts of EYSUVIS and INVELTYS, our development of KPI-012 and any other product candidate we may develop in the future, and our operational and financial performance will depend on certain developments, including the length and severity of this pandemic, the timing and extent of any resurgence of the COVID-19 virus or any variant strains of the virus, the availability and effectiveness of vaccines, and the full extent of the impact on customers, employees, vendors and government agencies, all of which are uncertain and cannot be predicted.

Management is actively monitoring the COVID-19 pandemic and its effects on our financial condition, liquidity, operations, customers, sales force, contractors, and workforce. For additional information on risks posed by the COVID-19 pandemic, please see Part II, Item 1A – “Risk Factors” of this Quarterly Report on Form 10-Q, including the risk factor entitled “The ongoing novel coronavirus pandemic and the efforts to prevent its spread have adversely impacted our operations, could impact the development of KPI-012 or any other product candidate we develop, and may continue to adversely affect our business, results of operations and financial condition.”

### **Financial Operations Overview**

#### ***Product Revenues, Net***

We commenced generating product revenues from sales of INVELTYS in January 2019, and commenced generating revenue from EYSUVIS upon the shipment to wholesalers in the United States in late December 2020. Full promotional launch of EYSUVIS began in early January 2021. Our product revenues for the periods presented are recorded net of provisions relating to estimates for (i) trade discounts and allowances, such as discounts for prompt payment and other discounts and distributor fees, (ii) estimated rebates, chargebacks and co-pay assistance programs, and (iii) reserves for expected product returns. These estimates reflect current contractual and statutory requirements,

known market events and trends, industry data and forecasted customer buying and payment patterns. Actual amounts may ultimately differ from these estimates. If actual results vary, estimates may be adjusted in the period such change in estimate becomes known, which could have an impact on earnings in the period of adjustment. On July 8, 2022, we sold our Commercial Business, including EYSUVIS and INVELTYS, to Alcon and ceased recording gross revenue on sales of EYSUVIS and INVELTYS. We currently have no commercial products in our portfolio. Moreover, subject to regulatory clearance, we plan to commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022 and, accordingly, we do not expect to generate revenue from KPI-012 or any other product candidate we may develop in the future for the foreseeable future, if at all.

Beginning in March 2020 and continuing through most of the second quarter of 2020, prescriptions of INVELTYS and revenue had been adversely affected by the ongoing COVID-19 pandemic as federal, state and local governments implemented restrictions on elective procedures, which included most ocular surgeries. While many deferred ocular surgeries have been rescheduled as individual states have released restrictions on elective procedures, prescriptions of INVELTYS and related revenue are still being adversely affected by the ongoing COVID-19 pandemic. We also cannot quantify the full extent of the impact that the COVID-19 pandemic has had on the commercialization of EYSUVIS.

### ***Cost of Product Revenues***

Cost of product revenues consists primarily of materials, third-party manufacturing costs, freight and distribution costs, royalty expense, allocation of labor, quality control and assurance, reserves for defective inventory, reserves for excess and obsolete inventory, losses on inventory purchase commitments, and other manufacturing overhead costs. The determination of whether inventory costs will be realizable requires estimates by management. If actual market conditions are less favorable than projected by management, additional write-downs of inventory may be required which would be recorded as a cost of product revenues in the condensed consolidated statements of operations and comprehensive loss. We expensed cost of product revenues related to INVELTYS as research and development expenses prior to U.S. regulatory approval, which we received on August 22, 2018. We expensed cost of product revenues related to EYSUVIS as research and development expenses prior to the determination that FDA approval was probable and before the future economic benefit was expected to be realized. Following the sale of our Commercial Business to Alcon, we do not expect to generate cost of product revenues until such time as we commercialize another product candidate.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of salaries, benefits, commissions, stock-based compensation and travel expenses related to our commercial infrastructure and our executive, finance, human resources, legal, compliance, information technology and business development functions. Selling, general and administrative expenses also include external selling and marketing costs, costs to manufacture sample units and professional fees for auditing, tax, information technology, consultants, legal services and allocated facility-related costs not otherwise included in research and development expenses.

We expect that our selling, general and administrative expenses for 2022 will decrease as compared to such expenses for the year ended December 31, 2021 as a result of the workforce reduction announced on July 8, 2022, as we have completed the sale of our Commercial Business to Alcon, incurred launch-related expenses for EYSUVIS during 2021 that we will not incur again in 2022 and terminated the lease for our corporate headquarters, effective January 11, 2022. We anticipate that our selling, general and administrative expenses will decrease in 2023 as compared to the year ended December 31, 2022 and then remain largely consistent with the expenses for 2023 for the foreseeable future as we continue to support our development efforts for KPI-012 and seek marketing approval for KPI-012 and any other product candidate we may develop in the future. If we obtain marketing approval for KPI-012 or any product candidates we may develop, we expect that our selling, general and administrative expenses will increase substantially if and as we incur commercialization expenses related to product marketing, sales and distribution.

### **Research and Development Expenses**

Research and development expenses consist of costs associated with our research activities, including compensation and benefits for full-time research and development employees, an allocation of facilities expenses, overhead expenses and certain outside expenses. Our research and development expenses include:

- employee-related expenses, including salaries, related benefits, travel and stock-based compensation;
- expenses incurred for the preclinical and clinical development of our product candidates and under agreements with contract research organizations, including costs of manufacturing product candidates prior to the determination that FDA approval of a drug candidate is probable and before the future economic benefit of the drug is expected to be realized; and
- facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities and supplies.

We expense research and development costs as they are incurred. We expense costs relating to the production of inventory for our product candidates, as research and development expenses within our condensed consolidated statements of operations and comprehensive loss in the period incurred, unless we believe regulatory approval and subsequent commercialization of the product candidate is probable and we expect the future economic benefit from sales of the drug to be realized. Research and development costs that are paid in advance of performance are capitalized as a prepaid expense until incurred. We track outsourced development costs by development program but do not allocate personnel costs, payments made under our license agreements or other costs to specific product candidates or development programs. These costs are included in Employee-related costs and Other research and development costs in the line items in the tables under “Results of Operations”.

We expect that our research and development costs for 2022 will increase as compared to such expenses for the year ended December 31, 2021 as we advance the clinical development of KPI-012 and as we conduct any necessary preclinical studies and clinical trials and other development activities for any other product candidate we may develop in the future, including our planned preclinical studies under our KPI-014 program. The process of conducting preclinical studies and clinical trials necessary to obtain regulatory approval is costly and time-consuming. We may never succeed in obtaining marketing approval for any of our product candidates. The probability of success for each product candidate may be affected by numerous factors, including preclinical data, clinical data, competition, manufacturing capability and commercial viability. With respect to the ongoing COVID-19 pandemic, we are unable to predict the impact it may have on our research and development activities.

Subject to regulatory clearance, we plan to commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022. Successful development and completion of preclinical studies and clinical trials is uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each product candidate and future product candidate and are difficult to predict. We will continue to make determinations as to which product candidates to pursue and how much funding to direct to each product candidate on an ongoing basis in response to the scientific and clinical success of each product candidate as well as ongoing assessments as to the commercial potential of product candidates and our ability to enter into collaborations with respect to each product candidate. We will need to raise additional capital and may seek collaborations in the future to advance KPI-012 and any product candidate we may develop in the future. Additional private or public financings may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a material adverse effect on our financial condition and our ability to pursue our business strategy.

### ***(Gain) Loss on Fair Value Remeasurement of Deferred Purchase Consideration***

In connection with the closing of the acquisition of Combangio on November 15, 2021, or the Combangio Closing, we agreed to issue an aggregate of 7,788,637 shares, or the Deferred Purchase Consideration, of our common stock to former Combangio stockholders and other equityholders, or the Combangio Equityholders, consisting of (i) an aggregate of 6,815,072 shares of common stock which were issued on January 3, 2022 and (ii) an aggregate of 973,565

shares of common stock that have been held back by us and will be issuable subject to the terms of the merger agreement to the Combangio Equityholders on the date that is fifteen months after the Combangio Closing. We recorded an obligation for such Deferred Purchase Consideration at fair value on the acquisition date. We then revalue our Deferred Purchase Consideration obligations each reporting period. Changes in the fair value of our Deferred Purchase Consideration obligations, other than changes due to issuance, are recognized as a gain or loss on fair value remeasurement of Deferred Purchase Consideration in our condensed consolidated statements of operations and comprehensive loss.

#### ***Gain on Fair Value Remeasurement of Contingent Consideration***

In addition to the Deferred Purchase Consideration, consideration payable for the Combangio acquisition includes potential future payments that are contingent upon the achievement of specified development, regulatory and commercialization milestones. We recorded an obligation for such contingent consideration at fair value on the acquisition date. We then revalue our contingent consideration obligations each reporting period. Changes in the fair value of our contingent consideration obligations, other than changes due to issuance, are recognized as a gain or loss on fair value remeasurement of contingent consideration in our condensed consolidated statements of operations and comprehensive loss.

#### ***Interest Income***

Interest income consists of interest earned on our cash, cash equivalents and short-term investments.

#### ***Interest Expense***

Interest expense primarily consists of contractual coupon interest, amortization of debt discounts and debt issuance costs and accretion of the final payment fee recognized on our debt arrangements.

#### **Critical Accounting Policies and Significant Judgments and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates—which also would have been reasonable—could have been used. On an ongoing basis, we evaluate our estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting estimates from those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.



**Results of Operations****Comparison of the Three Months Ended June 30, 2022 and 2021**

The following table summarizes the results of our operations for the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
Product revenues, net	\$ 2,100	\$ 3,051	\$ (951)
Costs and expenses:			
Cost of product revenues	1,774	1,016	758
Selling, general and administrative	22,673	27,986	(5,313)
Research and development	4,473	3,094	1,379
Gain on fair value remeasurement of deferred purchase consideration	(789)	—	(789)
Gain on fair value remeasurement of contingent consideration	(59)	—	(59)
Total operating expenses	28,072	32,096	(4,024)
Loss from operations	(25,972)	(29,045)	3,073
Other income (expense)			
Interest income	68	33	35
Interest expense	(2,207)	(2,091)	(116)
Loss on extinguishment of debt	—	(5,395)	5,395
Net loss	<u>\$ (28,111)</u>	<u>\$ (36,498)</u>	<u>\$ 8,387</u>

*Product revenues, net*

Product revenues, net was \$2.1 million for the three months ended June 30, 2022, consisting of \$0.9 million from EYSUVIS sales and \$1.2 million from INVELTYS sales, compared to product revenues, net of \$3.1 million for the three months ended June 30, 2021, which consisted of \$1.7 million from EYSUVIS sales and \$1.4 million from INVELTYS sales. The decrease in product revenues, net of \$1.0 million was primarily the result of a decrease in the total units of INVELTYS sold in the three months ended June 30, 2022, as well as higher estimated allowances per unit sold on both products during the three months ended June 30, 2022 as compared to those allowances per unit during the three months ended June 30, 2021, partially offset by a higher per unit gross selling price of both products as compared to those sold during the three months ended June 30, 2021. Following the sale of our Commercial Business to Alcon in July 2022, we no longer have any commercial products in our portfolio. Subject to regulatory clearance, we plan to commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022 and, accordingly, we do not expect to generate revenue from KPI-012 or any other product candidate we may develop for the foreseeable future, if at all.

*Cost of product revenues*

Cost of product revenues was \$1.8 million for the three months ended June 30, 2022, compared to \$1.0 million for the three months ended June 30, 2021, which was an increase of \$0.8 million. Cost of product revenues increased \$0.8 million as a result of reserves recorded for expiring inventory or inventory that did not pass quality inspection which did not occur in the three months ended June 30, 2021 and \$0.1 million attributable to EYSUVIS largely due to an increase in the units of EYSUVIS sold, as compared to the three months ended June 30, 2021. These increases were partially offset by a decrease in units of INVELTYS sold during the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. We do not expect to continue to incur cost of product revenues following the sale of our Commercial Business to Alcon in July 2022 until such time as we commercialize another product candidate.

### *Selling, general and administrative expenses*

Selling, general and administrative expenses were \$22.7 million for the three months ended June 30, 2022, compared to \$28.0 million for the three months ended June 30, 2021, which was a decrease of \$5.3 million. The decrease in selling, general and administrative expenses for the three months ended June 30, 2022 was primarily due to a \$2.1 million decrease in employee-related expenses, a \$2.0 million decrease in stock-based compensation costs, a \$1.8 million decrease in facility related costs and certain medical affairs costs attributable to our commercial products and a \$0.6 million decrease in external sales and marketing costs. This decrease, as compared to the three months ended June 30, 2021, was partially offset by \$0.8 million of transaction costs related to the Alcon Transaction which were not incurred in the three months ended June 30, 2021 and a \$0.4 million increase in administrative and professional service fees.

We expect our selling, general and administrative expenses for 2022 to decrease as compared to such expenses for the year ended December 31, 2021 as a result of the workforce reduction announced on July 8, 2022, and because we completed the sale of our Commercial Business to Alcon, incurred launch-related expenses for EYSUVIS in 2021 that we will not incur again in 2022 and terminated the lease for our former corporate headquarters, effective January 11, 2022. We anticipate that our selling, general and administrative expenses will decrease in 2023 as compared to the year ended December 31, 2022 and then remain largely consistent with the expenses for 2023 for the foreseeable future as we focus our resources on our development efforts for KPI-012 and any other product candidate we may develop in the future. If we obtain marketing approval for KPI-012 or any product candidates we may develop, we expect that our selling, general and administrative expenses will increase substantially if and as we incur commercialization expenses related to product marketing, sales and distribution.

### *Research and development expenses*

The following table summarizes the research and development expenses incurred during the three months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
KPI-012 development costs	\$ 1,581	\$ —	\$ 1,581
Employee-related costs	2,347	2,106	241
Other research and development costs	545	988	(443)
Total research and development	<u>\$ 4,473</u>	<u>\$ 3,094</u>	<u>\$ 1,379</u>

Research and development expenses were \$4.5 million for the three months ended June 30, 2022, compared to \$3.1 million for the three months ended June 30, 2021. The \$1.4 million increase was primarily the result of a \$1.6 million increase in KPI-012 development costs and a \$0.2 million increase in employee-related costs, partially offset by a \$0.4 million decrease in other research and development costs, which primarily included preclinical studies related to our former pipeline programs and other facility related costs. We expect research and development costs to increase as we advance the clinical development of KPI-012 for PCED and as we conduct any necessary preclinical studies and clinical trials and other development activities for any other product candidate we may develop in the future, including our planned preclinical studies under our KPI-014 program.

*Gain on fair value remeasurement of deferred purchase consideration*

Gain on fair value remeasurement of deferred purchase consideration for the three months ended June 30, 2022 was \$0.8 million and was primarily due to a change in the fair value of our underlying stock price. There was no gain or loss on fair value remeasurement of deferred purchase consideration for the three months ended June 30, 2021.

*Gain on fair value remeasurement of contingent consideration*

Gain on fair value remeasurement of contingent consideration for the three months ended June 30, 2022 was \$0.1 million and was primarily due to changes in discount rates, partially offset by the passage of time. There was no gain or loss on fair value remeasurement of contingent consideration for the three months ended June 30, 2021.

*Interest income*

Interest income was \$0.1 million for the three months ended June 30, 2022 and less than \$0.1 million for the three months ended June 30, 2021. Interest income consists of interest earned on our cash, cash equivalents and short-term investments.

*Interest expense*

We incurred interest expense of \$2.2 million for the three months ended June 30, 2022, compared to \$2.1 million for the three months ended June 30, 2021, a \$0.1 million increase. Interest expense for the three months ended June 30, 2022 was comprised of the contractual coupon interest expense, the amortization of the debt discount and the accretion of the final payment fee associated with our Loan Agreement with Oxford Finance. Interest expense for the three months ended June 30, 2021 was comprised of the contractual coupon interest expense, the amortization of the debt discount and the accretion of the final payment fee associated with our Loan Agreement with Oxford Finance and our Athyrium Credit Facility. During the three months ended June 30, 2022, \$80.0 million of indebtedness was outstanding under our Loan Agreement. During the three months ended June, 2021, \$75.0 million of indebtedness was outstanding under the Athyrium Credit Facility until we repaid such indebtedness in full on May 4, 2021. During the three months ended June 30, 2021, \$80.0 million of indebtedness was outstanding under our Loan Agreement after we drew down the tranche A term loan on May 4, 2021.

*Loss on extinguishment of debt*

There was no loss on extinguishment of debt for the three months ended June 30, 2022. The loss of extinguishment of debt was \$5.4 million for the three months ended June 30, 2021. Upon the repayment in full of all amounts owed under the Athyrium Credit Facility, the unamortized debt discount and issuance costs, prepayment premium and unaccreted exit fee were recorded as loss on extinguishment of debt for the three months ended June 30, 2021.

### Comparison of the Six Months Ended June 30, 2022 and 2021

The following table summarizes the results of our operations for the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
Product revenues, net	\$ 3,472	\$ 6,317	\$ (2,845)
Costs and expenses:			
Cost of product revenues	2,549	1,771	778
Selling, general and administrative	49,655	55,685	(6,030)
Research and development	8,939	6,220	2,719
Loss on fair value remeasurement of deferred purchase consideration	262	—	262
Gain on fair value remeasurement of contingent consideration	(1,047)	—	(1,047)
Total operating expenses	60,358	63,676	(3,318)
Loss from operations	(56,886)	(57,359)	473
Other income (expense)			
Interest income	76	76	—
Interest expense	(4,242)	(4,232)	(10)
Loss on extinguishment of debt	—	(5,395)	5,395
Net loss	<u>\$ (61,052)</u>	<u>\$ (66,910)</u>	<u>\$ 5,858</u>

#### Product revenues, net

Product revenues, net was \$3.5 million for the six months ended June 30, 2022, consisting of \$1.9 million from EYSUVIS sales and \$1.6 million from INVELTYS sales, compared to product revenues, net of \$6.3 million for the six months ended June 30, 2021, which consisted of \$3.3 million from EYSUVIS sales and \$3.0 million from INVELTYS sales. The decrease in product revenues, net of \$2.8 million was primarily the result of higher estimated allowances per unit sold on both products during the six months ended June 30, 2022 as compared to those allowances per unit during the six months ended June 30, 2021, as well as a decrease in the total units of INVELTYS sold in the six months ended June 30, 2022, partially offset by a higher per unit gross selling price of both products as compared to those sold during the six months ended June 30, 2021. Following of the sale of our Commercial Business to Alcon in July 2022, we no longer have any commercial products in our portfolio. Subject to regulatory clearance, we plan to commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022 and, accordingly, we do not expect to generate revenue from KPI-012 or any other product candidate we may develop for the foreseeable future, if at all.

#### Cost of product revenues

Cost of product revenues was \$2.5 million for the six months ended June 30, 2022, compared to \$1.8 million in the six months ended June 30, 2021, an increase of \$0.7 million. Cost of product revenues increased \$0.8 million as a result of reserves recorded for expiring inventory or inventory that did not pass quality inspection which did not occur in the six months ended June 30, 2021 and \$0.1 million attributable to EYSUVIS largely due to an increase in the units of EYSUVIS sold, as compared to the six months ended June 30, 2021. These increases were partially offset by a decrease in units of INVELTYS sold during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. We do not expect to continue to incur cost of product revenues following the sale of our Commercial Business to Alcon in July 2022 until such time as we commercialize another product candidate.

#### Selling, general and administrative expenses

Selling, general and administrative expenses were \$49.7 million for the six months ended June 30, 2022, compared to \$55.7 million for the six months ended June 30, 2021, which was a decrease of \$6.0 million. The decrease in selling, general and administrative expenses for the six months ended June 30, 2022 was primarily due to a \$3.4 million decrease in stock-based compensation costs, a \$2.7 million decrease in facility related costs and certain medical affairs costs attributable to our commercial products and a \$2.0 million decrease in employee-related costs. This

decrease, as compared to the six months ended June 30, 2021, was partially offset by a \$0.9 million increase in administrative and professional service fees, \$0.8 million of transaction costs related to the Alcon Transaction which were not incurred in the six months ended June 30, 2021 and a \$0.4 million increase in external sales and marketing costs attributable to a direct-to-consumer marketing campaign for EYSUVIS.

We expect our selling, general and administrative expenses for 2022 to decrease as compared to such expenses for the year ended December 31, 2021 as a result of the workforce reduction announced on July 8, 2022, and because we completed the sale of our Commercial Business to Alcon, incurred launch-related expenses for EYSUVIS in 2021 that we will not incur again in 2022 and terminated the lease for our former corporate headquarters, effective January 11, 2022. We anticipate that our selling, general and administrative expenses will decrease in 2023 as compared to the year ended December 31, 2022 and then remain largely consistent with expenses for 2023 for the foreseeable future as we focus our resources on our development efforts for KPI-012 and any other product candidate we may develop in the future. If we obtain marketing approval for KPI-012 or any product candidates we may develop, we expect to incur commercialization expenses related to product marketing, sales and distribution.

#### *Research and development expenses*

The following table summarizes the research and development expenses incurred during the six months ended June 30, 2022 and 2021:

	Six Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
KPI-012 development costs	\$ 2,319	\$ —	\$ 2,319
Employee-related costs	4,852	4,311	541
Other research and development costs	1,768	1,909	(141)
Total research and development	<u>\$ 8,939</u>	<u>\$ 6,220</u>	<u>\$ 2,719</u>

Research and development expenses were \$8.9 million for the six months ended June 30, 2022, compared to \$6.2 million for the six months ended June 30, 2021, a \$2.7 million increase. The increase was primarily the result of a \$2.3 million increase in KPI-012 development costs and a \$0.5 million increase in employee-related costs, partially offset by a \$0.1 million decrease in other research and development costs, which primarily included preclinical studies related to our former pipeline programs and other facility related costs. We expect research and development costs to increase as we advance the clinical development of KPI-012 and as we conduct any necessary preclinical studies and clinical trials and other development activities for any other product candidate we may develop in the future, including our planned preclinical studies under our KPI-014 program.

#### *Loss on fair value remeasurement of deferred purchase consideration*

Loss on fair value remeasurement of deferred purchase consideration for the six months ended June 30, 2022 was \$0.3 million and was primarily due to a change in the fair value of our underlying stock price. There was no gain or loss on fair value remeasurement of deferred purchase consideration for the six months ended June 30, 2021.

#### *Gain on fair value remeasurement of contingent consideration*

Gain on fair value remeasurement of contingent consideration for the six months ended June 30, 2022 was \$1.0 million and was primarily due to changes in discount rates, partially offset by the passage of time. There was no gain or loss on fair value remeasurement of contingent consideration for the six months ended June 30, 2021.

#### *Interest income*

Interest income was \$0.1 million for the six months ended June 30 2022 and for the six months ended June 30, 2021. Interest income consists of interest earned on our cash, cash equivalents and short-term investments.

### *Interest expense*

We incurred interest expense of \$4.2 million for the six months ended June 30, 2022 and for the six months ended June 30, 2021. Interest expense for the six months ended June 30, 2022 was comprised of the contractual coupon interest expense, the amortization of the debt discount and the accretion of the final payment fee associated with our Loan Agreement with Oxford Finance. Interest expense for the six months ended June 30, 2021 was comprised of the contractual coupon interest expense, the amortization of the debt discount and the accretion of the final payment fee associated with our Loan Agreement with Oxford Finance and our Athyrium Credit Facility. During the six months ended June 30, 2022, \$80.0 million of indebtedness was outstanding under our Loan Agreement. During the six months ended June, 2021, \$75.0 million of indebtedness was outstanding under the Athyrium Credit Facility until we repaid such indebtedness in full on May 4, 2021. During the six months ended June 30, 2021, \$80.0 million of indebtedness was outstanding under our Loan Agreement after we drew down the tranche A term loan on May 4, 2021.

### *Loss on extinguishment of debt*

There was no loss on extinguishment of debt for the six months ended June 30, 2022. The loss of extinguishment of debt was \$5.4 million for the six months ended June 30, 2021. Upon the repayment in full of all amounts owed under the Athyrium Credit Facility, the unamortized debt discount and issuance costs, prepayment premium and unaccreted exit fee were recorded as loss on extinguishment of debt for the six months ended June 30, 2021.

### **Liquidity and Capital Resources**

Since our inception, we have incurred significant operating losses. As we commercially launched our first product, INVELTYS, in January 2019, and commenced a full promotional launch of our second product, EYSUVIS, in early January 2021, we have had limited revenues to date from product sales prior to the sale of our Commercial Business to Alcon in July 2022. We have financed our operations primarily through proceeds from the sale of our Commercial Business to Alcon in July 2022, our IPO, follow-on public common stock offerings and sales of our common stock under our ATM Offerings, private placements of preferred stock, borrowings under credit facilities and the Loan Agreement, convertible promissory notes and warrants.

In July 2022, we sold our Commercial Business to Alcon. In addition to the upfront cash payment of \$60.0 million we received from Alcon pursuant to the Asset Purchase Agreement, we are also eligible to receive from Alcon up to four commercial-based sales milestone payments as follows: (1) \$25.0 million upon the achievement of \$50.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (2) \$65.0 million upon the achievement of \$100.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (3) \$75.0 million upon the achievement of \$175.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029 and (4) \$160.0 million upon the achievement of \$250.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029. Each milestone payment will only become payable once, if at all, upon the first time such milestone is achieved, and only one milestone payment will be paid with respect to a calendar year. In the event that more than one milestone is achieved in a calendar year, the higher milestone payment will become payable and the lower milestone payment will become payable only if the corresponding milestone is achieved again in a subsequent calendar year. We now have no revenue-generating commercial products, and although we are eligible to receive up to \$325.0 million in milestone-based payments from Alcon, there can be no assurance as to when we may receive such milestone payments or the amount of milestone payments we may receive, if any.

In July 2017, we completed an IPO pursuant to which we issued and sold 6,900,000 shares of our common stock, which included 900,000 shares sold pursuant to the exercise of the underwriters' option to purchase additional shares, at a price of \$15.00 per share. We received net proceeds of \$94.0 million after deducting underwriting discounts and commission of \$7.3 million and offering costs of \$2.2 million.

On August 9, 2018, we filed our shelf registration statement on Form S-3 that was declared effective by the SEC on August 27, 2018, or the 2018 Shelf Registration, under which we could initially offer and sell up to \$250.0

million of a variety of securities including common stock, preferred stock, warrants, depositary shares, debt securities, purchase contracts, purchase units or any combination of such securities during the three-year period that commenced upon the 2018 Shelf Registration becoming effective. The 2018 Shelf Registration is now expired.

On October 1, 2018, we entered into the Athyrium Credit Facility with Athyrium for up to \$110.0 million. The Athyrium Credit Facility provided for a Term Loan A in the aggregate principal amount of \$75.0 million, and a Term Loan B in the aggregate principal amount of \$35.0 million which we did not draw down. On May 4, 2021, concurrently with the closing of the Loan Agreement with Oxford Finance and the borrowing of the tranche A loan, we utilized substantially all of the proceeds from the tranche A term loan to repay in full all outstanding amounts owed under the Athyrium Credit Facility, under which we had an aggregate principal amount of \$75.0 million of indebtedness outstanding. We terminated all commitments by Athyrium to extend further credit under the Athyrium Credit Facility and all guarantees and security interests granted by us thereunder. In connection with the termination of the Athyrium Credit Facility, we paid to the lenders a prepayment premium of \$2.25 million and an exit fee of \$0.8 million. The transaction resulted in a loss on extinguishment of debt of \$5.4 million, consisting of the prepayment premium, the unamortized debt discount and the unaccreted exit fee.

On October 5, 2018, we sold 7,500,000 shares of common stock in an underwritten offering pursuant to the 2018 Shelf Registration at a public offering price of \$8.25 per share, before underwriting discounts and commissions. In addition, the underwriters were granted an overallotment option to purchase an additional 1,125,000 shares of the common stock at the same public offering price, less underwriting discounts and commissions. On October 11, 2018, the underwriters exercised in full their option to purchase the overallotment shares. The total number of shares sold by us in the offering was 8,625,000 shares, resulting in net proceeds to us, after underwriting discounts and offering expenses, of \$66.1 million. In connection with the filing of the 2018 Shelf Registration, we entered into a sales agreement with Jefferies, pursuant to which we could issue and sell, from time to time, up to an aggregate of \$50.0 million of our common stock in an ATM Offering, through Jefferies, as sales agent. Through the first quarter of 2020, we issued an aggregate of 4,945,605 shares of our common stock under the ATM Offering, resulting in net proceeds to us of \$25.6 million. On March 10, 2020, we suspended and terminated the prospectus related to the ATM Offering.

On March 11, 2020, we sold 16,000,000 shares of our common stock in an underwritten offering pursuant to the 2018 Shelf Registration at a public offering price of \$7.89 per share, resulting in net proceeds of \$118.2 million, after underwriting discounts, commissions, and offering expenses. In addition, the underwriters of the offering were granted the option for a period of 30 days to purchase up to an additional 2,400,000 shares of common stock offered in the public offering at the public offering price, less underwriting discounts, commissions and offering expenses. On April 3, 2020, the underwriters exercised their option and purchased an additional 979,371 shares of common stock at \$7.89 per share, resulting in net proceeds to us of \$7.2 million, after underwriting discounts, commissions, and offering expenses. The total number of shares sold by us in the offering was 16,979,371, resulting in total net proceeds to us, after underwriting discounts, commissions and offering expenses, of \$125.4 million.

Under the 2018 Shelf Registration, which has now expired, we issued an aggregate of 30,549,976 shares of common stock, including under the ATM Offering, resulting in aggregate gross proceeds to us of \$231.7 million.

On May 7, 2020, we filed our shelf registration statement on Form S-3 that was declared effective by the SEC on May 7, 2020, or the 2020 Shelf Registration, under which we may offer and sell up to \$350.0 million of a variety of securities including common stock, preferred stock, warrants, depositary shares, debt securities or units during the three-year period that commenced upon the 2020 Shelf Registration becoming effective. In connection with the filing of the 2020 Shelf Registration, we entered into an amended and restated sales agreement with Jefferies, pursuant to which we may issue and sell, from time to time, up to an aggregate of \$75.0 million of our common stock under our ATM Offering. Through December 31, 2021, we issued and sold an aggregate of 8,581,257 shares of our common stock under the ATM Offering, resulting in net proceeds of \$61.8 million, which included 837,257 and 5,583,329 shares of common stock issued and sold during the three and six months ended June 30, 2021, respectively, resulting in net proceeds of \$6.0 million and \$40.7 million, respectively. As of June 30, 2022, there was \$11.3 million of shares of common stock remaining under the ATM Offering that we may issue and sell in the future and, excluding the shares of common stock that may be offered under our ATM Offering, there was \$275.0 million of securities available to be issued under the 2020 Shelf Registration.

On May 4, 2021, we entered into the Loan Agreement with Oxford Finance, in its capacity as lender, or the Lender, and in its capacity as collateral agent, or Agent, pursuant to which a term loan of up to an aggregate principal amount of \$125.0 million is available to us, consisting of (i) a tranche A term loan that was disbursed on the closing date of the Loan Agreement in the aggregate principal amount of \$80.0 million; (ii) a contingent tranche B term loan in the aggregate principal amount of \$20.0 million available to us through June 30, 2023 and within 90 days of our achieving trailing 6-month product revenue equal to or greater than \$75.0 million, subject to certain other terms and conditions; and (iii) a contingent tranche C term loan in the aggregate principal amount of \$25.0 million available to us through December 31, 2023 and within 90 days of our achieving trailing 6-month product revenue equal to or greater than \$100 million, subject to certain other terms and conditions. The term loans bear interest at a floating rate equal to the greater of 30-day LIBOR and 0.11%, plus 7.89%. Certain of the customary negative covenants limit our and certain of our subsidiaries' ability, among other things, to incur future debt, grant liens, make investments, make acquisitions, distribute dividends, make certain restricted payments and sell assets, subject in each case to certain exceptions. Under the Loan Amendment entered into in connection with our entry into the Asset Purchase Agreement with Alcon, the Lender and Agent consented to the entry by us into the Asset Purchase Agreement and the sale of the Commercial Business to Alcon and agreed to release its liens on the Commercial Business in consideration for the Prepayment by us at the closing of the Alcon Transaction of an aggregate amount of \$40.0 million to the Lender and Agent. The Prepayment, which represented a partial prepayment of principal in the amount of \$36.7 million of the \$80.0 million principal amount outstanding under the term loan advanced by the Lender under the Loan Agreement, plus a prepayment fee of \$0.7 million and a final payment fee of \$2.6 million, was paid on July 8, 2022 in connection with the closing of the Alcon Transaction. The Loan Agreement, as amended by the Loan Amendment, provides that the start date for amortization payments under the Loan Agreement would be extended from December 1, 2024 to January 1, 2026, at which time the aggregate principal balance of the term loan then outstanding under the Loan Agreement is required to be repaid in five monthly installments. All unpaid principal and accrued and unpaid interest with respect to each term loan is due and payable in full on May 1, 2026, or the Maturity Date.

We paid a facility fee of \$0.4 million on the closing date of the Loan Agreement and have agreed to pay a facility fee of \$0.1 million upon closing of the tranche B term loan and a \$0.1 million facility fee upon the closing of the tranche C term loan. We will be required to make a final payment fee of 7.00% of the original principal amount of any funded term loan payable on the earlier of (i) the prepayment of the term loan in full or (ii) the Maturity Date. At our option, we may elect to make partial repayments of the term loan to the Lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid. For further information about the Loan Agreement, see Note 10, "Debt", of our condensed consolidated financial statements.

As a result of the acquisition of Combangio, we may be required to pay additional contingent consideration to the former Combangio Equityholders. Pursuant to the Merger Agreement, former Combangio Equityholders are entitled to receive from us, subject to the terms and conditions of the Merger Agreement, cash or stock consideration which would become payable upon our achievement of various development, regulatory and sales milestones and as a result of certain cash royalty payment obligations. The total potential maximum payout for the milestone payments which are contingent upon the achievement of specified development, regulatory and commercialization milestones is \$40.0 million and the total potential maximum payout for future sales-based milestone payments is an additional \$65.0 million. At our option, we may satisfy a portion of certain of the milestone payments through either the payment of cash or the issuance of additional shares of our common stock up to 19.9% of the total number of shares of our common stock issued and outstanding immediately prior to the closing of the acquisition of Combangio. For a full description of the consideration payable as a result of the acquisition of Combangio, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Our other material cash requirements from known contractual and other obligations as of June 30, 2022 primarily related to licensing and commercial supply agreements. For information related to our future commitments relating to our licensing and commercial supply agreements, see Note 16, "Commitments and Contingencies" and Note 17, "Subsequent Events", of our condensed consolidated financial statements.



### Cash Flows

As of June 30, 2022 and 2021, we had \$44.6 million and \$149.6 million in cash, cash equivalents and short-term investments, respectively. As of June 30, 2022 and 2021, we had \$80.0 million in indebtedness, which represented the aggregate principal amount that was outstanding under the Loan Agreement with Oxford Finance. In connection with the closing of the Alcon Transaction, \$36.7 million of the principal amount was repaid on July 8, 2022 and the remaining principal amount outstanding under the Loan Agreement was \$43.3 million.

The following table summarizes our sources and uses of cash for each of the periods presented:

	Six Months Ended June 30,		Change
	2022	2021	
	(in thousands)		
Net cash used in operating activities	\$ (49,508)	\$ (54,248)	\$ 4,740
Net cash (used in) provided by investing activities	(2,245)	70,705	(72,950)
Net cash provided by financing activities	144	41,164	(41,020)
(Decrease) increase in cash and restricted cash	<u>\$ (51,609)</u>	<u>\$ 57,621</u>	<u>\$ (109,230)</u>

#### Operating Activities

Net cash used in operating activities for the six months ended June 30, 2022 was \$49.5 million, compared to \$54.2 million for the six months ended June 30, 2021, a decrease of \$4.7 million, primarily due to the timing of working capital fluctuations which accounted for \$10.5 million of the decrease, partially offset by a \$5.8 million increase in the net loss adjusted for non-cash charges. Notable working capital fluctuations include a decrease to accounts receivable in the six months ended June 30, 2022 of \$1.5 million, whereas accounts receivable had increased by \$2.3 million in the six months ended June 30, 2021 driven by an increase in sales largely due to the launch of EYSUVIS. Inventory increased by a lower amount during the six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

#### Investing Activities

Net cash used in investing activities for the six months ended June 30, 2022 was \$2.2 million compared to net cash provided by investing activities of \$70.7 million for the same period in 2021, a decrease of \$72.9 million. Net cash used in investing activities for the six months ended June 30, 2022 related to the purchases of short-term investments of \$5.0 million and purchases of property and equipment and other assets of \$0.2 million, partially offset by proceeds from the sales or maturities of short-term investments of \$3.0 million. Net cash provided by investing activities for the six months ended June 30, 2021 consisted of the proceeds from the sales or maturities of short-term investments of \$71.2 million, partially offset by purchases of property and equipment and other assets of \$0.5 million.

#### Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2022 was \$0.1 million, a decrease of \$41.1 million compared to \$41.2 million in the six months ended June 30, 2021. Net cash provided by financing activities for the six months ended June 30, 2022 largely consisted of \$0.1 million of proceeds from the exercise of stock options and the issuance of common stock under our employee stock purchase plan. Net cash provided by financing activities for the six months ended June 30, 2021 consisted of \$77.8 million of net proceeds from the tranche A term loan under our Loan Agreement, \$40.7 million of net proceeds from the sale of shares of our common stock under the ATM Offering and \$0.7 million of proceeds from the exercise of stock options and the issuance of common stock under our employee stock purchase plan, partially offset by the repayment of indebtedness under our Athyrium Credit Facility of \$78.0 million.

### ***Funding Requirements***

We anticipate that our research and development expenses will increase substantially in the future as compared to prior periods as we advance the clinical development of KPI-012. Our research and development expenses will also increase as we conduct any necessary preclinical studies and clinical trials and other development activities for any other product candidates we may develop in the future, including our planned preclinical studies under our KPI-014 program. If we obtain marketing approval for KPI-012 or any product candidates we may develop, we expect that our selling, general and administrative expenses will increase substantially if and as we incur commercialization expenses related to product marketing, sales and distribution.

Our expenses will also increase if and as we:

- submit an IND for, and continue the clinical development of, KPI-012 for PCED;
- initiate and continue the research and development of KPI-012 for additional indications, including initiating and conducting clinical trials;
- scale up our manufacturing processes and capabilities to manufacture the clinical supply of KPI-012;
- seek regulatory approval for KPI-012 for PCED in the United States and other jurisdictions;
- seek regulatory approval for KPI-012 for additional indications;
- grow our sales, marketing and distribution capabilities in connection with the commercialization of any product candidates for which we may submit for and obtain marketing approval;
- initiate and progress any future preclinical development programs under our MSC-S platform, including from our KPI-014 program;
- conduct clinical trials and other development activities and/or seek marketing approval for any product candidates we may develop in the future;
- in-license or acquire the rights to other products, product candidates or technologies;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control, scientific, manufacturing, commercial and management personnel to support our operations;
- expand our operational, financial and management systems; and
- increase our product liability insurance coverage if we initiate commercialization efforts for any product candidates.

We expect to continue to incur significant expenses and operating losses. Net losses may fluctuate significantly from quarter-to-quarter and year-to-year. We anticipate that our cash, cash equivalents and short-term investments as of June 30, 2022, along with the upfront payment of \$60.0 million received from Alcon upon the closing of the Alcon Transaction in July 2022, net of a \$40.0 million prepayment to Oxford Finance, and the cash purchase by Alcon of \$5.0 million of EYSUVIS and INVELTYS inventory on-hand at the closing of the sale the Commercial Business, will enable us to fund our operations, debt service obligations, and capital expenditure requirements into the second quarter of 2024. We expect that our existing cash resources will be sufficient to enable us to obtain initial data from our planned Phase 2/3 clinical trial of KPI-012 in PCED. However, we do not expect that our existing cash resources will be sufficient to enable us to complete the clinical development of KPI-012 for PCED or any other indication. We have based our

estimates on assumptions that may prove to be wrong, and our operating plan may change as a result of many factors currently unknown to us. As a result, we could deplete our available capital resources sooner or later than we currently expect. This estimate also assumes that we remain in compliance with the covenants under the Loan Agreement, including as a result of the delisting of our common stock from the Nasdaq Global Select Market. If an event of default were to occur under the Loan Agreement, the period for which we will be able to fund our operations and capital expenditure requirements will be significantly shorter. For additional information regarding the deficiency letters we have received from the Nasdaq Stock Market LLC, our obligations under the Loan Agreement and the potential impact on our financial condition from the delisting of our common stock from the Nasdaq Global Select Market, see “Risk Factors – If we fail to comply with the continued listing requirements of Nasdaq, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted” and “Risk Factors – Our substantial indebtedness may limit cash flow available to invest in the ongoing needs of our business.”

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, or if, we will be able to achieve profitability. Our expenses will increase from what we anticipate if:

- we elect or are required by the FDA or non-U.S. regulatory agencies to perform clinical trials or studies in addition to those expected;
- there are any delays in enrollment of patients in or completing our clinical trials or the development of our product candidates;
- we in-license or acquire rights to other products, product candidates or technologies; or
- there are any third-party challenges to our intellectual property portfolio, or the need arises to defend against intellectual property-related claims or enforce our intellectual property rights.

Although we are eligible to receive up to \$325.0 million in payments from Alcon based upon the achievement of specified commercial sales-based milestones with respect to EYSUVIS and INVELTYS, there can be no assurance when we may receive such milestone payments or the amount of milestone payments we may receive, if any. Our ability to become and remain profitable depends on our ability to generate revenue. We do not expect to generate revenue from KPI-012 or any other product candidate we may develop in the future for the foreseeable future, if at all. Achieving and maintaining profitability will require us to be successful in a range of challenging activities, including:

- timely filing of an IND for, and completing the clinical development of, KPI-012 for PCED and any other indications we determine to pursue;
- subject to obtaining favorable results from our planned clinical trials of KPI-012, applying for and obtaining marketing approval of KPI-012;
- successfully commercializing KPI-012, if approved;
- discovering, developing and successfully seeking marketing approval and commercialization of any additional product candidates we may develop in the future;
- hiring and building a full commercial organization required for marketing, selling and distributing those products for which we obtain marketing approval;
- manufacturing at commercial scale, marketing, selling and distributing those products for which we obtain marketing approval;
- achieving an adequate level of market acceptance, and obtaining and maintaining coverage and adequate reimbursement from third-party payors for any products we commercialize;
- obtaining, maintaining and protecting our intellectual property rights; and

- adapting our business in response to the pandemic health event resulting from COVID-19 and its collateral consequences.

As a company, we have limited experience commercializing products, and we may not be able to commercialize a product successfully in the future. There are numerous examples of unsuccessful product launches and failures to meet expectations of market potential, including by pharmaceutical companies with more experience and resources than us.

We may never succeed in our development activities or commercialization efforts, if any, of any product candidates that receive regulatory approval, and we may never generate revenue that is sufficient 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 would decrease 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 also cause you to lose all or part of your investment.

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, collaborations, strategic alliances, licensing arrangements, royalty agreements, and marketing and distribution arrangements. 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 of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing and preferred equity financing, if available, may involve agreements that include pledging of assets as collateral, covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Our pledge of our assets as collateral to secure our obligations under our Loan Agreement may limit our ability to obtain additional debt financing. Under our Loan Agreement, we are also restricted from incurring future debt, granting liens, making investments, making acquisitions, distributing dividends on our common stock, making certain restricted payments and selling assets and making certain other uses of our cash, without the lenders' consent, subject in each case to certain exceptions.

We will need to raise additional capital in the future to advance our business. Additional private or public financings may not be available to us on acceptable terms, or at all. Additionally, the COVID-19 pandemic has already caused significant disruptions in the financial markets, and may again cause such disruptions, which could impact our ability to raise additional funds. The COVID-19 pandemic has also impacted, and may continue to impact, the volatility of our stock price and trading in our stock. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future.

Our failure to raise capital as and when needed would have a material adverse effect on our financial condition and our ability to pursue our business strategy. If we raise additional funds through collaborations, strategic alliances, licensing arrangements, royalty agreements, or marketing and distribution arrangements, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or current or future commercialization efforts or grant rights to develop and market products or product candidates that we would otherwise prefer to develop and market ourselves.

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

Our financial instruments consist primarily of cash equivalents and short-term investments. Our cash equivalents as of June 30, 2022 consisted of money market accounts that have contractual maturities of less than 90 days from the date of acquisition. Our short-term investments as of June 30, 2022 consisted of U.S. treasury securities. Due to the short-term maturities of our cash equivalents and short-term investments, and the fixed income nature of these investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our cash equivalents and short-term investments.

As of June 30, 2022 and 2021, the aggregate principal amount outstanding under the Loan Agreement was \$80.0 million, which bears interest at a floating rate equal to the greater of 30-day LIBOR and 0.11%, plus 7.89% per annum. An immediate 10% change in the 30-day LIBOR rate would not have a material impact on our operating results or cash flows.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are 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 recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. 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. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

There were no changes in our internal control over financial reporting that occurred during the three-month period ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings.

### Item 1A. RISK FACTORS

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information contained in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q, including our financial statements and the related notes appearing at the end of our Annual Report on Form 10-K and included in this Quarterly Report on Form 10-Q, before deciding to invest in our common stock. These risks, some of which have occurred and any of which may occur in the future, can have a material adverse effect on our business, prospects, operating results and financial condition. In such event, the trading price of our common stock could decline and you might lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business, prospects, operating results and financial condition.*

#### **Risks Related to our Recent Sale of our Commercial Business to Affiliates of Alcon Inc.**

***Following the completion of the sale of our commercial business to Alcon Pharmaceuticals Ltd. and Alcon Vision, LLC, or collectively Alcon, we no longer have any commercial products in our portfolio, and we have only one product candidate which is currently in clinical development. As a result, we are substantially dependent on the development of KPI-012 for the treatment of PCED and any other product candidates we may develop in the future.***

On July 8, 2022, we completed the sale of our commercial business, including our commercial products, EYSUVIS and INVELTYS, to Alcon. As a result, we no longer have any commercial products in our portfolio. We have determined to cease the development of our preclinical pipeline programs that are unrelated to our mesenchymal stem cell secretome, or MSC-S, platform, including the development of KPI-287, our receptor tyrosine kinase inhibitor, and our selective glucocorticoid receptor modulators and to focus our research and development efforts on KPI-012, our product candidate in clinical development for the treatment of persistent corneal epithelial defects, or PCED, and any other indications we determine to pursue. As a result, we are substantially dependent on the development of KPI-012 and any other product candidates we may develop in the future. If we are unable to advance KPI-012 or any other product candidate we develop through clinical development, obtain regulatory approval for and ultimately commercialize such product candidate, or if we experience significant delays in doing so, our business will be materially harmed. As a result of the sale of our only revenue-generating commercial products to Alcon, we have no current source of revenue, our cash flows have diminished and our ability to fund our operating expenses and capital expenditures requirements or satisfy other financial commitments may be significantly diminished.

***The milestone consideration we are eligible to receive in connection with the sale of our commercial business to Alcon, is subject to various risks and uncertainties.***

The milestone consideration we are eligible to receive for the sale of our commercial business to Alcon is subject to various risks and uncertainties. In addition to the upfront payment of \$60.0 million we received from Alcon at closing, we are eligible to receive up to four commercial-based sales milestone payments as follows: (1) \$25.0 million upon the achievement of \$50.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (2) \$65.0 million upon the achievement of \$100.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2028, (3) \$75.0 million upon the achievement of \$175.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029 and (4) \$160.0 million upon the achievement of \$250.0 million or more in aggregate worldwide net sales of EYSUVIS and INVELTYS in a calendar year from 2023 to 2029. We cannot predict what success, if any,

Alcon and its affiliates may have with respect to sales of EYSUVIS and INVELTYS and, therefore, it is uncertain as to when we may receive the milestone payments, which milestone payments we may receive and if we will receive any milestone payments at all. If we do not receive some or all of the milestone payments, our business will be harmed.

***We may not be able to realize the anticipated benefits from the sale of our commercial business to Alcon.***

We may not be able to realize the anticipated benefits of the sale of our commercial business to Alcon, including utilizing the proceeds from the sale primarily on the development of KPI-012 and any other product candidate we may develop in the future, significantly reducing costs, positioning our business for long-term growth and maximizing stockholder value.

Our ability to realize the anticipated benefits of the sale and the success of the remaining company is subject to various risks and uncertainties. There is a possibility of adverse clinical and other developments in respect of KPI-012, and we may not be able to successfully develop, obtain marketing approval for and commercialize KPI-012. We may not utilize the proceeds from the sale to successfully develop KPI-012 or any product candidate we develop in the future. We may experience difficulties or delays with developing KPI-012, as we have had no prior experience as a company in developing biological product candidates. Further, we could spend the proceeds from the sale of our commercial business in ways that do not improve our remaining business, financial condition or results of operations. Our failure to apply these funds effectively could have an adverse effect on our business, financial condition and results of operations. We also may not achieve the cost-savings we anticipate from the sale of our commercial business.

In addition, our current and prospective employees may feel uncertain about their roles with us following the completion of the sale to Alcon, including as a result of the workforce reduction we announced in July 2022, which may have an adverse effect on our ability to attract or retain key management personnel or other key employees. If key employees depart, our business, financial condition and results of operations may be adversely impacted, and we may not be able to comply with our ongoing obligations under the asset purchase agreement with Alcon, including our transition obligations related to the sale of our commercial business.

**Risks Related to Our Acquisition of Combangio**

***We may fail to realize the anticipated benefits of our acquisition of Combangio and those benefits may take longer to realize than expected.***

On November 15, 2021, we completed our acquisition of Combangio Inc., or the Combangio Acquisition, a clinical-stage biotechnology company focused on developing regenerative biotherapeutics based on mesenchymal stem cell secretomes, including KPI-012 (previously known as CMB-012) for the treatment of PCED. Our ability to realize the anticipated benefits of the Combangio Acquisition will depend on our ability to successfully develop and commercialize KPI-012, which is currently the only clinical product candidate in our portfolio. We have devoted, and will continue to devote, significant management attention and resources to developing KPI-012. The failure to successfully develop KPI-012 and thus realize the anticipated benefits of the Combangio Acquisition could adversely affect our business, financial condition and results of operations.

Our ability to realize the anticipated benefits of the Combangio Acquisition is expected to entail numerous additional material potential difficulties, risks and uncertainties, including, among others:

- any delay in or failure in filing an investigational new drug, or IND, application for KPI-012 with the U.S. Food and Drug Administration, or FDA;
- if filed, the FDA may not clear our IND submission for KPI-012 and may not permit us to commence clinical trials in the United States of KPI-012 on the timeline we expect or at all;
- any clinical trials of KPI-012 that we commence in the future may fail to provide sufficient evidence that KPI-012 is both safe and effective for use;

- any delay or failure in obtaining marketing approvals for KPI-012, or any delay or failure to commercialize KPI-012 in the United States or other jurisdictions thereafter;
- increased scrutiny from third parties, including regulators, legislative bodies and enforcement agencies, including with respect to product pricing and commercialization matters;
- changes in laws or regulations that adversely impact the anticipated benefits of the Combangio Acquisition;
- challenges related to the perception by patients, the medical community and third-party payors of KPI-012 for the treatment of PCED or any other indication for which we develop KPI-012;
- challenges related to the complex manufacturing process for KPI-012 and the reliance on manufacturing arrangements with third-party manufacturers;
- the size of the treatable patient population for PCED or any other indication for which we develop KPI-012 may be smaller than we believe it is;
- potential unknown liabilities, adverse consequences, unforeseen increased expenses or other unanticipated problems associated with the Combangio Acquisition.

Many of these factors are outside of our control, and any one of them could result in increased costs, decreased expected revenues and further diversion of management time and energy, which could materially adversely impact our business, financial condition and results of operations.

Also, we now possess certain liabilities and obligations, including contractual liabilities and obligations, that were assumed by us upon closing of the Combangio Acquisition. Further, it is possible that undisclosed, contingent, or other liabilities, problems or obligations may arise in the future of which we were previously unaware. These disclosed and undisclosed liabilities could have an adverse effect on our business, financial condition and results of operations.

We will continue to incur expenses related to the development, regulatory approval process and commercialization of KPI-012. As a company, we have no prior experience developing biological product candidates. Because we have limited financial resources, by investing in the Combangio Acquisition and focusing on the development of KPI-012, we may forgo or delay pursuit of other opportunities that may have proven to have greater commercial potential.

Any or all of these factors could decrease or delay the expected accretive effect of the Combangio Acquisition and negatively impact our stock price. As a result, it cannot be assured that we will realize the anticipated benefits from the Combangio Acquisition or in the anticipated time frames or at all.

***Our existing stockholders will experience dilution upon any future issuance of shares of our common stock to former equityholders of Combangio pursuant to the terms of the merger agreement.***

In connection with the Combangio Acquisition, on January 3, 2022, we issued an aggregate of 6,815,072 shares of our common stock to the former Combangio equityholders. Such shares, together with 973,565 shares of our common stock that are held back by us, or the Holdback Shares, and will be issuable subject to the terms of the merger agreement to the Combangio equityholders on the escrow release date, constituted approximately 11.9% of our common stock as of immediately prior to the closing of the Combangio Acquisition. In addition, former Combangio equityholders are entitled to receive from us, subject to the terms and conditions of the merger agreement, contingent consideration of up to \$5.4 million payable in shares of our common stock upon our achievement of various development and regulatory milestones, and, we may elect, subject to the Nasdaq rules, to satisfy a portion of certain milestone payments that are payable to Combangio equityholders in cash through the issuance of up to \$15 million of our common stock. Our existing stockholders will experience dilution upon any future issuance of shares of our common stock to former Combangio equityholders pursuant to the merger agreement.



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

***We have incurred significant losses from operations and negative cash flows from operations since our inception. We expect to incur additional losses and may never achieve or maintain profitability.***

Since inception, we have incurred significant losses from operations and negative cash flows from operations. Our net losses were \$28.1 million and \$61.1 million for the three and six months ended June 30, 2022, respectively, and \$142.6 million for the year ended December 31, 2021. As of June 30, 2022, we had an accumulated deficit of \$603.4 million. Prior to the sale of our commercial business to Alcon in July 2022, we generated only limited revenues from sales of EYSUVIS and INVELTYS. We have financed our operations primarily through proceeds from the sale of our commercial business to Alcon in July 2022, our initial public offering, follow-on public offerings of common stock and sales under our at-the-market offering facility, or the ATM Offering, private placements of preferred stock, borrowings under credit facilities and the Loan and Security Agreement with Oxford Finance LLC, or the Loan Agreement, convertible promissory notes and warrants. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and clinical trials, and prior to the sale of our commercial business to Alcon in July 2022, engaging in activities to launch and commercialize EYSUVIS and INVELTYS. As of result of the acquisition of Combangio and the sale of our commercial business to Alcon, we intend to devote substantial financial resources to the research and development and potential commercialization of KPI-012. We have no revenue-generating commercial products, and although we are eligible to receive up to \$325.0 million in payments from Alcon based upon the achievement of specified commercial sales-based milestones with respect to EYSUVIS and INVELTYS, there can be no assurance as to when we may receive such milestone payments or the amount of milestone payments we may receive, if any. We expect to continue to incur significant expenses and operating losses for the foreseeable future, including in connection with our continued development, regulatory approval efforts and commercialization, if any, of KPI-012. We may never achieve or maintain profitability. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year.

We anticipate that our research and development expenses will increase substantially in the future as compared to prior periods as we advance the clinical development of KPI-012. Our research and development expenses will also increase in the future as we conduct any necessary preclinical studies and clinical trials and other development activities for any other product candidates we may develop in the future, including our planned preclinical studies under our KPI-014 program, which is a mesenchymal secretome formulation that is in preclinical development for the treatment of one or more back-of-the-eye diseases, such as Retinitis Pigmentosa and Stargardt Disease. We expect that our selling, general and administrative expenses will increase substantially if we pursue the commercialization of KPI-012, if we receive marketing approval, and support commercialization of any other product candidate.

Our expenses will also increase if and as we:

- submit an IND for, and continue the clinical development of, KPI-012 for PCED;
- initiate and continue the research and development of KPI-012 for additional indications, including initiating and conducting clinical trials;
- scale up our manufacturing processes and capabilities to manufacture the clinical supply of KPI-012;
- seek regulatory approval for KPI-012 for PCED in the United States and other jurisdictions;
- seek regulatory approval for KPI-012 for additional indications;
- grow our sales, marketing and distribution capabilities in connection with the commercialization of any product candidates for which we may submit for and obtain marketing approval;
- initiate and progress any future preclinical development programs under our MSC-S platform, including from our KPI-014 program;

- conduct clinical trials and other development activities and/or seek marketing approval for any product candidates we may develop in the future;
- in-license or acquire the rights to other products, product candidates or technologies;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control, scientific, manufacturing, commercial and management personnel to support our operations;
- expand our operational, financial and management systems; and
- increase our product liability insurance coverage if we initiate commercialization efforts for our product candidates.

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, or if, we will be able to achieve profitability. Our expenses will increase from what we anticipate if:

- we elect or are required by the FDA or non-U.S. regulatory agencies to perform clinical trials or studies in addition to those expected;
- there are any delays in enrollment of patients in or completing our clinical trials or the development of our product candidates;
- we in-license or acquire rights to other products, product candidates or technologies; or
- there are any third-party challenges to our intellectual property portfolio, or the need arises to defend against intellectual property-related claims or enforce our intellectual property rights.

Our ability to become and remain profitable depends on our ability to generate revenue. We do not expect to generate revenue from KPI-012 or any other product candidate we may develop in the future for the foreseeable future, if at all. Achieving and maintaining profitability will require us to be successful in a range of challenging activities, including:

- timely filing of an IND for, and completing the clinical development of, KPI-012 for PCED and any other indications we determine to pursue;
- subject to obtaining favorable results from our planned clinical trials of KPI-012, applying for and obtaining marketing approval of KPI-012;
- successfully commercializing KPI-012, if approved;
- discovering, developing and successfully seeking marketing approval and commercialization of any additional product candidates we may develop in the future;
- hiring and building a full commercial organization required for marketing, selling and distributing those products for which we obtain marketing approval;
- manufacturing at commercial scale, marketing, selling and distributing those products for which we obtain marketing approval;

- achieving an adequate level of market acceptance, and obtaining and maintaining coverage and adequate reimbursement from third-party payors for any products we commercialize;
- obtaining, maintaining and protecting our intellectual property rights; and
- adapting our business in response to the pandemic health event resulting from COVID-19 and its collateral consequences.

As a company, we have limited experience commercializing products, and we may not be able to commercialize a product successfully in the future. There are numerous examples of unsuccessful product launches and failures to meet expectations of market potential, including by pharmaceutical companies with more experience and resources than us.

We may never succeed in the foregoing activities and we may never generate revenue that is sufficient 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 would decrease 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 also cause you to lose all or part of your investment.

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

Our operations to date have been limited to organizing and staffing our company, acquiring rights to intellectual property, business planning, raising capital, conducting research and development activities, and prior to the sale of our commercial business to Alcon in July 2022, developing and commercially launching EYSUVIS and INVELTYS. While we have had experience with obtaining marketing approval for and commercially launching two commercial products, we no longer have any commercial products following the sale of our commercial business to Alcon, we have only one product candidate in clinical development and we cannot be certain that we will be able to develop, obtain marketing approval for and commercialize a product in the future. We plan to submit an IND application to the FDA for KPI-012 and, subject to regulatory clearance, commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022. If we are successful in developing and obtaining marketing approval for KPI-012 or any product candidate we may develop in the future, we will again have to transition from a company with a research and development focus to company capable of supporting commercial activity. We may not be successful in such a transition.

In addition, KPI-012, which we acquired in connection with the Combangio Acquisition in November 2021, is a biological product candidate. As a company, we have no prior experience developing biological product candidates. As such, we may encounter delays or difficulties in our efforts to develop and commercialize KPI-012.

Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had prior experience developing biological product candidates or a longer operating and commercialization history.

We expect our financial condition and operating results to fluctuate significantly from quarter-to-quarter and year-to-year due to a variety of factors, many of which are beyond our control. Accordingly, you should not rely upon the results of any quarterly or annual periods as indications of future operating performance.

***We will need substantial additional funding. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development efforts.***

We expect to devote substantial financial resources to our ongoing and planned activities, particularly as we conduct research and development activities, and initiate clinical trials of, and seek regulatory approval for, KPI-012 and any other product candidate that we identify and advance. If we do obtain regulatory approval for KPI-012 or any other

product candidate that we develop, we expect to incur commercialization expenses related to product sales, marketing, distribution and manufacturing capabilities. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

Our future capital requirements will depend on many factors, including:

- the timing and amount of milestone payments we ultimately receive from Alcon under the asset purchase agreement;
- the timing and amount of our future milestone payments to Combangio equityholders under the merger agreement;
- the progress, costs and results of our planned clinical trials of KPI-012;
- the costs and timing of process development and manufacturing scale-up activities associated with KPI-012 for PCED and any other indications we determine to pursue;
- the costs, timing and outcome of regulatory review of KPI-012;
- the costs and timing of commercialization activities for KPI-012, if approved, including establishing product sales, marketing, medical affairs, distribution and outsourced manufacturing capabilities;
- our ability to successfully commercialize KPI-012, if approved, in the United States and other jurisdictions and the amount of revenue received from commercial sales;
- our ability to establish and maintain strategic collaborations, licensing or other agreements and the financial terms of such agreements;
- the scope, progress, results and costs of research and development of any other product candidates that we may develop;
- the extent to which we successfully advance and/or in-license or acquire rights to other products, product candidates or technologies; and
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against any intellectual property-related claims.

We expect to continue to incur significant expenses and operating losses. Net losses may fluctuate significantly from quarter-to-quarter and year-to-year. We expect that our cash, cash equivalents and short-term investments of \$44.6 million as of June 30, 2022, together with the upfront payment of \$60.0 million we received from Alcon upon the closing of the sale of our commercial business in July 2022, net of a \$40.0 million prepayment to our lender, and the \$5.0 million cash purchase by Alcon of EYSUVIS and INVELTYS inventory on-hand at the closing of the sale of our commercial business, will enable us to fund our operations, debt service obligations, and capital expenditure requirements into the second quarter of 2024. We expect that our existing cash resources will be sufficient to enable us to obtain initial data from our planned Phase 2/3 clinical trial of KPI-012 in PCED. However, we do not expect that our existing cash resources will be sufficient to enable us to complete the clinical development of KPI-012 for PCED or any other indication. We have based our estimates on assumptions that may prove to be wrong, and our operating plan may change as a result of many factors currently unknown to us. As a result, we could deplete our available capital resources sooner than we currently expect. This estimate also assumes that we remain in compliance with the covenants and no event of default occurs under the Loan Agreement, including as a result of the delisting of our common stock from the Nasdaq Global Select Market. If an event of default were to occur under the Loan Agreement, the period for which we will be able to fund our operations and capital expenditure requirements will be significantly shorter.

Identifying potential product candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete. Completion dates and completion costs can vary significantly for each product candidate and are difficult to predict. We may never generate the necessary data or results required to obtain marketing approval and achieve product sales from KPI-012 or any other product candidate we develop. Also, even if we successfully develop KPI-012 or any other product candidate and one or more of those are approved, we may not achieve commercial success with them. Accordingly, we will require additional financing to achieve our business objectives. In addition, we may opportunistically raise 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. Adequate additional financing may not be available to us on acceptable terms, or at all. 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 one or more of our product candidates or delay, limit, reduce or terminate our establishment of sales and marketing capabilities or other activities that may be necessary to commercialize any product candidate for which we obtain approval.

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

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, collaborations, strategic alliances, licensing arrangements, royalty agreements, and marketing and distribution arrangements. 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 of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing and preferred equity financing, if available, may involve agreements that include pledging of assets as collateral, covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Our pledge of our assets as collateral to secure our obligations under our Loan Agreement may limit our ability to obtain additional debt financing. Under the Loan Agreement, we are also restricted from paying dividends on our common stock, granting liens, making investments, making acquisitions, making certain restricted payments, selling assets and making certain other uses of our cash without the lenders' consent, subject in each case to certain exceptions.

In addition, if we raise additional funds through collaborations, strategic alliances, licensing arrangements, royalty agreements, or marketing and distribution arrangements, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or current or future commercialization efforts or grant rights to develop and market products or product candidates that we would otherwise prefer to develop and market ourselves.

***Our substantial indebtedness may limit cash flow available to invest in the ongoing needs of our business and a failure to comply with the covenants under our Loan Agreement could result in an event of default and acceleration of amounts due.***

We have a substantial amount of indebtedness. As of June 30, 2022, we had \$80.0 million of outstanding borrowings under the tranche A term loan under the Loan Agreement, bearing interest at a floating rate equal to the greater of 30-day LIBOR and 0.11%, plus 7.89%. On May 21, 2022, in connection with our entry into the asset purchase agreement with Alcon, we entered into an amendment to the Loan Agreement, or the Loan Amendment. Under the Loan Amendment, the lender and agent agreed to release its liens on our commercial business in consideration for the payment by us on July 8, 2022 of an aggregate amount of \$40,000,000, or the Prepayment, to the lender and agent, representing a partial prepayment of principal in the amount of \$36,697,248 of the \$80,000,000 principal amount outstanding under the term loan advanced by the lender under the Loan Agreement plus a prepayment fee and a final payment fee. We were also required to pay all accrued and unpaid interest on the principal amount of the term loan being repaid.

In addition, under the Loan Amendment, the lender and agent agreed that, following the closing of the sale to Alcon and the Prepayment, the start date for amortization payments under the Loan Agreement would be extended from December 1, 2024 to January 1, 2026, at which time the aggregate principal balance of the term loan then outstanding under the Loan Agreement is required to be repaid in five monthly installments. Pursuant to the Loan Amendment, we may also make partial prepayments of the term loan to the lender, subject to specified conditions, including the payment of applicable fees and accrued and unpaid interest on the principal amount of the term loan being repaid. Our obligations under the Loan Agreement are secured by substantially all of our assets.

Our debt combined with our other financial obligations and contractual commitments could have significant adverse consequences, including:

- requiring us to dedicate a substantial portion of cash flow from operations or cash on hand to the payment of interest on, and principal of, our debt, which will reduce the amounts available to fund working capital, capital expenditures, product development efforts and other general corporate purposes;
- increasing our vulnerability to adverse changes in general economic, industry and market conditions;
- subjecting us to restrictive covenants that may reduce our ability to acquire other businesses for cash, take certain other corporate actions or obtain further debt or equity financing;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or better debt servicing options.

We may not have sufficient funds or may be unable to arrange for additional financing to pay the amounts due under our existing debt and funds from external sources may not be available on acceptable terms, if at all. In addition, a failure to comply with the covenants under our Loan Agreement could result in an event of default and acceleration of amounts due. If an event of default occurs and the lender accelerates the amounts due under our Loan Agreement, we may not be able to make accelerated payments, and the lender could seek to enforce security interests in the collateral securing such indebtedness.

***Fluctuations in interest rates could materially affect the interest expense on our Loan Agreement.***

Because our debt under the Loan Agreement bears interest at floating interest rates, increases in interest rates could materially increase our interest expense. Further, our Loan Agreement uses LIBOR as a reference rate. The United Kingdom's Financial Conduct Authority, or the FCA, which regulates LIBOR, announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative: (1) immediately after December 31, 2021, in the case of the one week and two month LIBOR tenors; and (2) immediately after June 30, 2023, in the case of the remaining LIBOR tenors. The United States Federal Reserve has advised that no new contracts using U.S. dollar LIBOR should be entered into after December 31, 2021. In June 2017, the Alternative Reference Rates Committee selected the Secured Overnight Financing Rate, or SOFR, a new index calculated by reference to short-term repurchase agreements backed by Treasury securities, as its preferred replacement for U.S. dollar LIBOR. Whether SOFR or any other alternative reference rates attains market acceptance as a LIBOR replacement tool remains uncertain. As such, the future of LIBOR and the potential alternatives at this time is uncertain.

When LIBOR is no longer available, or if lenders have increased costs due to the phase-out of LIBOR or changes in law, we may suffer from potential increases in interest rate costs on our floating debt rate. It is not possible to predict the effect these developments may have on our Loan Agreement. Further, we may need to renegotiate our Loan Agreement and the floating loans thereunder to replace the interest rate calculated by reference to LIBOR with an interest rate calculated by reference to a new standard that is established.

***If our estimates or judgments relating to our critical accounting policies, or any of our projections, prove to be inaccurate or financial reporting standards or interpretations change, our results of operations could be adversely affected.***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses. Such estimates and judgments include revenue recognition, inventory, the present value of lease liabilities and the corresponding right-of-use assets, the fair value of warrants, contingent consideration, stock-based compensation, accrued expenses and the recoverability of our net deferred tax assets and related valuation allowance. We base our estimates and judgments on historical experience, expected future experience and on various other assumptions that we believe to be reasonable under the circumstances. In addition, from time to time, we may rely on projections regarding our expected future performance that represent our management's then-current estimates. However, any of these estimates, judgments or projections, or the assumptions underlying them, may change over time or may otherwise prove to be inaccurate. Our results of operations may be adversely affected if our estimates, assumptions or projections change or if actual circumstances differ from those in our estimates or assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our common stock.

For example, for reporting product revenue from commercial sales of EYSUVIS and INVELTYS, we relied on third-party data providers to collect and report estimates of prescription information and pipeline inventory levels as components of our estimations for revenue recognition. There is a limited amount of information available to such data providers to determine the actual number of total prescriptions for prescription products during such periods. Their estimates are based on a combination of data received from pharmacies and other distributors, and historical data when actual data is unavailable. Their calculations of changes in prescription levels between periods can be significantly affected by lags in data reporting from various sources or by changes in pharmacies and other distributors providing data. Such methods can from time to time result in significant inaccuracies in information when ultimately compared with actual results. Further, data for a single and limited period may not be representative of a trend or otherwise predictive of future results.

Additionally, we regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial position and results of operations.

#### **Risks Related to Product Development**

***We are substantially dependent on the success of our product candidate, KPI-012. If we are unable to successfully complete the clinical development of, and obtain marketing approval for, KPI-012 or any other product candidate we may develop in the future, or experience significant delays in doing so, or if, after obtaining marketing approvals, we fail to commercialize such product candidates, our business will be materially harmed.***

As a result of the sale of our commercial business to Alcon in July 2022, including our commercial products, EYSUVIS and INVELTYS, and our decision to cease the development of our preclinical pipeline programs that are unrelated to our MSC-S platform, we are substantially dependent on the success of our product candidate, KPI-012, our clinical-stage product candidate for the treatment of PCED and any other indications we determine to pursue. As a result, we intend to devote a substantial portion of our research and development resources and business efforts to the development of KPI-012.

The success of KPI-012 and any other product candidates we may develop in the future will depend on many factors, including the following:

- timely submission and clearance of our planned IND submission for KPI-012 and for any other product candidates we develop;
- completing and obtaining favorable results from our planned clinical trials of KPI-012 and any other product candidate we develop;
- applying for and receiving marketing approvals from the FDA and any other regulatory authorities for KPI-012 and any other product candidate we develop;
- if approved, successfully launching and commercializing KPI-012 or any other product candidate we develop in the United States, including establishing and maintaining sales, marketing, manufacturing and distribution capabilities for KPI-012 or any other product candidate we develop;
- if approved, obtaining acceptance of KPI-012 and any other product candidate we develop by patients, the medical community and third-party payors;
- obtaining and maintaining coverage, adequate pricing, and adequate reimbursement from third-party payors, including government payors, for our product candidates;
- obtaining and maintaining regulatory approval of our manufacturing processes and our third-party manufacturers' facilities from applicable regulatory authorities and obtaining and maintaining adequate supply of any such approved products;
- maintaining a workforce of experienced scientists and others with experience in eye diseases and biologics to continue to develop our product candidates;
- effectively competing with other therapies;
- maintaining an acceptable potency, purity and safety profile of our products following approval;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- protecting our rights in our intellectual property portfolio; and
- not infringing, misappropriating or otherwise violating others' intellectual property rights.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize KPI-012 or any other product candidate we may develop in the future, which would materially harm our business. We may never generate the necessary data or results required to obtain regulatory approval of KPI-012 or any other product candidate we develop and the commercialization of KPI-012 or any other product candidate we develop may never occur.

***If clinical trials of KPI-012 or any other product candidate that we develop fail to demonstrate potency, safety and purity or, for drug products, safety and efficacy to the satisfaction of the FDA or other regulatory authorities or do not otherwise produce favorable results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of such product candidate.***

The risk of failure in developing product candidates is high. It is impossible to predict when or if any product candidate would prove effective or safe in humans or will receive regulatory approval. Before obtaining marketing



approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the potency, purity and safety for a biologic product and the safety and efficacy of any drug product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later stage clinical trials, and interim results of a clinical trial do not necessarily predict final results. For example, the results of Combangio's Phase 1b clinical trials of KPI-012 in 12 patients with PCED may not be indicative of future results in later stage clinical trials, including in our planned Phase 2/3 clinical trial of KPI-012 in patients with PCED. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their product candidates. Furthermore, the failure of any product candidates to demonstrate potency, safety and purity in any clinical trial could negatively impact the perception of our other product candidates and/or cause the FDA or other regulatory authorities to require additional testing before approving any of our product candidates. For example, in our STRIDE 2 Phase 3 clinical trial evaluating the safety and efficacy of EYSUVIS versus placebo in patients with dry eye disease, we did not achieve statistical significance for the primary symptom endpoint of ocular discomfort severity, and subsequently we received a complete response letter from the FDA indicating that positive efficacy data from an additional clinical trial was needed to support a new drug application for EYSUVIS.

If we are required to conduct additional clinical trials or other testing of KPI-012 or any other product candidate we develop beyond those that we currently expect, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings, including boxed warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

***If we experience any of a number of possible unforeseen events in connection with our clinical trials, potential marketing approval or commercialization of our product candidates could be delayed or prevented, and our competitors could bring products to market before we do.***

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or commercialize KPI-012 or any other product candidate that we may develop, including:

- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may recommend or require us, to conduct additional clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials at a higher rate than we anticipate;

- our third-party contractors may fail to comply with regulatory requirements or meet their obligations to us in a timely manner, or at all;
- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may experience delays in reaching, or fail to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- we may decide, or regulators or institutional review boards may require us, to suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- we may be subject to additional post-marketing testing requirements to maintain regulatory approval;
- regulators may revise the requirements for approving our product candidates, or such requirements may not be as we anticipate;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate or may be delayed;
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate trials;
- ongoing or future restrictions resulting from the COVID-19 pandemic and its collateral consequences may result in internal and external operational delays and limitations; and
- regulatory authorities may withdraw their approval of a product or impose restrictions on its distribution, such as in the form of a modified Risk Evaluation and Mitigation Strategy.

Our product development costs will also increase if we experience delays in testing or marketing approvals. We do not know whether any of our preclinical studies or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors, such as those developing treatments for PCED, to bring products to market before we do and impair our ability to successfully commercialize our product candidates.

***If we experience delays or difficulties in the enrollment of patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.***

We may not be able to initiate or continue clinical trials for KPI-012 or any other product candidate we may develop if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials as required by the FDA or similar regulatory authorities outside the United States.

Patient enrollment is affected by a variety of factors, including:

- the prevalence and severity of the disease or condition under investigation;
- the patient eligibility criteria for the trial in question;
- the perceived risks and benefits of the product candidate under study;

- the existence of existing treatments for the indications for which we are conducting clinical trials;
- the efforts to facilitate timely enrollment in clinical trials;
- the patient referral practices of clinicians;
- the ability to monitor patients adequately during and after treatment;
- the proximity and availability of clinical trial sites for prospective patients;
- the conducting of clinical trials by competitors for product candidates that treat the same indications as our product candidates;
- the impact of public health epidemics, such as the ongoing COVID-19 pandemic; and
- the lack of adequate compensation for prospective patients.

We are developing KPI-012 for PCED, which is a rare condition with an estimated incidence in the United States of 100,000 cases per year, and, as such, we may have difficulty identifying and enrolling a sufficient number of patients in our planned clinical trials of KPI-012 given the limited number of patients with PCED. Our inability to locate and enroll a sufficient number of patients for our clinical trials could result in significant delays, could require us to abandon one or more clinical trials altogether and could delay or prevent our receipt of necessary regulatory approvals. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing.

***If serious adverse or unacceptable side effects are identified during the development or commercialization of our product candidates, we may need to abandon or limit our development and/or commercialization efforts for such product candidates.***

If KPI-012 or any other product candidate we develop are associated with serious adverse events or undesirable side effects in clinical trials or following approval and/or commercialization, or if any of our product candidates have characteristics that are unexpected, we may need to abandon their development or limit development or marketing to narrower uses or subpopulations in which the serious adverse events, undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. While KPI-012 was generally well-tolerated in Combangio's Phase 1b clinical trials, it was only administered in 12 subjects. Compounds that initially show promise in clinical or earlier stage testing for treating eye disease or other diseases may later be found to cause side effects that prevent further development and commercialization of the compound. In addition, adverse events which had initially been considered unrelated to the study treatment may later, even following approval and/or commercialization, be found to be caused by the study treatment. Moreover, incorrect or improper use of a product by patients could result in additional unexpected side effects or adverse events. There can be no assurance that any product we may develop will be used correctly, and if used incorrectly, such misuse could hamper commercial adoption or market acceptance of such products or product candidates, if approved, at the rate we currently expect.

***We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.***

Because we have limited financial and managerial resources, we focus on research programs and product candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. In July 2022, we sold our commercial business, including EYSUVIS and INVELTYS, to Alcon and we made a strategic determination to cease the development of our preclinical pipeline programs that are unrelated to our MSC-S platform and to focus our research and development efforts on KPI-012.

We may never realize the anticipated benefits of these decisions and, as a result, we may be required to forego or delay other opportunities. In addition, our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and KPI-012 for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

***KPI-012 has only been evaluated in a clinical trial outside of the United States. We may in the future conduct clinical trials for product candidates at sites outside the United States, and the FDA may not accept data from trials conducted in such locations.***

Combango has in the past chosen, and we may in the future choose, to conduct one or more of our clinical trials outside the United States. Although the FDA may accept data from clinical trials conducted outside the United States, acceptance of these data is subject to conditions imposed by the FDA. For example, the clinical trial must be well designed and conducted and be performed by qualified investigators in accordance with ethical principles. The trial population must also adequately represent the U.S. population, and the data must be applicable to the U.S. population and U.S. medical practice in ways that the FDA deems clinically meaningful. In addition, while these clinical trials are subject to the applicable local laws, FDA acceptance of the data will depend on its determination that the trials also complied with all applicable U.S. laws and regulations. In 2020 and 2021, Combango conducted Phase 1b clinical trials of KPI-012 for PCED in 12 patients in Mexico. KPI-012 has only been evaluated in clinical trials outside of the United States. Based on the results of the Phase 1b clinical trials conducted in Mexico, we plan to submit an IND application to the FDA for KPI-012 and, subject to regulatory clearance, commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022. However, if the FDA does not accept the data from Combango's Phase 1b clinical trials of KPI-012 or any trial that we conduct in the future outside the United States, it would likely result in the need for additional trials, which would be costly and time-consuming and could delay or permanently halt our development of the applicable product candidates.

#### **Risks Related to the Commercialization of our Product Candidates**

***The ongoing novel coronavirus pandemic and the efforts to prevent its spread have adversely impacted our operations, could impact the development of KPI-012 or any other product candidate we develop, and may continue to adversely affect our business, results of operations and financial condition.***

The outbreak of the COVID-19 pandemic and government measures taken in response to it, including from time to time quarantines, strict travel restrictions and bans, heightened border scrutiny and other measures, have had a significant impact, both direct and indirect, on businesses and commerce; supply chains have been disrupted; facilities and production have been suspended; and demand for certain goods and services, such as medical services and supplies, has spiked, while demand for other goods and services has fallen significantly.

From time-to-time moratoria have been put in place on routine medical appointments and elective surgeries in many jurisdictions, including ocular surgeries, which have adversely affected the market for INVELTYS, which is indicated for the treatment of inflammation and pain following ocular surgery, resulting in a significant reduction in the demand for INVELTYS. While surgeries have returned to historical levels, the COVID-19 pandemic had negatively impacted our revenues from INVELTYS in prior periods. In addition, the COVID-19 pandemic has generally had an adverse impact on the launch of pharmaceutical products, and we believe the pandemic impacted our launch of EYSUVIS. We cannot predict whether the COVID-19 pandemic will impact Alcon's ability to commercialize EYSUVIS and INVELTYS, and as a result, we cannot be certain whether the COVID-19 pandemic might adversely affect when we may receive milestone payments from Alcon, which milestone payments we may receive and if we will receive any milestone payments at all.

We and any of our contract manufacturing organizations and contract research organizations may face disruptions that may affect our ability to initiate and complete preclinical studies and clinical trials for KPI-012 and any other product candidates we develop, including disruptions in procuring supplies that are essential for our research and

development activities, manufacturing disruptions, disruptions in our ability to obtain necessary trial site approvals, as well as delays in or difficulties with enrollment and other delays at clinical trial sites. We may face impediments to regulatory meetings and clearance and approvals due to measures intended to limit in-person interactions. We do not know the extent to which the COVID-19 pandemic will impact our development of KPI-012 or any other product candidates that we develop. We plan to submit an IND application to the FDA for KPI-012 and, subject to regulatory clearance, commence a Phase 2/3 clinical trial of KPI-012 for PCED in the United States in the fourth quarter of 2022. The COVID-19 pandemic may delay our planned IND submission and/or the initiation and conduct of our planned clinical trial.

Additionally, while we currently are not experiencing interruptions in our manufacturing of KPI-012, any reinstatement of quarantines, travel restrictions and other measures may significantly impact the ability of employees of our third-party suppliers to get to their places of work to manufacture and deliver future supplies if and when needed.

The COVID-19 pandemic has already caused significant disruptions in the financial markets, and may again cause such disruptions, which could impact our ability to raise additional funds through public offerings and may also impact the volatility of our stock price and trading in our stock. Moreover, the significant ongoing impact of the pandemic on economies worldwide could result in more extensive adverse effects on our business and operations. The full extent of the impact of COVID-19 on our development efforts will depend on the length and severity of this pandemic, the timing and extent of any resurgence of the COVID-19 virus or any variant strains of the virus, the availability and effectiveness of vaccines, and the impact of the foregoing on our customers, employees, vendors and government agencies, which is uncertain and cannot be predicted. We cannot be certain what the overall impact of the COVID-19 pandemic will be on our business and it has the potential to significantly and adversely affect our business, financial condition, results of operations and prospects.

***Even if KPI-012 or any other product candidates that we may develop in the future receives marketing approval, such products may fail to achieve market acceptance by clinicians and patients, or adequate formulary coverage, pricing or reimbursement by third-party payors and others in the medical community, and the market opportunity for these products may be smaller than we estimate.***

If KPI-012 or any other product candidate that we develop receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by clinicians, patients, third-party payors and others in the medical community. We are developing KPI-012 for PCED, which is a rare disease. Our understanding of both the number of people who have a PCED, as well as the subset of people with PCED diseases who have the potential to benefit from treatment with KPI-012, are based on estimates. These estimates may prove to be incorrect. The number of patients with PCED may turn out to be lower than expected, may not be otherwise amenable to treatment with KPI-012 or may become increasingly difficult to identify and access, all of which would adversely affect our business, financial condition, results of operations and prospects.

Biosimilar and generic versions of any products that compete with KPI-012 or any other product candidates we may develop would likely be offered at a substantially lower price than we expect to offer for our product candidates, if approved. As a result, clinicians, patients and third-party payors may choose to rely on such products rather than our product candidates.

Our assessment of the potential market opportunity for KPI-012 is based on industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data. The potential market opportunity for the treatment of PCED is difficult to precisely estimate. Our estimates of the potential market opportunities for KPI-012 include several key assumptions based on our industry knowledge, industry publications, third-party research and other surveys, which may be based on a small sample size and fail to accurately reflect market opportunities. While we believe that our internal assumptions are reasonable, no independent source has verified such assumptions. If any of our assumptions or estimates, or these publications, research, surveys or studies prove to be inaccurate, then the actual market for KPI-012 for PCED may be smaller than

we expect, and as a result our future product revenue may be limited and it may be more difficult for us to achieve or maintain profitability. The uncertainty with respect to the future progression of the COVID-19 pandemic and its long-term effects may adversely impact the accuracy of such estimates and our potential market opportunity for KPI-012.

If KPI-012 or any other product candidate for which we may obtain marketing approval does not achieve adequate levels of acceptance by physicians and patients, formulary coverage, pricing or reimbursement, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of KPI-012 or any other product candidate for which we may obtain marketing approval, will depend on a number of factors, including:

- the efficacy and potential advantages of our product candidates compared to alternative treatments, including the existing standard of care;
- our ability to offer our products for sale at competitive prices, particularly in light of the lower cost of alternative treatments;
- the availability of third-party formulary coverage and adequate reimbursement;
- the clinical indications for which the product is licensed or approved;
- the convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of clinicians to prescribe these therapies;
- the strength of our marketing and distribution support;
- the timing of market introduction of competitive products;
- the prevalence and severity of any side effects; and
- any restrictions on the use of our products together with other medications.

***Even if we are able to successfully commercialize KPI-012 or any other product candidate that we may develop, if and when they are approved, the products may become subject to unfavorable pricing regulations, third-party coverage or reimbursement practices or healthcare reform initiatives, which could harm our business.***

Our ability to successfully commercialize KPI-012 or any other product candidate that we may develop if and when they are approved will depend, in part, on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government healthcare programs, private health insurers, managed care plans and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Coverage and reimbursement may not be available for KPI-012 or any other product candidate that we may commercialize and, even if they are available, the level of reimbursement may be limited or not satisfactory.

Inadequate reimbursement may adversely affect the demand for, or the price of KPI-012 or any other product candidate for which we obtain marketing approval. Obtaining and maintaining adequate reimbursement for our products may be difficult. We may be required to conduct expensive pharmacoeconomic studies to justify coverage and reimbursement or the level of reimbursement relative to other therapies. If coverage and adequate reimbursement are not

available or reimbursement is available only to limited levels, we may not be able to successfully commercialize KPI-012 or any other product candidate if and when they are approved.

There may be significant delays in obtaining coverage and reimbursement for newly approved products and coverage may be more limited than the indications for which the product is approved by the FDA or similar regulatory authorities outside the United States. Moreover, eligibility for coverage and reimbursement does not imply that a product will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution expenses. Interim reimbursement levels for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the product and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost products and may be incorporated into existing payments for other services. Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of products from countries where they may be sold at lower prices than in the United States. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies.

Our inability to promptly obtain coverage and adequate reimbursement rates from both government-funded and private payors for any approved products that we develop would compromise our ability to generate revenues and become profitable.

The regulations that govern marketing approvals, pricing, coverage and reimbursement for new products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval.

Even if a product candidate we develop is approved for sale in the United States or in other countries, there can be no assurance that such product candidate will be considered medically reasonable and necessary for a specific indication or cost-effective by third-party payors, or that coverage and an adequate level of reimbursement will be available or that third-party payors' reimbursement policies will not adversely affect our ability to sell such product candidate profitably.

***If we are unable to establish and maintain sales, marketing and distribution capabilities or enter into sales, marketing and distribution agreements with third parties, if and when necessary, we may not be successful in commercializing KPI-012 or any other product candidate that we may develop if and when they are approved.***

We established a sales, marketing and distribution infrastructure for the commercial launch of INVELTYS and EYSUVIS, and, as a company, we have limited experience in the sales, marketing and distribution of therapeutic products. Following the sale of our commercial business to Alcon in July 2022 and our determination to focus our research and development efforts on KPI-012, we committed to a course of action to terminate 113 employees, consisting of our entire commercial sales force and certain employees in our commercial, scientific, manufacturing, finance and administrative functions. To achieve commercial success for any product for which we obtain marketing approval in the future, we will again need to establish sales, marketing and distribution capabilities, either ourselves or through collaborations or other arrangements with third parties.

There are risks involved with establishing, maintaining and expanding, if and when necessary, our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time-

consuming, may divert our management and business development resources and could delay any future product launch. Establishing and maintaining a sales force would require us to continue to implement and improve our managerial, operational and financial systems, which we may not do effectively. Any inability to manage growth, when necessary, could delay the execution of our business plans or disrupt our operations. Further, we may overestimate or underestimate the size of the sales force required for a successful product launch.

We have not yet established our own commercial organization or distribution capabilities specific to KPI-012. While we believe that we will be able to commercialize KPI-012, if approved, for the treatment of PCED with a small, targeted, internal sales force in the United States and potentially other major markets, our assumptions may prove inaccurate. In the future, we may need a larger sales force and at a higher cost than previously anticipated. If the commercial launch of any product candidate for which we establish a commercial infrastructure is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition any such sales, marketing and distribution personnel.

Factors that may inhibit our efforts to commercialize on our own KPI-012 or any other product candidate we develop, if and when approved, include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- our inability to obtain and maintain coverage, adequate pricing and adequate reimbursement from third-party payors, including government payors;
- the inability of sales personnel to obtain access to clinicians, including as a result of limitation on office visits as a result of COVID-19 or other health concerns, or persuade adequate numbers of clinicians to prescribe our products;
- 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 establishing, maintaining and expanding, if and when necessary, an independent sales, marketing and distribution organization.

While we cannot be certain when, if ever, we will seek and/or receive marketing approval to commercialize any of our product candidates outside the United States, we may seek marketing approval and explore commercialization of KPI-012 in certain markets outside the United States utilizing a variety of collaboration, distribution and other marketing arrangements with one or more third parties. Our product revenues and our profitability, if any, under any such third-party collaboration, distribution or other marketing arrangements are likely to be lower than if we were to market, sell and distribute KPI-012 ourselves. We may also consider seeking marketing approval outside the United States for other product candidates we may develop in the future. If we decide to seek regulatory approval for any of our product candidates outside the United States, we may need to seek additional patent approvals, seek licenses to patents held by third parties and/or face claims of infringing third-party patent rights.

In addition, we may not be successful in entering into arrangements with third parties to sell, market and distribute KPI-012 or any other product candidate we may develop or we 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 effectively any product candidate for which we obtain marketing approval. If we do not establish and maintain our sales, marketing and distribution capabilities successfully, when needed, either on our own or in collaboration with third parties, we will not be successful in commercializing any product candidate for which we obtain marketing approval.



***We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do. Our competitors include major pharmaceutical companies with significantly greater financial resources. KPI-012 and any other product candidate we may develop, if and when approved, will also compete with existing branded, generic and off-label products.***

The development and commercialization of new drug products is highly competitive. We face competition with respect to our product candidate, KPI-012, and we will face competition with respect to any other product candidate that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization.

If approved, we expect KPI-012 to compete with Oxervate®, which is the only approved prescription pharmaceutical product in the PCED space. Oxervate (cenegermin-bkbj), was approved in August 2018 for the treatment of neurotrophic keratitis, or NK, a degenerative disease characterized by decreased corneal sensitivity and poor corneal healing, which we believe to represent approximately one-third of all PCED cases. Oxervate is a topical eye drop that is administered six times per day at two-hour intervals for eight weeks. Each administration of Oxervate requires the use of a vial containing the drug product, a vial adapter, a single-use pipette and disinfectant wipes. In addition, to our knowledge, there are currently only two product candidates in active clinical development for the treatment of a broad PCED population. ST266, an eye drop, is currently being studied in a Phase 2b clinical trial in patients with PCED and is being developed by Noveome Biotherapeutics Inc. ST266 is a secretome produced from amnion-derived epithelial cells from donated full-term placentas. KIO-201, a chemically modified form of the natural polymer hyaluronic acid administered as an eye drop, is currently being studied in a Phase 2 clinical trial in patients with PCED by Kiora Pharmaceuticals, Inc. A number of companies are pursuing development of product candidates for the treatment of NK.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than our products. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. Our competitors may develop products that are available on a generic basis, and our product candidates may not demonstrate sufficient additional clinical benefits to clinicians, patients or payors to justify a higher price compared to generic products. In many cases, insurers or other third-party payors, particularly Medicare, seek to encourage the use of biosimilar and generic products.

Many of the companies against which we are competing or which we may compete against in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller and other early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

***Product liability lawsuits against us could divert our resources and could cause us to incur substantial liabilities and limit commercialization of any products that we may develop.***

We face an inherent risk of product liability exposure related to the use of our product candidates that we develop in human clinical trials, including KPI-012. We face an even greater risk if we commercially sell any products that we may develop. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for 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;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced time and attention of our management to pursue our business strategy; and
- the inability to successfully commercialize any products that we may develop.

We currently hold \$15 million in product liability insurance coverage in the aggregate, with a per incident limit of \$15 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage if we expand our planned clinical trials for KPI-012. We will need to further increase our insurance coverage when and if we begin commercialization of KPI-012 or any other product candidate for which we obtain marketing approval. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

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

***We have relied, and expect to continue to rely, on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.***

We have relied on third parties, such as clinical research organizations, clinical data management organizations, medical institutions and clinical investigators, in conducting our clinical trials and expect to continue to rely on such parties to conduct clinical trials of any product candidate that we develop. We or these third parties may terminate their engagements with us at any time for a variety of reasons, including a failure to perform by the third parties. If we need to enter into alternative arrangements, that could delay our product development activities.

Our reliance on these third parties for clinical development activities reduces our control over these activities but does not relieve us of our responsibilities. For example, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as Good Clinical Practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. We also are required to register ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors.

We also have relied, and expect to continue 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 products, producing additional losses and depriving us of potential product revenue.

***We contract with third parties for the manufacture of KPI-012 and plan to contract with third parties for preclinical, clinical and commercial supply of any other product candidates we develop. 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, which could delay, prevent or impair our development or commercialization efforts.***

We do not own or operate manufacturing facilities for the production of clinical quantities of any product candidates. We do not own or operate, and currently have no plans to establish, any manufacturing facilities for KPI-012. We rely, and expect to continue to rely, on third parties for the manufacture of both drug substance and finished product for KPI-012 for preclinical and clinical testing, as well as for commercial manufacture of KPI-012 if it receives marketing approval. We also rely, and expect to continue to rely, on third parties for packaging, labeling, sterilization, storage, distribution and other production logistics for KPI-012. We have only limited supply agreements in place with respect to KPI-012, and these arrangements do not extend to commercial supply. We obtain supplies of drug substance and finished product for KPI-012 on a purchase order basis and do not have long term committed supply arrangements with respect to KPI-012. We may be unable to maintain our current arrangements for KPI-012 or conclude agreements for commercial supply of KPI-012 on acceptable terms or at all. We also expect to rely on third-party manufacturers to manufacture preclinical, clinical and commercial supplies of any other product candidates we develop, as well as for packaging, serialization, storage, distribution and other production logistics.

We are subject to risks related to our reliance on third-party manufacturers for the manufacture of the drug substance and product of KPI-012, a biological product candidate. Manufacturing biologics is complex, especially in large quantities. Biologic products must be made consistently and in compliance with a clearly defined manufacturing process. KPI-012 is a bone-marrow derived mesenchymal stem cell secretome therapeutic composed of biologically active components, including protease inhibitors and growth factors, and is produced from a proprietary cell bank. The manufacturing process for KPI-012 is comprised of three stages: (1) cultivation of mesenchymal stem cells from a working cell bank and production of unprocessed conditioned media (cell-free secretome), (2) production of drug substance as a chemically defined solution and (3) formulation and filling of drug product. While the drug product for Combangio's early research and Phase 1b clinical trials was cultivated using a planar culture model, we plan to implement a bioreactor cultivation model for our planned clinical trials and for commercial supply of KPI-012. We are continuing the process of scaling up our manufacturing processes and capabilities with our third-party manufacturers to support longer term clinical development. We do not currently have arrangements in place for redundant supply or a second source for bulk drug substance. In addition, KPI-012 drug product is manufactured from a vial of a working cell bank, which in turn was produced from a vial of master cell bank. KPI-012 master cell bank and working cell bank is stored in two separate locations. It is possible that we could lose the cell bank in both locations and have our manufacturing severely impacted by the need to replace the cell bank.

Our third party manufacturers may encounter shortages in the raw materials necessary to produce our product candidates in the quantities needed for our clinical trials, or our product candidates, if approved, in sufficient quantities for commercialization or to meet an increase in demand, as a result of capacity constraints or delays or disruptions in the market for the raw materials, including shortages caused by the purchase of such raw materials by our competitors or others and shortages related to epidemics or pandemics, such as the COVID-19 pandemic. The failure of us or our third party manufacturers to obtain the raw materials necessary to manufacture sufficient quantities of KPI-012 or any other product candidates we may develop, may have a material adverse effect on our business.

The FDA maintains strict requirements governing the manufacturing process and third-party manufacturers are subject to inspection and approval by the FDA before a company can commence the manufacture and sale of any of its products or product candidates, and thereafter subject to FDA inspection from time to time. Failure by third-party manufacturers to pass such inspections and otherwise satisfactorily complete the FDA approval regimen with respect to products or product candidates may result in regulatory actions such as the issuance of FDA Form 483 notices of observations, warning letters or injunctions or the loss of operating licenses. Depending on the severity of any potential regulatory action, our clinical or commercial supply could be interrupted or limited, which could have a material adverse effect on our business. When a manufacturer seeks to modify or make even seemingly minor changes to the manufacturing process, the FDA may require the applicant to conduct a comparability study that evaluates the potential differences in the product resulting from the change in the manufacturing process. In connection with any application for approval to market product candidates in the United States, we may be required to conduct a comparability study if the

product we intend to market is supplied by a manufacturer different from the one who supplied the product evaluated in our clinical studies. Delays in designing and completing this study to the satisfaction of the FDA could delay or preclude our development and commercialization plans and thereby limit our revenues and growth.

Reliance on third-party manufacturers entails additional risks, including reliance on the third-party for regulatory compliance and quality assurance, the possible breach of the manufacturing agreement by the third-party, the possible misappropriation of our proprietary information, including our trade secrets and know-how, and the possible termination or nonrenewal of the agreement by the third-party at a time that is costly or inconvenient for us.

Third-party manufacturers may not be able to comply with current good manufacturing practices, or cGMP, regulations or similar regulatory requirements outside the United States. 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 product candidates and harm our business and results of operations.

KPI-012 and any other product candidate that we may develop may compete with other product candidates and products for access to a limited number of suitable manufacturing facilities that operate under cGMP regulations. For example, we were previously required to change our third-party manufacturer when the manufacturer was purchased by a third-party and exited the contract manufacturing business. The process of changing manufacturers can cause substantial time delays, and if we are required to change our manufacturer again in the future, it may delay our planned clinical trials or development timeline.

Our current and anticipated future dependence upon others for the manufacture of KPI-012 or any other product candidate we develop may adversely affect our future profit margins and our ability to commercialize any products that receive marketing approval on a timely and competitive basis.

***The manufacture of biologics is complex and our third-party manufacturers may encounter difficulties in production. If any of our third-party manufacturers encounter such difficulties, our ability to provide supply of product candidates for clinical trials or products for patients, if approved, could be delayed or prevented.***

Manufacturing biologics, especially in large quantities, is often complex and may require the use of innovative technologies to handle living cells. Each lot of an approved biologic must undergo thorough testing for identity, strength, quality, purity and potency. Manufacturing biologics requires facilities specifically designed for and validated for this purpose, and sophisticated quality assurance and quality control procedures are necessary. Slight deviations anywhere in the manufacturing process, including filling, labeling, packaging, storage and shipping and quality control and testing, may result in lot failures, product recalls or spoilage. When changes are made to the manufacturing process, we may be required to provide preclinical and clinical data showing the comparable identity, strength, quality, purity or potency of the products before and after such changes. If microbial, viral or other contaminations are discovered at the facilities of our manufacturers, such facilities may need to be closed for an extended period of time to investigate and remedy the contamination, which could delay clinical trials and adversely harm our business.

In addition, there are risks associated with large scale manufacturing for clinical trials or commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, compliance with good manufacturing practices, lot consistency and timely availability of raw materials. Even if we obtain regulatory approval for KPI-012 or any future product candidates, there is no assurance that our manufacturers will be able to manufacture the approved product to specifications acceptable to the FDA or other comparable foreign regulatory authorities, to produce it in sufficient quantities to meet the requirements for the potential commercial launch of the product or to meet potential future demand. If our manufacturers are unable to produce sufficient quantities for clinical trials or for commercialization, our development and commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and growth prospects.

***We may enter into collaborations with third parties for the development or commercialization of our product candidates. If our collaborations are not successful, we may not be able to capitalize on the market potential of these product candidates.***

We expect to utilize a variety of types of collaboration, distribution and other marketing arrangements with third parties to develop and commercialize KPI-012 or any other product candidate we develop and for which we seek or obtain marketing approval in markets outside the United States. We also may enter into arrangements with third parties to perform these services in the United States if we do not establish our own sales, marketing and distribution capabilities in the United States for our product candidates or if we determine that such third-party arrangements are otherwise beneficial. We also may seek third-party collaborators for development and commercialization of our product candidates. For example, we may consider potential collaborative partnership opportunities prior to initiating IND-enabling studies on product candidates we may develop. Our likely collaborators for any sales, marketing, distribution, development, licensing or broader collaboration arrangements include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies. We are not currently party to any such arrangement. However, if we do enter into any such arrangements with any third parties in the future, we will likely have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on our collaborators' abilities and efforts to successfully perform the functions assigned to them in these arrangements.

Collaborations that we enter into may pose a number of risks, including the following:

- collaborators have significant discretion in determining the amount and timing of efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development of our product candidates or may elect not to continue or renew development programs based on results of clinical trials or other studies, changes in the collaborators' strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;
- collaborators may not pursue commercialization of our product candidates that receive marketing approval or may elect not to continue or renew commercialization programs based on changes in the collaborators' strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;
- product candidates discovered in collaboration with us may be viewed by our collaborators as competitive with their own products or product candidates, which may cause collaborators to cease to devote resources to the commercialization of our product candidates;
- a collaborator with marketing and distribution rights to one or more of our product candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such product or products;

- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would divert management attention and resources, be time-consuming and expensive;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;
- collaborators may infringe, misappropriate or otherwise violate the intellectual property rights of third parties, which may expose us to litigation and potential liability; and
- collaborations may be terminated for the convenience of the collaborator and, if terminated, we could be required to raise additional capital to pursue further development or commercialization of the applicable product candidates.

Collaboration agreements may not lead to development or commercialization of product candidates or products in the most efficient manner, or at all. If any collaborations that we enter into do not result in the successful development and commercialization of products or if one of our collaborators terminates its agreement with us, we may not receive any future research funding or milestone or royalty payments under the collaboration. If we do not receive the funding we expect under these agreements, our development of our product candidates could be delayed, and we may need additional resources to develop our product candidates. All of the risks relating to product development, regulatory approval and commercialization described herein also apply to the activities of our collaborators.

Additionally, subject to its contractual obligations to us, if a collaborator of ours were to be involved in a business combination, it might de-emphasize or terminate the development or commercialization of any product or product candidate licensed to it by us. If one of our collaborators terminates its agreement with us, we may find it more difficult to attract new collaborators and our perception in the business and financial communities could be harmed.

***If we are not able to establish collaborations, we may have to alter our development and commercialization plans and our business could be adversely affected.***

For some of our product candidates, we may decide to collaborate with pharmaceutical or biotechnology companies for the development of our product candidates or the potential commercialization of our product candidates. We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge, and industry and market conditions generally. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate. We may also be restricted under future license agreements from entering into agreements on certain terms with potential collaborators. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

If we are unable to reach agreements with suitable collaborators on a timely basis, on acceptable terms, or at all, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay the potential commercialization of a product candidate or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization

activities at our own expense. If we elect to fund and undertake development or commercialization activities on our own, we may need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. If we fail to enter into collaborations and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our product candidates or bring them to market or continue to develop our product platform.

### **Risks Related to Our Intellectual Property**

***We may be unable to obtain and maintain patent protection for our technology or product candidates, or the scope of the patent protection obtained may not be sufficiently broad or enforceable, such that our competitors could develop and commercialize technology, products and product candidates similar or identical to ours, and our ability to successfully commercialize our technology and product candidates may be impaired.***

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary technology and product candidates, including KPI-012. We have sought to protect our proprietary position by filing in the United States and in certain foreign jurisdictions patent applications related to our novel technologies and product candidates.

The patent prosecution process is expensive and time-consuming, and we may not have filed, maintained, or prosecuted and may not be able to file, maintain and prosecute all necessary or desirable patents or patent applications at a reasonable cost or in a timely manner. We may also fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection.

The patent position of pharmaceutical, biotechnology, and medical device companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may fail to result in issued patents in the United States or in other foreign countries which protect our technology or product candidates, or which effectively prevent others from commercializing competitive technologies and products. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States, and the standards applied by the U.S. Patent and Trademark Office and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, unlike patent law in the United States, European patent law precludes the patentability of methods of treatment of the human body and imposes substantial restrictions on the scope of claims it will grant if broader than specifically disclosed embodiments. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain whether we or our licensors were the first to make the inventions claimed in our owned or licensed patents or pending patent applications, or that we or our licensors were the first to file for patent protection of such inventions. Databases for patents and publications, and methods for searching them, are inherently limited so we may not know the full scope of all issued and pending patent applications. As a result, the issuance, scope, validity, enforceability, and commercial value of our patent rights are uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates, in whole or in part, or which effectively prevent others from commercializing competitive technologies, products and product candidates. In particular, during prosecution of any patent application, the issuance of any patents based on the application may depend upon our ability to generate additional preclinical or clinical data that support the patentability of our proposed claims. We may not be able to generate sufficient additional data on a timely basis, or at all. Moreover, changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

Even if our owned and licensed patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection for our proprietary technology and product candidates, prevent competitors from competing with us, or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies, products or product candidates in a non-infringing manner.

The issuance of a patent is not conclusive as to its inventorship, ownership, scope, validity, or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology, products or product candidates, or limit the duration of the patent protection of our technology and product candidates. Given the amount of time required for the development, testing, and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

***If we are not able to obtain patent term extension in the United States under the Hatch-Waxman Act and in foreign countries under similar legislation, thereby potentially extending the term of our marketing exclusivity for our product candidates, our business may be materially harmed.***

Depending upon the timing, duration, and specifics of FDA marketing approval of our product candidates, one of the U.S. patents covering each of such product candidates or the use thereof may be eligible for up to five years of patent term extension under the Hatch-Waxman Act. The Hatch-Waxman Act allows a maximum of one patent to be extended per FDA approved product as compensation for the patent term lost during the FDA regulatory review process. A patent term extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only those claims covering such approved drug product, a method for using it or a method for manufacturing it may be extended. Also, the regulatory review period of an FDA-approved product may not serve as a basis for a patent term extension if the active ingredient of such product was subject to regulatory review and approval in an earlier product approved by the FDA. Patent term extension also may be available in certain foreign countries upon regulatory approval of our product candidates. Nevertheless, we may not be able to seek or be granted patent term extension either in the United States or in any foreign country because of, for example, failing to exercise due diligence during the testing phase or regulatory review process, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents, or otherwise failing to satisfy applicable requirements. Moreover, the term of extension, as well as the scope of patent protection during any such extension, afforded by the governmental authority could be less than we request.

If we are unable to obtain patent term extension or restoration, or the term of any such extension is less than we request, the period during which we will have the right to exclusively market our product may be shortened and our competitors may obtain approval of competing products following our patent expiration sooner, and our revenue could be reduced, possibly materially.

It is possible that we will not obtain patent term extension under the Hatch-Waxman Act for a U.S. patent covering our product candidates even where that patent is eligible for patent term extension, or if we obtain such an extension, it may be for a shorter period than we had sought. Further, for our licensed patents, we may not have the right to control prosecution, including filing with the U.S. Patent and Trademark Office, a petition for patent term extension under the Hatch-Waxman Act. Thus, if one of our licensed patents is eligible for patent term extension under the Hatch-Waxman Act, we may not be able to control whether a petition to obtain a patent term extension is filed, or obtained, from the U.S. Patent and Trademark Office.

***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 and other third parties may infringe, misappropriate or otherwise violate our owned and licensed patents, trade secrets, or other intellectual property. As a result, to counter infringement, misappropriation or unauthorized use, we may be required to file infringement or misappropriation claims or other intellectual property related proceedings, which can be expensive and time-consuming. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents or that our asserted patents are invalid. In addition, in a patent infringement or other intellectual property related proceeding, a court may decide that a patent of ours is invalid or unenforceable, in whole or in part, construe the patent's claims narrowly or refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the



technology in question. An adverse result in any litigation proceeding could put one or more of our patents at risk of being invalidated, held unenforceable or interpreted narrowly, and could put any of our patent applications at risk of not yielding an issued patent. 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 or trade secrets could be compromised by disclosure during this type of litigation.

We may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office, or become involved in other contested proceedings such as opposition, derivation, reexamination, inter partes review, post-grant review, or interference proceedings in the United States or elsewhere, challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or product candidates and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates.

In the United States, the FDA does not prohibit clinicians from prescribing an approved product for uses that are not described in the product's labeling. Although use of a product directed by off-label prescriptions may infringe our method-of-treatment patents, the practice is common across medical specialties, particularly in the United States, and such infringement is difficult to detect, prevent, or prosecute.

***Third parties may initiate legal proceedings alleging that we are infringing, misappropriating or otherwise violating their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.***

Our commercial success depends upon our ability to develop, manufacture, market, and sell KPI-012 and any other product candidate we may develop in the future and to use our proprietary technologies without infringing, misappropriating or otherwise violating the intellectual property and other proprietary rights of third parties. There is a considerable amount of intellectual property litigation in the biotechnology and pharmaceutical industries. We may become party to, or threatened with, infringement litigation claims regarding our product candidates and technology, including claims from competitors or from non-practicing entities that have no relevant product revenue and against whom our own patent portfolio may have no deterrent effect. Moreover, we may become party to future adversarial proceedings or litigation regarding our patent portfolio or the patents of third parties. Such proceedings could also include contested post-grant proceedings such as oppositions, inter partes review, reexamination, interference, or derivation proceedings before the U.S. Patent and Trademark Office or foreign patent offices.

The legal threshold for initiating litigation or contested proceedings is low, so that even lawsuits or proceedings with a low probability of success might be initiated and require significant resources to defend. Litigation and contested proceedings can also be expensive and time-consuming, and our adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we can. The risks of being involved in such litigation and proceedings may increase if our product candidates commence commercialization. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future. We may not be aware of all such intellectual property rights potentially relating to our product candidates and their uses. Thus, we do not know with certainty that any of our product candidates or our development and commercialization thereof, do not and will not infringe or otherwise violate any third-party's intellectual property.

If we are found to infringe, misappropriate or otherwise violate a third-party's intellectual property rights, we could be required to obtain a license from such third-party to continue developing, manufacturing, marketing and selling any products, if and when approved, product candidates and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us and could require us to make substantial licensing and royalty payments. We could be forced, including by court order, to cease commercializing the infringing technology, products or product candidates. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent and could be forced to

indemnify our customers or collaborators. A finding of infringement could also result in an injunction that prevents us from commercializing our product candidates or forces us to cease some of our business operations, which could materially harm our business. In addition, we may be forced to redesign our product candidates, seek new regulatory approvals and indemnify third parties pursuant to contractual agreements. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

***Obtaining and maintaining 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, renewal and annuity fees on any issued patent must be paid to the U.S. Patent and Trademark Office and foreign patent agencies in several stages or annually over the lifetime of our owned and licensed patents and patent applications. The U.S. Patent and Trademark Office and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. In certain circumstances, we may rely on our licensing partners to pay these fees to, or comply with the procedural and documentary rules of, the relevant patent agency. 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 failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our licensors fail to maintain the patents and patent applications covering our product candidates, it would have a material adverse effect on our business.

***KPI-012 is protected by patent rights exclusively licensed from other companies or institutions. If these third parties terminate their agreements with us or fail to maintain or enforce the underlying patents, or we otherwise lose our rights to these patents, our competitive position and our market share in the markets for any of our products, if any when approved, will be harmed.***

A substantial portion of our patent portfolio is in-licensed. As such, we are a party to license agreements and certain aspects of our business depend on patents and/or patent applications owned by other companies or institutions. In particular, we hold exclusive licenses for patent families relating to KPI-012. We rely on a license from Stanford University for certain patent rights related to KPI-012. The license agreement between Combangio and Stanford University, or Stanford University License Agreement, imposes specified diligence, milestone payment, royalty and other obligations on us and requires that we meet development timelines, or to exercise diligent or commercially reasonable efforts to develop and commercialize licensed products, in order to maintain the license. Our rights with respect to in-licensed patents and patent applications may be lost if the applicable license agreement expires or is terminated or if we fail to satisfy the obligations under the Stanford University License Agreement. We are likely to enter into additional license agreements to in-license patents and patent applications as part of the development of our business in the future, under which we may not retain control of the preparation, filing, prosecution, maintenance, enforcement and defense of such patents. If we are unable to maintain these patent rights for any reason, our ability to develop and commercialize our product candidates could be materially harmed.

Our licensors may not successfully prosecute certain patent applications, the prosecution of which they control, under which we are licensed and on which our business depends. Even if patents issue from these applications, our licensors may fail to maintain these patents, may decide not to pursue litigation against third-party infringers, may fail to prove infringement, or may fail to defend against counterclaims of patent invalidity or unenforceability.

Risks with respect to parties from whom we have obtained intellectual property rights may also arise out of circumstances beyond our control. In spite of our best efforts, our licensors might conclude that we have materially breached our intellectual property agreements and might therefore terminate the intellectual property agreements, thereby removing our ability to market products covered by these intellectual property agreements. If our intellectual property agreements are terminated, or if the underlying patents fail to provide the intended market exclusivity, competitors would have the freedom to seek regulatory approval of, and to market, products similar or identical to ours.

Moreover, if our intellectual property agreements are terminated, our former licensors and/or assignors may be able to prevent us from utilizing the technology covered by the licensed or assigned patents and patent applications. This could have a material adverse effect on our competitive business position and our financial condition, results of operations and our business prospects.

***Some intellectual property which we own or have licensed may have been discovered through government funded programs and thus may be subject to federal regulations such as “march-in” rights, certain reporting requirements, and a preference for United States industry. Compliance with such regulations may limit our exclusive rights, subject us to expenditure of resources with respect to reporting requirements, and limit our ability to contract with non-U.S. manufacturers.***

Some of the intellectual property rights we own or have licensed have been generated through the use of United States government funding and may therefore be subject to certain federal regulations. For example, certain aspects of KPI-012 were developed using United States government funds. As a result, the United States government may have certain rights to intellectual property embodied in KPI-012 pursuant to the Bayh-Dole Act of 1980. These United States government rights in certain inventions developed under a government-funded program include a non-exclusive, non-transferable, irrevocable worldwide license to use inventions for any governmental purpose. In addition, the United States government has the right to require us to grant exclusive, partially exclusive, or non-exclusive licenses to any of these inventions to a third-party if it determines that: (i) adequate steps have not been taken to commercialize the invention; (ii) government action is necessary to meet public health or safety needs; or (iii) government action is necessary to meet requirements for public use under federal regulations (also referred to as “march-in rights”). The United States government also has the right to take title to these inventions if we fail to disclose the invention to the government and fail to file an application to register the intellectual property within specified time limits. In addition, the United States government may acquire title to these inventions in any country in which a patent application is not filed within specified time limits. Intellectual property generated under a government funded program is also subject to certain reporting requirements, compliance with which may require us to expend substantial resources. In addition, the United States government requires that any products embodying the subject invention or produced through the use of the subject invention be manufactured substantially in the United States. The manufacturing preference requirement can be waived if the owner of the intellectual property can show that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible. This preference for United States manufacturers may limit our ability to contract with non-U.S. product manufacturers for products covered by such intellectual property. Any exercise by the government of any of the foregoing rights could harm our competitive position, business, financial condition, results of operations and prospects.

***If we fail to comply with our obligations in our intellectual property licenses and funding arrangements with third parties, we could lose rights that are important to our business.***

Our Stanford University License Agreement, under which we license certain patent rights related to KPI-012, imposes royalty and other financial obligations on us and other substantial performance obligations. We also may enter into additional licensing and funding arrangements with third parties that may impose diligence, development and commercialization timelines and milestone payment, royalty, insurance and other obligations on us. If we fail to comply with our obligations under current or future license and collaboration agreements, our counterparties may have the right to terminate these agreements, in which event we might not be able to develop, manufacture or market any product or product candidate that is covered by these agreements or may face other penalties under the agreements. Such an occurrence could diminish the value of any product or product candidate. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements with less favorable terms, or cause us to lose our rights under these agreements, including our rights to important intellectual property or technology.

In addition, it is possible that Stanford may conclude that we have materially breached the Stanford University License Agreement and might therefore terminate the agreement, thereby removing our ability to market products covered by our license agreement with Stanford. If the Stanford University License Agreement is terminated, or if the underlying patents fail to provide the intended market exclusivity, competitors would have the freedom to seek

regulatory approval of, and to market, products similar or identical to ours. Moreover, if our Stanford University License Agreement is terminated, Stanford and/or its assignors may be able to prevent us from utilizing the technology covered by the licensed or assigned patents and patent applications. If we breach the agreement (including by failing to meet our payment obligations) and do not adequately cure such breach, the rights in the technology licensed to us under the Stanford University License Agreement will revert to Stanford at no cost to Stanford. This could have a material adverse effect on our competitive business position, our financial condition, our results of operations and our business prospects.

In addition, the agreements under which we currently license intellectual property or technology from third parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreement, either of which could have a material adverse effect on our business, financial condition, results of operations, and prospects. Moreover, if disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize any affected product or product candidate, which could have a material adverse effect on our business, financial conditions, results of operations, and prospects.

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

Filing, prosecuting, and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive, and the laws of foreign countries may not protect our rights to the same extent as the laws of 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 jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection or licenses, but enforcement is not as strong as that 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 foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, particularly those relating to 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 intellectual property and proprietary rights generally. Proceedings to enforce our intellectual property and proprietary rights in foreign jurisdictions 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, could put 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 and proprietary rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

Many countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If we or any of our licensors is forced to grant a license to third parties with respect to any patents relevant to our business, our competitive position may be impaired, and our business, financial condition, results of operations, and prospects may be adversely affected.

***We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.***

Many of our and our licensors' employees and contractors were previously employed at other biotechnology, medical device or pharmaceutical companies, including our competitors or potential competitors. Although we try to

ensure that our employees and contractors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that these individuals have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. Litigation may be necessary to defend against these claims.

In addition, while it is our policy to require our employees and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Furthermore, we are unable to control whether our licensors have obtained similar assignment agreements from their own employees and contractors. Our and their assignment agreements may not be self-executing or may be breached, and we or our licensors may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

If we or our licensors fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel which could have a material adverse effect on our competitive business position and prospects. Such intellectual property rights could be awarded to a third-party, and we could be required to obtain a license from such third-party to commercialize our technology or products, which may not be available on commercially reasonable terms or at all. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

***Intellectual property litigation or other legal proceedings relating to intellectual property could cause us to spend substantial resources and distract our personnel from their normal responsibilities.***

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to conduct such litigation or proceedings adequately. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources and may also have an advantage in such proceedings due to their more mature and developed intellectual property portfolios. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have an adverse effect on our ability to compete in the marketplace.

***If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.***

In addition to seeking patents for our technology and our product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Detecting the disclosure or misappropriation of a trade secret and enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

## Risks Related to Regulatory Approval of Our Product Candidates and Other Legal Compliance Matters

***If we are not able to obtain required regulatory approvals, we will not be able to commercialize our product candidates, and our ability to generate significant revenue will be materially impaired. The marketing approval process is expensive, time-consuming and uncertain. As a result, we cannot predict when or if we, or any collaborators we may have in the future, will obtain marketing approval to commercialize KPI-012 or any product candidates we may develop in the future.***

KPI-012 and any other future product candidate and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, potency, purity, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to obtain marketing approval for a product candidate will prevent us from commercializing the product candidate.

Other than EYSUVIS and INVELTYS, which we sold to Alcon in July 2022, we have not received approval to market any product candidate from regulatory authorities in any jurisdiction. We may never generate the necessary data or results required to obtain regulatory approval of KPI-012 or any other product candidate we may develop with the market potential sufficient to enable us to achieve profitability. We have only limited experience in submitting and supporting the applications necessary to gain marketing approvals and have relied on, and expect to continue to rely on, third-party consultants and vendors to assist us in this process. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish a biologic product candidate's purity, safety and potency. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. The FDA or other regulatory authorities may determine that KPI-012 or any other product candidate that we develop does not satisfy these standards or has undesirable or unintended side effects, toxicities or other characteristics that preclude our obtaining marketing approval or prevent or limit commercial use.

The process of obtaining marketing approvals, both in the United States and abroad, is expensive, may take many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate.

In addition, disruptions at the FDA and other agencies may prolong the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. The ability of the FDA to review and approve new drugs 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 and other events that may otherwise affect the FDA's ability to perform routine functions. Average review times at the FDA have fluctuated in recent years. Over the last several years, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough critical 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.

In addition, the COVID-19 pandemic has led to disruptions at the FDA and has prolonged the time necessary for certain new drugs to be reviewed and/or approved. The FDA has been working to resume routine surveillance, bioresearch monitoring and pre-approval inspections on a prioritized basis. There can be no assurance that the FDA timely reviews applications. 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.

If we experience delays in obtaining approval or if we fail to obtain approval of any product candidate that we develop, the commercial prospects for such product candidate may be harmed and our ability to generate revenues will be materially impaired.

***Failure to obtain marketing approval in foreign jurisdictions would prevent our product candidates from being marketed abroad.***

In order to market and sell KPI-012 or any other product candidate we may develop in the European Union and many other jurisdictions, we or our potential third-party collaborators, must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. Clinical trials of any product candidate in the United States may not be sufficient to support an application for marketing approval outside the United States.

The time required to obtain approval outside of the United States may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the product be approved for reimbursement before the product can be sold in that country. We or our potential collaborators may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in other countries. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market, which could significantly and materially harm our business.

***The terms of approvals, ongoing regulations and post-marketing restrictions for our products may limit how we manufacture and market our products, which could materially impair our ability to generate revenue.***

Once marketing approval has been granted, an approved product and its manufacturer and marketer are subject to ongoing review and extensive regulation. We, and any potential collaborators we may have in the future, must therefore comply with requirements concerning advertising and promotion for any product candidate for which we obtain marketing approval. Promotional communications with respect to biologic products and medical devices are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved labeling. Thus, if any of our product candidates receives marketing approval, the accompanying label may limit the approved use of any other product for which we obtain marketing approval, which could limit sales of such product.

The FDA may also impose requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product, including the adoption and implementation of risk evaluation and mitigation strategies. The FDA closely regulates the post-approval marketing and promotion of products to ensure they are marketed only for the approved indications and in accordance with the provisions of the approved labeling and regulatory requirements. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use and if we do not restrict the marketing of our products only to their approved indications, we may be subject to enforcement action for off-label marketing. Violations of the Federal Food, Drug, and Cosmetic Act and other statutes, including the False Claims Act, relating to the promotion and advertising of prescription products may lead to investigations and/or enforcement actions by the FDA, Department of Justice and state Attorneys General alleging violations of federal and state healthcare fraud and abuse laws, as well as state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our products, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may have various consequences, including:

- restrictions on such products, manufacturers or manufacturing processes;
- restrictions and warnings in the labeling and marketing of a product;

- restrictions on product distribution or use;
- requirements to conduct post-marketing clinical trials;
- warning or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- fines, restitution or disgorgement of profits or revenue;
- suspension or withdrawal of marketing approvals;
- refusal to permit the import or export of our products;
- product seizure;
- exclusion and debarment from federal healthcare reimbursement programs; or
- injunctions or the imposition of civil or criminal penalties.

Non-compliance with European Union requirements or laws of other countries regarding safety monitoring or pharmacovigilance can also result in significant financial penalties. Similarly, failure to comply with the European Union's or other countries' requirements regarding the protection of personal information can lead to significant penalties and sanctions. Further, the marketing and promotion of authorized drugs, including industry-sponsored continuing medical education and advertising directed toward the prescribers of drugs and/or the general public, are strictly regulated in the European Union notably under Directive 2001/83EC, as amended, and are also subject to EU Member State laws. Direct-to-consumer advertising of prescription medicines is prohibited across the European Union.

In addition, manufacturers of approved products and those manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to cGMPs applicable to manufacturers or quality assurance standards applicable to medical device manufacturers, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation and reporting requirements. We, our contract manufacturers, any contract manufacturers we may engage in the future, our future collaborators and their contract manufacturers will also be subject to other regulatory requirements, including submissions of safety and other post-marketing information and reports, registration and listing requirements, requirements regarding the distribution of samples to clinicians, recordkeeping, and costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of the product such as the requirement to implement a risk evaluation and mitigation strategy.

We may be subject to substantial penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with our products.



***We may not be able to obtain orphan drug exclusivity for one or more of our product candidates, and even if we do, that exclusivity may not prevent the FDA or the European Medicines Agency from approving other competing products. Additionally, if another company with a competing product candidate were to obtain orphan drug exclusivity for its competing product candidate before we do, we may be barred from marketing our product candidate for the same indication as the competing product candidate during the exclusivity period.***

Under the Orphan Drug Act, the FDA may designate a product candidate as an orphan drug if it is a drug or biologic intended to treat a rare disease or condition. A similar regulatory scheme governs approval of orphan products by the European Medicines Agency, or EMA, in the European Union. KPI-012 has received orphan drug designation from the FDA for the treatment of PCED.

Generally, if a product candidate with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity, which precludes the FDA or the EMA from approving another marketing application for the same product for the same therapeutic indication for that time period. The applicable period is seven years in the United States and ten years in the European Union. The exclusivity period in the European Union can be reduced to six years if a product no longer meets the criteria for orphan drug designation, in particular if the product is sufficiently profitable so that market exclusivity is no longer justified. If a competing product candidate with an orphan designation for PCED were to obtain regulatory approval before we are able to obtain approval of KPI-012 for PCED, we could be barred from marketing KPI-012 for PCED in the United States during the seven-year orphan exclusivity period, which would have a severe adverse effect on our business.

In order for the FDA to grant orphan drug exclusivity to one of our products, the FDA must find that the product is indicated for the treatment of a condition or disease with a patient population of fewer than 200,000 individuals annually in the United States. The FDA may conclude that the condition or disease for which orphan drug exclusivity is sought does not meet this standard. Even if we obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different products can be approved for the same condition.

In addition, even after an orphan drug is approved, the FDA can subsequently approve the same product for the same condition if the FDA concludes that the later product is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care. Orphan drug exclusivity may also be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the product to meet the needs of the patients with the rare disease or condition.

The FDA Reauthorization Act of 2017, or FDARA, requires that a drug sponsor demonstrate the clinical superiority of an orphan drug that is otherwise the same as a previously approved drug for the same rare disease in order to receive orphan drug exclusivity. FDARA reverses prior precedent holding that the Orphan Drug Act unambiguously requires that the FDA recognize the orphan exclusivity period regardless of a showing of clinical superiority. The FDA may further reevaluate the Orphan Drug Act and its regulations and policies. This may be particularly true in light of a decision from the Court of Appeals for the 11th Circuit in September 2021 finding that, for the purpose of determining the scope of exclusivity, the term “same disease or condition” means the designated “rare disease or condition” and could not be interpreted by the FDA to mean the “indication or use.” Thus, the Court of Appeals concluded that orphan drug exclusivity applies to the entire designated disease or condition rather than the “indication or use.” We do not know if, when, or how the FDA may change the orphan drug regulations and policies in the future, and it is uncertain how any changes might affect our business. Depending on what changes the FDA may make to its orphan drug regulations and policies, our business could be adversely impacted.

***We may seek certain designations for our product candidates, including Breakthrough Therapy, Fast Track and Priority Review designations in the United States, and PRIME Designation in the European Union, but we might not receive such designations, and even if we do, such designations may not lead to a faster development or regulatory review or approval process.***

We may seek certain designations for one or more of our product candidates that could expedite review and approval by the FDA. A Breakthrough Therapy product is defined as a product that is intended, alone or in combination with one or more other products, to treat a serious condition, and preliminary clinical evidence indicates that the product may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. For products that have been designated as Breakthrough Therapies, interaction and communication between the FDA and the sponsor of the trial can help to identify the most efficient path for clinical development while minimizing the number of patients placed in ineffective control regimens.

The FDA may also designate a product for Fast Track review if it is intended, whether alone or in combination with one or more other products, for the treatment of a serious or life threatening disease or condition, and it demonstrates the potential to address unmet medical needs for such a disease or condition. For Fast Track review products, sponsors may have greater interactions with the FDA and the FDA may initiate review of sections of a Fast Track product's application before the application is complete. This rolling review may be available if the FDA determines, after preliminary evaluation of clinical data submitted by the sponsor, that a Fast Track review product may be effective.

We may also seek a priority review designation for one or more of our product candidates. If the FDA determines that a product candidate offers major advances in treatment or provides a treatment where no adequate therapy exists, the FDA may designate the product candidate for priority review. A priority review designation means that the goal is for the FDA to review a new drug application in six months, rather than the standard review period of ten months.

These designations are within the discretion of the FDA. Accordingly, even if we believe that one of our product candidates meets the criteria for these designations, the FDA may disagree and instead determine not to make such designation. Further, even if we receive a designation, the receipt of such designation for a product candidate may not result in a faster development or regulatory review or approval process compared to product candidates considered for approval under conventional FDA procedures and does not assure ultimate approval by the FDA. In addition, even if one or more of our product candidates qualifies for these designations, the FDA may later decide that the product candidates no longer meet the conditions for qualification or decide that the time period for FDA review or approval will not be shortened.

In the European Union, we may seek PRIME designation for some of our product candidates in the future. The PRIME program focuses on product candidates that target conditions for which there exists no satisfactory method of treatment in the European Union, or even if such a method exists, the product candidate may offer a major therapeutic advantage over existing treatments. To be accepted for PRIME designation, a product candidate must meet the eligibility criteria in respect of its major public health interest and therapeutic innovation based on information that is capable of substantiating the claims. The benefits of a PRIME designation include the appointment of a rapporteur of the Committee for Medicinal Products for Human Use to provide continued support and help to build knowledge ahead of a marketing authorization application, early dialogue and scientific advice at key development milestones, and the potential to qualify products for accelerated review, meaning reduction in the review time for an opinion on approvability to be issued earlier in the application process. PRIME designation enables an applicant to request parallel EMA scientific advice and health technology assessment advice to facilitate timely market access. Even if we receive PRIME designation for any of our product candidates, the designation may not result in a materially faster development process, review or approval compared to conventional EMA procedures. Further, obtaining PRIME designation does not assure or increase the likelihood of EMA's grant of a marketing authorization.

***If approved, our products regulated as biologics may face competition from biosimilars approved through an abbreviated regulatory pathway.***

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, includes a subtitle called the Biologics Price Competition and Innovation Act of 2009, or BPCIA, which created an abbreviated approval pathway for biologic products that are biosimilar to or interchangeable with an FDA-licensed reference biologic product. Under the BPCIA, an application for a biosimilar product may not be submitted to the FDA until four years following the date that the reference product was first licensed by the FDA. In addition, the approval of a biosimilar product may not be made effective by the FDA until 12 years from the date on which the reference product was first licensed. During this 12-year period of exclusivity, another company may still market a competing version of the reference product if the FDA approves a BLA for the competing product containing the sponsor's own preclinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity, and potency of the other company's product. The law is complex and is still being interpreted and implemented by the FDA. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty.

To date, we have not had a product candidate approved as a biologic product. We believe that any of our product candidates that may be approved as a biologic product under a BLA should qualify for the 12-year period of exclusivity. However, there is a risk that this exclusivity could be shortened due to congressional action or otherwise, or that the FDA will not consider our products to be reference products for competing products, potentially creating the opportunity for generic competition sooner than anticipated. Other aspects of the BPCIA, some of which may impact the BPCIA exclusivity provisions, have also been the subject of recent litigation. Moreover, the extent to which a biosimilar, once licensed, will be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biologic products is not yet clear, and will depend on a number of marketplace and regulatory factors that are still developing. If competitors are able to obtain regulatory approval for biosimilars referencing our products, our products may become subject to competition from such biosimilars, with the attendant competitive pressure and consequences.

***Our relationships with customers and third-party payors may be subject, directly or indirectly, to applicable anti-kickback, fraud and abuse, false claims, transparency, health information privacy and security, and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.***

Healthcare providers, clinicians and third-party payors in the United States and elsewhere will play a primary role in the recommendation and prescription and use of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. The applicable federal, state and foreign healthcare laws and regulations that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid;
- federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, which impose criminal and civil penalties, including civil whistleblower or *qui tam* actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their respective implementing regulations, which imposes obligations, including mandatory contractual terms, on covered healthcare providers, health plans and healthcare clearinghouses, as well as their business associates, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Physician Payments Sunshine Act requires certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or transfers of value made to physicians, other healthcare providers and teaching hospitals, as well as information regarding ownership and investment interests held by physicians, other healthcare providers and their immediate family members; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers, state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers, state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to clinicians and other healthcare providers or marketing expenditures, and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

If our operations are found to be in violation of any of the laws described above or any governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, individual imprisonment, integrity obligations, and the curtailment or restructuring of our operations. Any penalties, damages, fines, individual imprisonment, integrity obligations, exclusion from funded healthcare programs, or curtailment or restructuring of our operations could adversely affect our financial results. Our corporate compliance program is designed to ensure that we will develop, market and sell our products and product candidates in compliance with all applicable laws and regulations, but we cannot guarantee that this program will protect 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 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 significant fines or other sanctions.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. If any of the clinicians or other healthcare providers or entities with whom we do or expect to do business is found to be not in compliance with applicable laws, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government funded healthcare programs.

***Existing and future legislation may affect our ability to commercialize our products, if and when approved, and increase the difficulty and cost for us to obtain reimbursement for our products, if and when approved.***

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could affect our ability to profitably sell or commercialize any product candidate for which we obtain marketing approval. The pharmaceutical industry has been a particular focus of these efforts and have been significantly affected by legislative initiatives. Current laws, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any FDA approved product.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the Medicare Modernization Act, 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 clinician administered drugs. In addition, this legislation provided authority for limiting the number of products that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products. While the Medicare Modernization Act applies only to benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the Medicare Modernization Act may result in a similar reduction in payments from private payors.

In March 2010, President Obama signed into law the ACA. In addition, other legislative changes have been proposed and adopted since the ACA was enacted. For example, in August 2021, the Budget Control Act of 2011, among other things, led to aggregate reductions to Medicare payments to providers of up to 2% per fiscal year that started in 2013 and, due to subsequent legislative amendments, will stay in effect through 2031. The Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, which was enacted on March 27, 2020, suspended the 2% Medicare sequester from May 1, 2020 through December 31, 2020, and extended the sequester by one year, through 2030. Pursuant to subsequent legislation, the reductions were suspended through the end of March 2022 and were reduced to 1% from April 2022 through June 2022. In addition, the American Taxpayer Relief Act of 2012, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain for any of our product candidates for which we may obtain regulatory approval or the frequency with which any product candidate is prescribed or used.

We expect that additional healthcare reforms 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 product which receives regulatory approval and/or the level of reimbursement physicians receive for administering any approved product we might bring to market. Reductions in reimbursement levels may negatively impact the prices we receive or the frequency with which our products are prescribed or administered. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors.

Since enactment of the ACA, there have been and continue to be numerous legal challenges and Congressional actions to repeal and replace provisions of the law and litigation and legislation over the ACA is likely to continue with unpredictable and uncertain results. For example, with enactment of the Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, which was signed by President Trump on December 22, 2017, Congress repealed the “individual mandate.” The repeal of this provision, which required most Americans to carry a minimal level of health insurance, became effective in 2019. The Trump Administration also took executive actions to undermine or delay implementation of the ACA, but those were rescinded by the Biden Administration. President Biden issued an executive order which directs federal agencies to reconsider rules and other policies that limit Americans’ access to health care, and consider actions that will protect and strengthen that access. Under this executive order, federal agencies are directed to re-examine: policies that undermine protections for people with pre-existing conditions, including complications related to COVID-19; demonstrations and waivers under Medicaid and the ACA that may reduce coverage or undermine the programs, including work requirements; policies that undermine the Health Insurance Marketplace or other markets for health

insurance; policies that make it more difficult to enroll in Medicaid and the ACA; and policies that reduce affordability of coverage or financial assistance, including for dependents.

The costs of prescription pharmaceuticals has also been the subject of considerable discussion in the United States, and members of Congress and the Biden Administration have stated that they will address such costs through new legislative and administrative measures. To date, there have been several recent U.S. congressional inquiries, as well as proposed and enacted state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for products. For example, on July 9, 2021, President Biden signed an executive order, which focuses on, among other things, the price of pharmaceuticals. The executive order directs the Department of Health and Human Services, or HHS, to create a plan to combat “excessive pricing of prescription pharmaceuticals and enhance domestic pharmaceutical supply chains, to reduce the prices paid by the federal government for such pharmaceuticals, and to address the recurrent problem of price gouging.” On September 9, 2021, HHS released its plan to reduce pharmaceutical prices. The key features of that plan are to: (1) make pharmaceutical prices more affordable and equitable for all consumers and throughout the health care system by supporting pharmaceutical price negotiations with manufacturers; (2) improve and promote competition throughout the prescription pharmaceutical industry by supporting market changes that strengthen supply chains, promote biosimilars and generic drugs, and increase transparency; and (3) foster scientific innovation to promote better healthcare and improve health by supporting public and private research and making sure that market incentives promote discovery of valuable and accessible new treatments.

The pricing of prescription pharmaceuticals is also subject to governmental control outside the United States. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidates to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our ability to generate revenues and become profitable could be impaired.

At the state level, individual states are increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. In addition, regional health care authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other health care programs. These measures could reduce the ultimate demand for our products, once approved, or put pressure on our product pricing. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or additional pricing pressures.

***If we or any third-party manufacturers we engage or may engage in the future fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur significant costs.***

We and any third-party manufacturers we engage or may engage in the future 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. From time to time and in the future, our operations may involve the use of hazardous materials, including chemicals and biological materials, and 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 general liability insurance as well as 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.

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.

Further, with respect to the operations of any future third-party contract manufacturers, it is possible that if they fail to operate in compliance with applicable environmental, health and safety laws and regulations or properly dispose of wastes associated with our products, we could be held liable for any resulting damages, suffer reputational harm or experience a disruption in the manufacture and supply of our product candidates or products.

***We are subject to anti-corruption laws, as well as export control laws, customs laws, sanctions laws and other laws governing our operations. If we fail to comply with these laws, we could be subject to civil or criminal penalties, other remedial measures and legal expenses, be precluded from developing manufacturing and selling certain products outside the United States or be required to develop and implement costly compliance programs, which could adversely affect our business, results of operations and financial condition.***

Our operations are subject to anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act 2010, or Bribery Act, and other anti-corruption laws that apply in countries where we do business and may do business in the future. The FCPA, Bribery Act and these other laws generally prohibit us, our officers, and our employees and intermediaries from bribing, being bribed or making other prohibited payments to government officials or other persons to obtain or retain business or gain some other business advantage. Compliance with the FCPA, in particular, is expensive and difficult, particularly in countries in which corruption is a recognized problem. In addition, the FCPA presents particular challenges in the pharmaceutical industry, because, in many countries, hospitals are operated by the government, and doctors and other hospital employees are considered foreign officials. Certain payments to hospitals in connection with clinical trials and other work have been deemed to be improper payments to government officials and have led to FCPA enforcement actions.

We may in the future operate in jurisdictions that pose a high risk of potential FCPA or Bribery Act violations, and we may participate in collaborations and relationships with third parties whose actions could potentially subject us to liability under the FCPA, Bribery Act or local anti-corruption laws. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted. If we expand our operations outside of the United States, we will need to dedicate additional resources to comply with numerous laws and regulations in each jurisdiction in which we plan to operate.

We are also subject to other laws and regulations governing our international operations, including regulations administered by the governments of the United Kingdom and the United States, and authorities in the European Union, including applicable export control regulations, economic sanctions on countries and persons, customs requirements and currency exchange regulations, collectively referred to as the Trade Control laws. In addition, various laws, regulations and executive orders also restrict the use and dissemination outside of the United States, or the sharing with certain non-U.S. nationals, of information classified for national security purposes, as well as certain products and technical data relating to those products. If we expand our presence outside of the United States, it will require us to dedicate additional resources to comply with these laws, and these laws may preclude us from developing, manufacturing, or selling certain products and product candidates outside of the United States, which could limit our growth potential and increase our development costs.

There is no assurance that we will be completely effective in ensuring our compliance with all applicable anti-corruption laws, including the FCPA, the Bribery Act or other legal requirements, including Trade Control laws. If we are not in compliance with the FCPA, Bribery Act and other anti-corruption laws or Trade Control laws, we may be subject to criminal and civil penalties, disgorgement and other sanctions and remedial measures, and legal expenses,

which could have an adverse impact on our business, financial condition, results of operations and liquidity. The SEC also may suspend or bar issuers from trading securities on U.S. exchanges for violations of the FCPA's accounting provisions. Any investigation of any potential violations of the FCPA, the Bribery Act, other anti-corruption laws or Trade Control laws by U.S., U.K. or other authorities could also have an adverse impact on our reputation, our business, results of operations and financial condition.

***We are subject to stringent privacy laws, information security laws, regulations, policies and contractual obligations related to data privacy and security and changes in such laws, regulations, policies, contractual obligations and failure to comply with such requirements could subject us to significant fines and penalties, which may have a material adverse effect on our business, financial condition or results of operations.***

We are subject to data privacy and protection laws and regulations that apply to the collection, transmission, storage and use of personally-identifying information, which among other things, impose certain requirements relating to the privacy, security and transmission of personal information, including comprehensive regulatory systems in the U.S., EU and U.K. The legislative and regulatory landscape for privacy and data protection continues to evolve in jurisdictions worldwide, and there has been an increasing focus on privacy and data protection issues with the potential to affect our business. Failure to comply with any of these laws and regulations could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse effect on our business, financial condition, results of operations or prospects.

There are numerous U.S. federal and state laws and regulations related to the privacy and security of personal information. In particular, regulations promulgated pursuant to HIPAA establish privacy and security standards that limit the use and disclosure of individually identifiable health information, or protected health information, and require the implementation of administrative, physical and technological safeguards to protect the privacy of protected health information and ensure the confidentiality, integrity and availability of electronic protected health information. Determining whether protected health information has been handled in compliance with applicable privacy standards and our contractual obligations can be complex and may be subject to changing interpretation. These obligations may be applicable to some or all of our business activities now or in the future.

If we are unable to properly protect the privacy and security of protected health information, we could be found to have breached our contracts. Further, if we fail to comply with applicable privacy laws, including applicable HIPAA privacy and security standards, we could face civil and criminal penalties. HHS enforcement activity can result in financial liability and reputational harm, and responses to such enforcement activity can consume significant internal resources. In addition, state attorneys general are authorized to bring civil actions seeking either injunctions or damages in response to violations that threaten the privacy of state residents. We cannot be sure how these regulations will be interpreted, enforced or applied to our operations. In addition to the risks associated with enforcement activities and potential contractual liabilities, our ongoing efforts to comply with evolving laws and regulations at the federal and state level may be costly and require ongoing modifications to our policies, procedures and systems.

Similar to the laws in the United States, there are significant privacy and data security laws that apply in Europe and other countries. The collection, use, disclosure, transfer, or other processing of personal data, including personal health data, regarding individuals who are located in the European Economic Area, or EEA, and the processing of personal data that takes place in the EEA, is regulated by the General Data Protection Regulation, or GDPR, which went into effect in May 2018 and which imposes obligations on companies that operate in our industry with respect to the processing of personal data and the cross-border transfer of such data. The GDPR imposes onerous accountability obligations requiring data controllers and processors to maintain a record of their data processing and policies. If our or our service providers' privacy or data security measures fail to comply with the GDPR requirements, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data and/or fines of up to 20 million Euros or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, as well as compensation claims by affected individuals, negative publicity, reputational harm and a potential loss of business and goodwill.



While we continue to address the implications of the recent changes to data privacy regulations, data privacy remains an evolving landscape at both the domestic and international level, with new regulations coming into effect and continued legal challenges, and our efforts to comply with the evolving data protection rules may be unsuccessful. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. We must devote significant resources to understanding and complying with this changing landscape. Failure to comply with laws regarding data protection would expose us to risk of enforcement actions taken by data protection authorities in the EEA and elsewhere and carries with it the potential for significant penalties if we are found to be non-compliant. Similarly, failure to comply with federal and state laws in the United States regarding privacy and security of personal information could expose us to penalties under such laws. Any such failure to comply with data protection and privacy laws could result in government-imposed fines or orders requiring that we change our practices, claims for damages or other liabilities, regulatory investigations and enforcement action, litigation and significant costs for remediation, any of which could adversely affect our business. Even if we are not determined to have violated these laws, government investigations into these issues typically require the expenditure of significant resources and generate negative publicity, which could harm our business, financial condition, results of operations or prospects.

***We might not be able to utilize a significant portion of our net operating loss carryforwards and research and development tax credit carryforwards.***

As of December 31, 2021, we had federal net operating loss, or NOL, carryforwards of \$364.4 million, which may be available to offset future federal tax liabilities and expire at various dates beginning in 2030. As of December 31, 2021, we also had state NOL carryforwards of \$352.9 million, which may be available to offset future state income tax liabilities and expire at various dates beginning in 2030, and federal and state research and development credit carryforwards of approximately \$3.6 million, which begin to expire in 2040 (federal) and 2035 (state). These NOL carryforwards could expire unused and be unavailable to offset our future income tax liabilities.

In general, under Sections 382 and 383 of the Code, the amount of benefits from our NOL and research and development tax credit carryforwards, respectively, may be impaired or limited if we incur an “ownership change,” generally defined as a greater than 50% change (by value) in our equity ownership by certain stockholders, over a three-year period. We previously completed an analysis and determined that an ownership change has materially limited our net operating loss carryforwards and research and development tax credits available to offset future tax liabilities, which limitation is reflected in the numbers presented above. We may be further limited by any changes that may have occurred or may occur subsequent to December 31, 2021. Any such limitations may result in greater tax liabilities than we would incur in the absence of such limitations and increased liabilities could adversely affect our business, results of operations, financial position and cash flows. If our ability to use our historical NOL and research and development tax credit carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs and research and development tax credit carryforwards could expire or otherwise become unavailable to offset future income tax liabilities. As described below in “Changes in tax laws or in their implementation or interpretation could adversely affect our business and financial condition,” the 2017 Tax Act, as amended by the CARES Act, includes changes to U.S. federal tax rates and the rules governing NOL carryforwards that may significantly impact our ability to utilize our NOLs to offset taxable income in the future. In addition, state NOLs generated in one state cannot be used to offset income generated in another state. For these reasons, even if we attain profitability, we may be unable to use a material portion of our NOLs and other tax attributes.

**Risks Related to Employee Matters**

***Our workforce reduction announced in July 2022 could result in total costs and expenses that are greater than expected and could disrupt our business.***

In July 2022, we announced a course of action to terminate 113 employees, consisting of our entire commercial sales force and certain employees in our commercial scientific, manufacturing, finance and administrative functions. The determination to proceed with the workforce reduction was made in the context of the sale of our commercial business to

Alcon and the determination to focus our research and development efforts on the development of KPI-012. We cannot guarantee that we will achieve the anticipated annualized reduction in expenses from the workforce reduction. We also cannot guarantee that we will not have to undertake additional workforce reductions or restructuring activities in the future. Furthermore, this workforce reduction may be disruptive to our operations, including having a negative impact on our corporate culture. For example, our workforce reduction could yield unanticipated consequences, such as attrition beyond planned staff reductions, loss of historical knowledge or increased difficulties and disruptions in our day-to-day operations. Our workforce reduction could also harm our ability to attract and retain qualified management, scientific, clinical, manufacturing and other personnel who are critical to our business, including those who are critical to the development of KPI-012. Any failure to attract or retain qualified personnel could prevent us from successfully developing and commercializing KPI-012 and any other product candidate we may develop in the future. If we are ultimately successful in obtaining approval of KPI-012 in the United States, we will need to hire additional employees to support our commercialization of efforts, and if we are unsuccessful or delayed in doing so, the potential launch of KPI-012 could be delayed, which could harm our business.

***Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.***

We are highly dependent on the research and development, clinical, business development and commercialization expertise of Mark Iwicki, our Chief Executive Officer, Todd Bazemore, our President and Chief Operating Officer, Mary Reumuth, our Chief Financial Officer, Kim Brazzell, Ph.D., our Head of Research and Development and Chief Medical Officer, Darius Kharabi, our Chief Business Officer, and Eric Trachtenberg, our General Counsel, Chief Compliance Officer and Corporate Secretary, as well as the other principal members of our management, scientific and clinical teams. Although we have entered into employment agreements with our executive officers, each of them may terminate their employment with us at any time. We do not maintain “key person” insurance for any of our executives or other employees. In addition, we are highly dependent on the employees who joined us in connection with the Combangio Acquisition and their expertise developing biologics.

Recruiting and retaining qualified scientific, clinical, manufacturing, accounting, legal and other 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. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. Our decision to sell our commercial business to Alcon, our determination to cease the development of our preclinical pipeline programs unrelated to our MSC-S platform and to focus our research and development efforts on KPI-012 and our recent workforce reduction could harm our ability to attract and retain qualified personnel who are critical to our business. In addition, we rely on consultants and advisors, including scientific, clinical and regulatory 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 pursue our business strategy will be limited.

***Our internal computer systems, or those of our vendors, contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of our product development programs.***

Despite the implementation of security measures, our internal computer systems and those of our current and any future vendors, contractors or consultants, including any collaborator, are vulnerable to damage from cyber-attacks, computer viruses, worms and other destructive or disruptive software, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Cyber incidents or attacks could include the deployment of harmful malware, ransomware, denial-of-service attacks, unauthorized access to or deletion of files, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information. Cyber

incidents also could include phishing attempts or e-mail fraud to cause payments or information to be transmitted to an unintended recipient. System failures, accidents, cyberattacks or security breaches could cause interruptions in our operations, it could result in a material disruption of our development programs and our business operations, whether due to a loss of our trade secrets or other proprietary information or other similar disruptions, in addition to possibly requiring substantial expenditures of resources to remedy. The loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential, personal or proprietary information, we could incur liability, including civil fines and penalties under the General Data Protection Regulation (EU) 2016/679, HIPAA and other relevant state and federal privacy laws in the United States and abroad, our competitive position could be harmed and the further development and commercialization of our product candidates could be delayed. In addition, we may not have adequate insurance coverage to provide compensation for any losses associated with such events.

While we have not experienced any material losses relating to cyber-attacks, we have been the subject of a successful phishing attempt. We could be subject to risks caused by misappropriation, misuse, leakage, falsification or intentional or accidental release or loss of information maintained in the information systems and networks of our company, including personal information of our employees. In addition, outside parties may attempt to penetrate our systems or those of our vendors, contractors or consultants or fraudulently induce our employees or employees of our vendors, contractors or consultants to disclose sensitive information in order to gain access to our data. Like other companies, we may experience threats to our data and systems, including malicious codes and viruses, and other cyber-attacks. The number and complexity of these threats continue to increase over time. If a material breach of our security or that of our vendors, contractors or consultants occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose business and our reputation and credibility could be damaged. We could be required to expend significant amounts of money and other resources to repair or replace information systems or networks. Although we develop and maintain systems and controls designed to prevent these events from occurring, and we have a process to identify and mitigate threats, the development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of these events occurring cannot be eliminated entirely.

***A partially or fully remote workplace could negatively impact our business.***

We terminated our lease for office and laboratory space at our former corporate headquarters in Watertown, Massachusetts, effective January 11, 2022. While we have retained a nominal amount of office space on a short-term basis to conduct in-person meetings from time-to-time in Arlington, Massachusetts and acquired a sublease for a nominal amount of office and laboratory space in Menlo Park, California in connection with our acquisition of Combangio, the vast majority of our employees no longer have individual offices or access to dedicated laboratory space. We plan to outsource substantially all laboratory activities, other than certain activities related to KPI-012, until such time, if ever, that we maintain our own dedicated laboratory space. As a result, our management team and the vast majority of our employees will work remotely and without dedicated office space, until such time as we determine to obtain a new operating lease. By migrating to a remote workforce, our employees are accessing our servers remotely through home or other networks to perform their job responsibilities, which may be less secure. The risk of cyber incidents or other privacy or data security incidents may be heightened as a result of our remote work environment. Remote working arrangements could also impact employee productivity and morale, impede employee training, strain our technology resources and introduce operational risks, all of which could negatively impact our business. Furthermore, our transition to a largely remote workplace will increase our reliance on third parties to conduct a significant portion of our research and development activities. We have limited ability to control the amount or timing of resources that any such third party will devote to our research and development activities, and such third parties may terminate their engagements with us at any time. We also expect to have to negotiate budgets and contracts with such third parties, and we may not be able to do so on favorable terms, which may result in delays to our development timelines and increased costs.

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

***Provisions in our corporate charter documents and under Delaware law could make an acquisition of our company, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.***

Provisions in our certificate of incorporation and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of our company that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. 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 are 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:

- provide for a classified board of directors such that only one of three classes of directors is elected each year;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from our board of directors;
- provide for advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;
- limit who may call stockholder meetings;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a “poison pill” that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal specified provisions of our certificate of incorporation or bylaws.

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.

### ***An active trading market for our common stock may not be sustained.***

Our shares of common stock began trading on The Nasdaq Global Select Market on July 20, 2017. Given the limited trading history of our common stock, there is a risk that an active trading market for our shares will not be sustained, which could put downward pressure on the market price for our common stock and thereby affect your ability to sell your shares. 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.

***The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for purchasers of our common stock.***

Our stock price is likely to be volatile. The stock market in general and the market for smaller biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, you may not be able to sell your common stock at or above the price you paid for such common stock. The market price for our common stock may be influenced by many factors, including:

- the recent sale of our commercial business to Alcon;
- our strategic decision to focus our research and development efforts on KPI-012;
- results of clinical trials of KPI-012 or any other product candidates we may develop;
- our ability to receive marketing approval for and to successfully commercialize KPI-012 or any other product candidate we may develop;
- results of clinical trials of product candidates of our competitors;
- changes in the structure of healthcare payment systems;
- the success of competitive products or technologies;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key scientific, commercial or management personnel, including as a result of our recently announced workforce reduction;
- the level of expenses related to the development of KPI-012 and any other product candidate we develop;
- the results of our efforts to discover, develop, acquire or in-license additional products, product candidates or technologies for the treatment of diseases or conditions, the costs of commercializing any such products and the costs of development of any such product candidates or technologies;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- market conditions in the pharmaceutical and biotechnology sectors;
- the societal and economic impact of public health epidemics, such as the ongoing COVID-19 pandemic;
- general economic, industry and market conditions; and
- the other factors described in this “Risk Factors” section.

In the past, following periods of volatility in the market price of a company’s securities, securities class-action litigation has often been instituted against that company. We also may face securities class-action litigation if we cannot

obtain regulatory approval for or fail to successfully commercialize KPI-012 or any other product candidate we develop. Such litigation, if instituted against us, could cause us to incur substantial costs to defend such claims and divert management's attention and resources.

***Sale of a substantial number of shares of our common stock into the market could cause the market price of our common stock to drop significantly, even if our business is doing well.***

Sales of a substantial number of shares of our common stock in the public market, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As of August 10, 2022, we had outstanding 73,208,140 shares of common stock.

Shares of our common stock may be freely sold in the public market at any time to the extent permitted by Rules 144 and 701 under the Securities Act of 1933, as amended, or the Securities Act, or to the extent such shares have already been registered under the Securities Act and are held by non-affiliates of ours. Persons who were our stockholders prior to our initial public offering continue to hold a substantial number of shares of our common stock. If such persons sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline. Moreover, holders of a substantial number of shares of our common stock, including shares of our common stock issuable upon exercise of outstanding warrants and options, have rights, subject to specified conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We have filed or intend to file registration statements registering all shares of common stock that we may issue under our equity compensation plans or pursuant to equity awards made to newly hired employees outside of equity compensation plans. These shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates.

In connection with the Combangio Acquisition, on January 3, 2022, we issued an aggregate of 6,815,072 shares of our common stock to the former Combangio equityholders, and we held back 973,565 Holdback Shares that will be issuable subject to the terms of the Merger Agreement to the Combangio equityholders on the escrow release date. In addition, former Combangio equityholders are entitled to receive from us, subject to the terms and conditions of the Merger Agreement, contingent consideration of up to \$5.4 million payable in shares of our common stock upon our achievement of various development and regulatory milestones, and we may elect, subject to the Nasdaq rules, to satisfy a portion of certain milestone payments that are payable to Combangio equityholders in cash through the issuance of up to \$15 million of our common stock. While the shares of common stock issued to former Combangio equityholders will be restricted as a result of securities laws, following expiration of applicable holding periods, these shares will be able to be freely sold in the public market, subject to any requirements and restrictions, including any applicable volume limitations, imposed by Rule 144 under the Securities Act. If the former Combangio equityholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline.

In addition, the merger agreement with Combangio obligates us to file a registration statement with respect to public resale of our shares of common stock that may become issuable upon the achievement of certain of the milestones.

The sale or resale of these shares in the public market, or the market's expectation of such sales, may result in an immediate and substantial decline in our stock price. Such a decline will adversely affect our investors and also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

***If we fail to comply with the continued listing requirements of Nasdaq, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.***

We must satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price of \$1.00 per share and a minimum market value of listed securities, or risk delisting, which would have a material adverse effect on our business. A delisting of our common stock from Nasdaq could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us,

or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities. In addition, any potential delisting of our common stock from Nasdaq would also make it more difficult for our stockholders to sell their shares in the public market.

A delisting of our common stock after a specified cure period is also an event of default under our Loan Agreement. If such an event of default were to occur, the lender would be entitled to accelerate the amounts due under our Loan Agreement. We may not be able to make such accelerated payments, in which case the lender could seek to enforce security interests in the collateral securing such indebtedness. In either case, the occurrence of an event of default under our Loan Agreement would adversely effect our financial condition and our ability to pursue our business strategy.

On March 2, 2022, we received a deficiency letter from Nasdaq notifying us that, for 30 consecutive business days, the bid price of our common stock had closed below the \$1.00 per share minimum bid price requirement for continued inclusion on Nasdaq pursuant to Nasdaq Listing Rule 5450(a)(1), or the Bid Price Requirement. We were provided a period of 180 calendar days, or until August 29, 2022, to regain compliance with the Bid Price Requirement. On March 22, 2022, we received a letter from Nasdaq notifying us that we had regained compliance with the Bid Price Requirement as we had a closing bid price of at least \$1.00 per share for a minimum of ten consecutive business days from March 8, 2022 through March 21, 2022.

On May 24, 2022, we received another deficiency letter from Nasdaq notifying us that, for 30 consecutive business days, the bid price of our common stock had closed below the \$1.00 per share minimum bid price requirement for continued inclusion on Nasdaq pursuant to the Bid Price Requirement. We were provided a period of 180 calendar days, or until November 21, 2022, to regain compliance with the Bid Price Requirement.

On July 6, 2022, we received another deficiency letter from Nasdaq notifying us that we were not in compliance with Nasdaq Listing Rule 5450(b)(2)(A), or the Minimum MVLS Requirement, for continued listing on the Nasdaq Global Select Market, as the market value of our common stock was less than \$50,000,000 for the previous 30 consecutive business days. Nasdaq also noted in its letter that we were not in compliance with Nasdaq Listing Rule 5450(b)(3)(A), which requires listed companies to have total assets and total revenue of at least \$50,000,000 each for the most recently completed fiscal year or for two of the three most recently completed fiscal years.

If we do not regain compliance with the Bid Price Requirement by November 21, 2022 or the Minimum MVLS Requirement by January 2, 2023, we may be eligible for an additional 180 calendar day compliance period for each deficiency. To qualify, we would need to transfer the listing of our common stock to the Nasdaq Capital Market, provided that we meet the continued listing requirement for the market value of publicly held shares and all other initial listing standards, with the exception of the Bid Price Requirement. To effect such a transfer, we would also need to pay an application fee to Nasdaq and, in the case of the Bid Price Requirement deficiency, will need to provide written notice to Nasdaq of our intention to cure such deficiency during the additional compliance period by effecting a reverse stock split, if necessary. As part of its review process, Nasdaq will make a determination of whether it believes we will be able to cure the Bid Price Rule deficiency. Should Nasdaq conclude that we will not be able to cure the deficiencies, or should we determine not to submit an application for transfer to the Nasdaq Capital Market or notify Nasdaq of our intention to cure the deficiencies, Nasdaq will provide written notification to us that our common stock will be subject to delisting. At that time, we may appeal Nasdaq's delisting determination to a Nasdaq Listing Qualifications Panel, or the Panel. However, there can be no assurance that, if we receive a delisting notice and appeal the delisting determination to the Panel, such appeal would be successful.

We intend to monitor the closing bid price of our common stock and the market value of our common stock and may, if appropriate, consider available options to regain compliance with the Bid Price Requirement and the Minimum MVLS Requirement, which could include seeking to effect a reverse stock split and/or applying to transfer to the Nasdaq Capital Market. However, there can be no assurance that we will be able to regain compliance with Nasdaq's continued listing requirements.

***We are an “emerging growth company” and a “smaller reporting company”, and the reduced disclosure requirements applicable to emerging growth companies and smaller reporting companies may 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, or the JOBS Act, and may remain an emerging growth company until December 31, 2022, although if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th or if we have annual gross revenues of \$1.07 billion or more in any fiscal year, we would cease to be an emerging growth company as of December 31 of the applicable year. We also would cease to be an emerging growth company if we issue more than \$1 billion of non-convertible debt over a three-year period.

We are also a “smaller reporting company,” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. We would cease to be a smaller reporting company if we have a public float in excess of \$250 million or have annual revenues in excess of \$100 million and a public float in excess of \$700 million, determined on an annual basis.

As an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

In addition to the above reduced disclosure requirements applicable to emerging growth companies, as a smaller reporting company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not smaller reporting companies. These exemptions include:

- being permitted to provide only two years of audited financial statements in our annual report on Form 10-K, with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure;
- not being required to furnish a contractual obligations table in "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and
- not being required to furnish a stock performance graph in our annual report.

We cannot predict whether investors will find our common stock less attractive as a result of our reliance 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.



***We have incurred and will continue to incur increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives and corporate governance practices.***

As a public company, and particularly after we are no longer an emerging growth company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs relative to prior years and will make some activities more time-consuming and costly.

For as long as we remain an emerging growth company or a smaller reporting company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies or smaller reporting companies as described in the preceding risk factor.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we are required to furnish a report by our management on our internal control over financial reporting. However, while we remain an emerging growth company, we will not be required to include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we 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 in our internal control over financial reporting, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

***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.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of our Loan Agreement preclude us from paying dividends without the lenders' consent, and any future debt agreements that we may enter into may preclude us from paying dividends without the lenders' consent or at all. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

***Our certificate of incorporation designates the state courts in the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against the company and our directors, officers and employees.***

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to our company or our stockholders, any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or our certificate of incorporation or bylaws or as to which the General Corporation Law of the State of Delaware confers jurisdiction on the Court of Chancery of the State of Delaware, or any action asserting a claim against us governed by the internal affairs doctrine. We do not expect this choice of forum provision will apply to suits brought to enforce a duty or liability created by the Securities Act, the Exchange Act, or any other claim for which federal courts have exclusive jurisdiction.

This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business, financial condition and operating results.

#### **General Risk Factors**

##### ***Changes in tax laws or in their implementation or interpretation could adversely affect our business and financial condition.***

Changes in tax law may adversely affect our business or financial condition. On December 22, 2017, President Trump signed into law the 2017 Tax Act, which significantly revised the Internal Revenue Code of 1986, as amended, or the Code. The 2017 Tax Act, among other things, contained significant changes to corporate taxation, including a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, the limitation of the deduction for NOLs to 80% of current year taxable income and elimination of NOL carrybacks, in each case, for losses arising in taxable years beginning after December 31, 2017 (though any such NOLs may be carried forward indefinitely).

As part of Congress's response to the COVID-19 pandemic, the Families First Coronavirus Response Act, or FFCR Act, was enacted on March 18, 2020, the CARES Act was enacted on March 27, 2020, COVID relief provisions were included in the Consolidated Appropriations Act, 2021, or CAA, which was enacted on December 27, 2020, and the American Rescue Plan Act of 2021, or ARPA, was enacted on March 11, 2021. All contain numerous tax provisions. In particular, the CARES Act retroactively and temporarily (for taxable years beginning before January 1, 2021) suspends application of the 80%-of-income limitation on the use of NOLs, which was enacted as part of the 2017 Tax Act. It also provides that NOLs arising in any taxable year beginning after December 31, 2017, and before January 1, 2021 are generally eligible to be carried back up to five years.

Regulatory guidance under the 2017 Tax Act, the FFCR Act, the CARES Act, the CAA and the ARPA is and continues to be forthcoming, and such guidance could ultimately increase or lessen impact of these laws on our business and financial condition. It is also possible that Congress will enact additional legislation in connection with the COVID-19 pandemic or otherwise. Any such legislation could have an impact on our company. In addition, it is uncertain if and to what extent various states will conform to the 2017 Tax Act, the FFCR Act, the CARES Act, the CAA or the ARPA.

##### ***Patent reform legislation under Leahy-Smith America Invents Act could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.***

On September 16, 2011, Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The United States Patent Office has been developing new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, only became effective on March 16, 2013. The first to file provisions limit the rights of an inventor to patent an invention if not the first to file an application for patenting that invention, even if such invention was the first invention. Although it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, which could have a material adverse effect on our business, financial condition, results of operations and prospects. For example, the Leahy-Smith Act provides a new administrative tribunal known as the Patent Trial and Appeals Board, or PTAB, that provides a venue for companies to challenge the validity of competitor patents at a cost that is much lower than district court litigation and on timelines that are much faster. Although it is not clear what, if any, long term impact the PTAB proceedings will have on the operation of our business, the initial results of patent challenge proceedings before the PTAB since its inception in 2013 have resulted in the invalidation of many U.S. patent claims. The availability of the PTAB as a lower-cost, faster and potentially more potent tribunal for challenging patents could therefore increase the likelihood that our own patents will be challenged, thereby increasing the uncertainties and costs of maintaining, defending and enforcing them.

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

**Sales of Unregistered Securities**

On June 15, 2022, we granted stock options to two new employees to purchase a total of 50,000 shares of our common stock at an exercise price of \$0.39 per share. These options were inducement grants made outside of our 2017 Equity Incentive Plan in accordance with Nasdaq Listing Rule 5635(c)(4) and Section 4(a)(2) of the Securities Act of 1933, as amended. The options have a ten-year term and vest over four years, with 25% of the shares underlying the option award vesting on the one-year anniversary of the applicable employee's new hire date and the remaining 75% of the shares underlying the award vesting monthly thereafter for three-years. Vesting of the options is subject to the employee's continued service with our company through the applicable vesting date. We intend to file a registration statement on a Form S-8 to register the shares of common stock underlying these options prior to the time at which these options become exercisable.

Other than as stated above or otherwise described in a Current Report on Form 8-K, we did not issue or sell any shares of our common stock, shares of our preferred stock or warrants to purchase shares of our stock, or restricted stock awards, during the period covered by this Quarterly Report on Form 10-Q that were not registered under the Securities Act of 1933, as amended.

**Use of Proceeds from our Public Offering of Common Stock**

None.

**Repurchase of Shares or of Company Equity Securities**

None.

**Item 6. Exhibits**

**Exhibit Index**

- EXHIBIT 2.1\* - [Asset Purchase Agreement, by and between the Registrant, Alcon Pharmaceuticals Ltd. and Alcon Vision, LLC \(incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K \(File No. 001-38150\) filed on May 23, 2022 with the Securities and Exchange Commission\)](#)
- EXHIBIT 10.1\*+ [First Amendment to Loan and Security Agreement, dated November 15, 2021, by and among the Registrant, Combangio, Inc. and Oxford Finance LLC, as collateral agent and lender](#)
- EXHIBIT 10.2+ - [Second Amendment to Loan and Security Agreement, dated May 21, 2022, by and among the Registrant, Combangio, Inc. and Oxford Finance LLC, as collateral agent and lender](#)
- EXHIBIT 31.1+ - [Certification of Chief Executive Officer pursuant to Rules 13a-14\(a\) or 15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- EXHIBIT 31.2+ - [Certification of Chief Financial Officer pursuant to Rules 13a-14\(a\) or 15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- EXHIBIT 32.1++ - [Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, by Mark Iwicki, Chief Executive Officer of the Company.](#)
- EXHIBIT 32.2++ - [Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, by Mary Reumuth, Chief Financial Officer of the Company.](#)
- EXHIBIT 101.INS - Inline XBRL Instance Document. (the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document)
- EXHIBIT 101.SCH - Inline XBRL Taxonomy Extension Schema Document.
- EXHIBIT 101.CAL - Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- EXHIBIT 101.DEF - Inline XBRL Taxonomy Extension Definition Linkbase Document.
- EXHIBIT 101.LAB - Inline XBRL Taxonomy Extension Label Linkbase Document.
- EXHIBIT 101.PRE - Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- EXHIBIT 104 - Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

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+ Filed herewith

++ Furnished herewith

\* Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

**SIGNATURES**

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

**KALA PHARMACEUTICALS, INC.**

Dated: August 11, 2022

By: /s/ Mark Iwicki  
Mark Iwicki  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Dated: August 11, 2022

By: /s/ Mary Reumuth  
Mary Reumuth  
Chief Financial Officer (Principal Financial and  
Accounting Officer)

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) is the type of information that the registrant treats as private or confidential. Double asterisks denote omissions.

#### FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT to Loan and Security Agreement (this “**Amendment**”) is entered into as of November 15, 2021 (the “**First Amendment Date**”), by and among OXFORD FINANCE LLC, a Delaware limited liability company with an office located at 115 South Union Street, Suite 300, Alexandria, VA 22314 (“Oxford”), as collateral agent (in such capacity, “Collateral Agent”), the Lenders listed on Schedule 1.1 hereof or otherwise a party hereto from time to time including Oxford in its capacity as a Lender (each a “Lender” and collectively, the “Lenders”), and KALA PHARMACEUTICALS, INC., a Delaware corporation (“**Existing Borrower**”) and COMBANGIO, INC., a Delaware corporation with an office located at 1440 O’Brien Drive, Suite D, Menlo Park CA 94025 (“**New Borrower**”) (New Borrower and Existing Borrower, individually and collectively, jointly and severally, “**Borrower**”).

WHEREAS, Collateral Agent, Existing Borrower and the Lenders party thereto from time to time have entered into that certain Loan and Security Agreement, dated as of May 4, 2021 (as amended, supplemented or otherwise modified from time to time, the “**Loan Agreement**”) pursuant to which the Lenders have provided to Borrower certain loans in accordance with the terms and conditions thereof; and

WHEREAS, Existing Borrower, CERES MERGER SUB, INC., a Delaware corporation (the “**Transitory Subsidiary**”), New Borrower and Fortis Advisors LLC, solely in its capacity as representative of the stockholders of New Borrower have entered into that certain Agreement and Plan of Merger, dated as of November 15, 2021 (in the form attached hereto as Exhibit A and without any amendments to the terms thereof, the “**Merger Agreement**”) pursuant to which, among other things, the Existing Borrower and will purchase all outstanding shares of capital stock of New Borrower, New Borrower shall merge with and into Transitory Subsidiary with New Borrower surviving, and New Borrower shall become a wholly owned subsidiary of Existing Borrower (the “**Merger**”);

WHEREAS, Borrower, Lenders and Collateral Agent desire to amend certain provisions of the Loan Agreement as provided herein and subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the promises, covenants and agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower, Lenders and Collateral Agent hereby agree as follows:

1. **Definitions.** Capitalized terms used herein but not otherwise defined shall have the respective meanings given to them in the Loan Agreement.
  2. **Consent.**
    - a. Subject to the terms and conditions hereof, Collateral Agent and Lenders hereby consent to the formation by Existing Borrower of the Transitory Subsidiary for purposes of consummating the transactions contemplated by the Merger Agreement, without joining the Transitory Subsidiary as a co-Borrower or guarantor as required by Section 6.12 of the Loan Agreement; provided, however, the Transitory Subsidiary shall merge with the New Borrower as part of the Merger and the Transitory Subsidiary shall not be the surviving entity after the consummation of the Merger; provided, further, at no time shall the Transitory Subsidiary hold any assets.
    - b. The consent set forth above is effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Lenders may now have or may have in the future under or in connection with any Loan Document.
-

### 3. Joinder.

- a. **New Borrower.** New Borrower hereby is added as a “Borrower” under the Loan Agreement. All references in the Agreement to “Borrower” shall hereafter mean and include the Existing Borrower and New Borrower, individually and collectively, jointly and severally; and New Borrower shall hereafter have all rights, duties and obligations of “Borrower” thereunder.
- b. **Joinder to Loan Agreement.** New Borrower hereby joins the Loan Agreement and each of the Loan Documents, and agrees to comply with and be bound by all of the terms, conditions and covenants of the Loan Agreement and Loan Documents, as if it were originally named a “Borrower” therein (effective as of the date of this Amendment). Without limiting the generality of the preceding sentence, each New Borrower agrees that it will be jointly and severally liable, together with Existing Borrower, for the payment and performance of all obligations and liabilities of Borrower under the Loan Agreement, including, without limitation, the Obligations. Either Borrower may, acting singly, request Credit Extensions pursuant to the Loan Agreement. Each Borrower hereby appoints the other as agent for the other for all purposes hereunder, including with respect to requesting Credit Extensions pursuant to the Loan Agreement. Each Borrower hereunder shall be obligated to repay all Credit Extensions made pursuant to the Loan Agreement, regardless of which Borrower actually receives said Credit Extension, as if each Borrower hereunder directly received all Credit Extensions.
- c. **Subrogation and Similar Rights.** Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law and (b) any right to require Collateral Agent or any Lender to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Collateral Agent and any Lender may each exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower’s liability. Notwithstanding any other provision of this Amendment, the Loan Agreement, the Loan Documents or any related documents, until the Obligations have been indefeasibly paid in full and at such time as each Lender’s obligation to make Credit Extensions has terminated, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Collateral Agent and/or Lenders under this Amendment and the Loan Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Amendment, the Loan Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Amendment, the Loan Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this section shall be null and void. If any payment is made to a Borrower in contravention of this section, such Borrower shall hold such payment in trust for Collateral Agent, for the ratable benefit of Lenders, and such payment shall be promptly delivered to Collateral Agent, for the ratable benefit of Lenders, for application to the Obligations, whether matured or unmatured.
- d. **Grant of Security Interest.** To secure the prompt payment and performance of all of the Obligations, New Borrower hereby grants to Collateral Agent, for the ratable benefit of Lenders, a continuing lien upon and security interest in all of New Borrower’s now existing or hereafter arising rights and interest in the Collateral, whether now owned or existing or hereafter created, acquired, or arising, and wherever located. New Borrower further covenants and agrees that by its execution hereof it shall provide all such information, complete all such forms, and take all such actions, and enter into all such agreements, in form and substance reasonably satisfactory to Collateral Agent and each Lender that are reasonably deemed necessary by Collateral Agent or any Lender in order to grant a valid, perfected first priority security interest to Collateral Agent,

for the ratable benefit of Lenders, in the Collateral. New Borrower hereby authorizes Collateral Agent to file financing statements, without notice to Borrower, with all appropriate jurisdictions in order to perfect or protect Collateral Agent's and/or any Lender's interest or rights hereunder, including a notice that any disposition of the Collateral, except to the extent such disposition are permitted pursuant to the Loan Agreement, by either Borrower or any other Person, shall be deemed to violate the rights of Collateral Agent and each Lender under the Code. Without limiting the generality of the foregoing, New Borrower hereby grants and pledges to Collateral Agent, for the ratable benefit of the Lenders, to secure the prompt payment and performance of all of the Obligations, a perfected security interest in all of the issued and outstanding shares of capital stock of the Existing Borrower and shall simultaneously herewith deliver to Collateral Agent one or more original stock certificates, if certificated, representing such shares together with duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Collateral Agent.

- e. **Representations and Warranties.** New Borrower hereby represents and warrants to Collateral Agent and each Lender that all representations and warranties in the Loan Documents made on the part of "Borrower" are true and correct on the date hereof (as updated by the Perfection Certificate covering New Borrower delivered to Oxford on or around the date of this Amendment) with respect to New Borrower, with the same force and effect as if New Borrower were named as "Borrower" in the Loan Documents in addition to Existing Borrower.
4. The following Section 12.13 is hereby added to the Loan Agreement:

**12.13 Borrower Liability.** Either Borrower may, acting singly, request Credit Extensions hereunder. Each Borrower hereby appoints the other as agent for the other for all purposes hereunder, including with respect to requesting Credit Extensions hereunder. Each Borrower hereunder shall be jointly and severally obligated to repay all Credit Extensions made hereunder, regardless of which Borrower actually receives said Credit Extension, as if each Borrower hereunder directly received all Credit Extensions. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, and (b) any right to require Collateral Agent or any Lender to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Collateral Agent and or any Lender may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower's liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Collateral Agent and the Lenders under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section shall be null and void. If any payment is made to a Borrower in contravention of this Section, such Borrower shall hold such payment in trust for Collateral Agent and the Lenders and such payment shall be promptly delivered to Collateral Agent for application to the Obligations, whether matured or unmatured.

5. Section 13.1 of the Loan Agreement is hereby amended by adding the following definitions thereto in alphabetical order:

"**First Amendment Date**" is November 15, 2021.

"**Existing Borrower**" is KALA PHARMACEUTICALS, INC., a Delaware corporation.



6. Section 13.1 of the Loan Agreement is hereby amended by amending and restating the following definitions therein as follows:  
“**Borrower**” is individually and collectively, jointly and severally, New Borrower and the Existing Borrower.
7. Exhibit D to the Loan Agreement is hereby amended and restated in its entirety as set forth on Exhibit B hereto.
8. The Perfection Certificate delivered on the Effective Date of the Loan Agreement is hereby updated by the Perfection Certificates delivered to Collateral Agent on the date of this Amendment.
9. **Limitation of Amendment.**
  - a. The amendments and consents set above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right, remedy or obligation which Lenders or Borrower may now have or may have in the future under or in connection with any Loan Document, as amended hereby.
  - b. This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect. For the avoidance of doubt, this Amendment shall be considered part of the Loan Documents.
10. To induce Collateral Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Collateral Agent and Lenders as follows:
  - a. The Merger is a Permitted Acquisition, does not violate any provision of the Loan Agreement and except as set forth herein no consent is required from Collateral Agent or any Lender for the consummation of the Merger.
  - b. Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects as of such date), and (b) no Event of Default has occurred and is continuing;
  - c. Borrower has the power and due authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;
  - d. The organizational documents of Borrower delivered to Collateral Agent on the Effective Date, and updated pursuant to subsequent deliveries by the Borrower to the Collateral Agent, remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;
  - e. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;
  - f. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not

contravene (i) any law or regulation binding on or affecting Borrower, (ii) any contractual restriction with a Person binding on Borrower, (iii) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (iv) the organizational documents of Borrower;

- g. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and
  - h. This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.
11. Except as expressly set forth herein, the Loan Agreement shall continue in full force and effect without alteration or amendment. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements.
12. This Amendment shall be deemed effective as of the First Amendment Date upon (a) the due execution and delivery by Borrower to Collateral Agent of this Amendment, (b) Borrower's payment of all Lenders' Expenses incurred through the date hereof, which may be debited (or ACH'd) from the Designated Deposit Account in accordance with Section 2.3(d) of the Loan Agreement, (c) other than as set forth in Section 13 hereof, fulfillment of all applicable conditions of Section 3.1 of the Loan Agreement (as they may be applicable to the New Borrower, but excluding, for the avoidance of doubt, any requirement to deliver a legal opinion of counsel to Borrower) and Section 3.2 of the Loan Agreement (as they may be applicable to Borrower), including, without limitation, receipt of original amended and restated Promissory Notes being issued on the date hereof in lieu of the Promissory Notes outstanding immediately prior to this Amendment becoming effective; (d) receipt by Collateral Agent of a certificate from a Responsible Officer of a Borrower (i) certifying and setting forth in reasonable detail that Borrower has enough cash on hand to pay its respective projected expenses and all debt service when due for a period of twelve (12) months after the consummation of such transaction (after giving effect to such transaction) based on projections that are provided with such certificate to Collateral Agent and Lenders and (ii) certifying and setting forth in reasonable detail that Borrower has enough cash on hand to pay its respective projected expenses and all debt service when due for a period of twelve (12) months after the consummation of such transaction (after giving effect to such transaction) based upon the Cash Burn of Borrower and its Subsidiaries and the Cash Burn of such Person and its subsidiaries (or, if applicable, of such Person's applicable business line or unit or division, if only such business line, unit or division is the subject of the Permitted Acquisition)(i.e., the projected expenses must assume that such Cash Burn will continue for the following twelve (12) months period); (e) receipt by Collateral Agent, a certificate of the chief financial officer of Borrower certifying that the Merger is a Permitted Acquisition complies with the requirements of the definition of Permitted Acquisition and with the other terms of the Loan Documents (before and after giving effect to the Merger), which certificate shall be in such form and substance as are reasonably satisfactory to the Collateral Agent; and (f) receipt by Collateral Agent of a fully executed Merger Agreement.
13. Borrower hereby covenants to the following (the "**Post-Closing Items**"):
- a. On or before November 30, 2021 (or such longer period as Collateral Agent may agree in writing (which may be via electronic mail) in its sole discretion), deliver to Collateral Agent an original stock representing all outstanding shares of the New Borrower, together with duly executed instrument of transfer or assignment in blank, all in form and substance satisfactory to Collateral Agent.

- b. On or before December 31, 2021 (or such longer period as Collateral Agent may agree in writing (which may be via electronic mail) in its sole discretion), Borrower shall deliver evidence satisfactory to Collateral Agent that the insurance policies for New Borrower required by Section 6.5 of the Loan Agreement are in full force and effect, together with appropriate evidence showing loss payable and/or additional insured clauses or endorsements in favor of Collateral Agent.
  - c. On or before December 31, 2021 (or such longer period as Collateral Agent may agree in writing (which may be via electronic mail) in its sole discretion), Borrower shall deliver to Collateral Agent (i) a landlord's consent executed in favor of Collateral Agent in respect of all of New Borrower's leased locations where New Borrower or any Subsidiary (other than Existing Borrower) maintains Collateral having a book value in excess of [\*\*] Dollars (\$[\*\*]) or its books or records (including, without limitation, its headquarters); and (ii) a bailee waiver executed in favor of Collateral Agent in respect of each third party bailee where New Borrower or any Subsidiary (other than Existing Borrower) maintains Collateral having a book value in excess of [\*\*] Dollars (\$[\*\*]).
  - d. On or before December 5, 2021 (or such longer period as Collateral Agent may agree in writing (which may be via electronic mail) in its sole discretion), Borrower shall deliver to Collateral Agent duly executed original Control Agreements with respect to any Collateral Accounts maintained by New Borrower which require a Control Agreement pursuant to Section 6.6; provided, however, until such Control Agreements have been delivered to Collateral Agent, the aggregate balance in such Collateral Accounts shall not exceed [\*\*] Dollars (\$[\*\*]) at any time.
14. Each party hereto agrees that (x) to the extent any representation and warranty would not be true or any provision of any covenant breached because the Post-Closing Items set forth in Section 13 were not delivered or satisfied on the First Amendment Date, the respective representation and warranty shall be deemed to be true and correct and the respective covenant complied with so long as Borrower delivers or satisfies the Post-Closing Items within the time periods and in the manner set forth in Section 13, and (y) all representations and warranties and covenants relating to the Post-Closing Items shall be required to be true or, in the case of any covenant, complied with, immediately after the actions required to be taken Section 13 have been taken (or were required to be taken).
15. The Borrower hereby remises, releases, acquits, satisfies and forever discharges the Lenders and Collateral Agent, their agents, employees, officers, directors, predecessors, attorneys and all others acting or purporting to act on behalf of or at the direction of the Lenders and Collateral Agent ("**Releasees**"), of and from any and all manner of actions, causes of action, suit, debts, accounts, covenants, contracts, controversies, agreements, variances, damages, judgments, claims and demands whatsoever, in law or in equity, which any of such parties ever had, now has or, to the extent arising from or in connection with any act, omission or state of facts taken or existing on or prior to the date hereof, may have after the date hereof against the Releasees, for, upon or by reason of any matter, cause or thing whatsoever relating to or arising out of the Loan Agreement or the other Loan Documents on or prior to the date hereof through the date hereof. Without limiting the generality of the foregoing, the Borrower waives and affirmatively agrees not to allege or otherwise pursue any defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights they do, shall or may have as of the date hereof, including the rights to contest: (a) the right of Collateral Agent and each Lender to exercise its rights and remedies described in the Loan Documents; (b) any provision of this Amendment or the Loan Documents; or (c) any conduct of the Lenders or other Releasees relating to or arising out of the Loan Agreement or the other Loan Documents on or prior to the date hereof.
16. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of which, taken together, shall constitute one and the same instrument.

17. This Amendment and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of New York.

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IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Loan and Security Agreement to be executed as of the date first set forth above.

**BORROWER:**

KALA PHARMACEUTICALS, INC.

By /s/ Mary Reumuth  
Name: Mary Reumuth  
Title: Chief Financial Officer

**BORROWER:**

COMBANGIO, INC.

By /s/ Mary Reumuth  
Name: Mary Reumuth  
Title: Treasurer

**COLLATERAL AGENT AND LENDER:**

OXFORD FINANCE LLC

By /s/ Colette H. Featherly  
Name: Colette H. Featherly  
Title: Senior Vice President

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EXHIBIT A

**Merger Agreement**

Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on November 15, 2021.

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## SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT to Loan and Security Agreement (this “**Amendment**”) is entered into as of May 21, 2022 (the “**Amendment Date**”), by and among OXFORD FINANCE LLC, a Delaware limited liability company with an office located at 115 South Union Street, Suite 300, Alexandria, VA 22314 (“**Oxford**”), as collateral agent (in such capacity, “**Collateral Agent**”), the Lenders listed on Schedule 1.1 hereof or otherwise a party hereto from time to time including Oxford in its capacity as a Lender (each a “**Lender**” and collectively, the “**Lenders**”), and KALA PHARMACEUTICALS, INC., a Delaware corporation and COMBANGIO, INC., a Delaware corporation with an office located at 1440 O’Brien Drive, Suite D, Menlo Park CA 94025 (individually and collectively, jointly and severally, “**Borrower**”).

WHEREAS, Collateral Agent, Borrower and the Lenders party thereto from time to time have entered into that certain Loan and Security Agreement, dated as of May 4, 2021 (as amended, supplemented or otherwise modified from time to time, the “**Loan Agreement**”) pursuant to which the Lenders have provided to Borrower certain loans in accordance with the terms and conditions thereof;

WHEREAS, Borrower anticipates entering into a certain Asset Purchase Agreement with Alcon Pharmaceuticals Ltd, a Swiss limited company (“**Alcon Swiss**”) and Alcon Vision, LLC, a Delaware limited liability company (“**Alcon Vision**” and, together with Alcon Swiss, collectively, “**Buyer**”), on or about the date hereof, the form of which is attached hereto as Exhibit A (the “**APA**”);

WHEREAS, Borrower has requested that Collateral Agent and Lenders consent to granting of certain Liens by Borrower to Buyer and certain Transfers by Borrower to Buyer, in each case pursuant to and in accordance with the terms of the APA, as described in Section 2 hereof, to the extent that such consent may be required pursuant to Section 7.1 or Section 7.5 of the Loan Agreement; and

WHEREAS, Collateral Agent and Lenders have agreed to provide such consent, but only to the extent set forth herein, in accordance with the terms and subject to the conditions set forth herein, and in reliance upon the representations and warranties set forth herein; and

WHEREAS, Borrower, Lenders and Collateral Agent desire to amend certain provisions of the Loan Agreement as provided herein and subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the promises, covenants and agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower, Lenders and Collateral Agent hereby agree as follows:

1. **Definitions.** Capitalized terms used herein but not otherwise defined shall have the respective meanings given to them in the Loan Agreement.
  2. Subject to the terms and conditions hereof, and notwithstanding any restriction set forth in the Loan Documents, Collateral Agent and Lenders hereby consents to Borrower entering into and consummating the transactions set forth in the APA, including without limitation, Transfer of the Acquired Assets (as defined in the APA) by Borrower to Buyer pursuant to and in accordance in all material respects with the terms of the APA (and without any further amendments to the APA that are adverse to the interests of Borrower, the Lenders or the Collateral Agent, or that constitute one or more transactions that would require consent of Required Lenders under Section 7 of the Loan Agreement, unless such amendments are consented to by Collateral Agent, which consent may be provided via email); provided, however, such Transfer must be consummated in accordance with the terms of the APA no later than six months after the effective date of the APA (as such date may be extended with the consent of the Collateral Agent, which consent may be provided via e-mail). Simultaneously with the Transfer of the Acquired Assets in accordance with the terms of the APA and this Amendment, Collateral Agent hereby releases its Liens on the Acquired Assets, authorizes Borrower or its designee to file a UCC-3 amendment describing the Acquired Assets, and furthermore agrees, solely at the expense of Borrower, to file and prepare any other documents necessary to evidence such release of Liens that Borrower may reasonably request.
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For the avoidance of doubt, nothing herein constitutes, or is meant to be construed as, a release of Collateral Agent's Lien on any and all proceeds of the Acquired Assets that are received by or are receivable by Borrower. The parties hereby agree that all proceeds of the Acquired Assets shall be subject to Collateral Agent's Lien in accordance with Section 4.1 of the Loan Agreement.

3. Section 2.2(b) of the Loan Agreement is hereby amended and restated as follows:

Repayment. Borrower shall make monthly payments of interest only commencing on the first (1st) Payment Date following the Funding Date of each Term Loan, and continuing on the Payment Date of each successive month thereafter through and including the Payment Date immediately preceding the Amortization Date. Borrower agrees to pay, on the Funding Date of each Term Loan, any initial partial interest payment otherwise due for the period between the Funding Date of such Term Loan and the first Payment Date thereof. Commencing on the Amortization Date, and continuing on the Payment Date of each month thereafter, Borrower shall make consecutive equal monthly payments of principal, together with applicable interest, in arrears, to each Lender, as calculated by Collateral Agent (which calculations shall be deemed correct absent manifest error) based upon: (1) the amount of such Lender's Term Loan, (2) the effective rate of interest, as determined in Section 2.3(a), and (3) a repayment schedule equal to (i) eighteen (18) months, if the I/O Extension Event does not occur and (ii) five (5) months, if the I/O Extension Event occurs. All unpaid principal and accrued and unpaid interest with respect to each Term Loan is due and payable in full on the Maturity Date. Each Term Loan may only be prepaid in accordance with Sections 2.2(c) and 2.2(d).

4. Section 2.2(c) of the Loan Agreement is hereby amended and restated as follows:

Mandatory Prepayments. If the Term Loans are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Lenders, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of: (i) all outstanding principal of the Term Loans plus accrued and unpaid interest thereon through the prepayment date, (ii) the Final Payment, (iii) the Prepayment Fee on the amount outstanding on the prepayment date, plus (iv) all other Obligations that are due and payable, including Lenders' Expenses and interest at the Default Rate with respect to any past due amounts. Notwithstanding (but without duplication with) the foregoing, on the Maturity Date, if the Final Payment had not previously been paid in full in connection with the prepayment of the Term Loans in full, Borrower shall pay to Collateral Agent, for payment to each Lender in accordance with its respective Pro Rata Share, the Final Payment in respect of the Term Loan(s).

5. Section 2.2(d) of the Loan Agreement is hereby amended and restated as follows:

(d) Permitted Prepayment of Term Loans.

(i) Borrower shall have the option to prepay all, but not less than all, of the Term Loans advanced by the Lenders under this Agreement, provided Borrower (i) provides written notice to Collateral Agent of its election to prepay the Term Loans at least ten (10) Business Days prior to such prepayment, and (ii) pays to the Lenders on the date of such prepayment, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of (A) all outstanding principal of the Term Loans plus accrued and unpaid interest thereon through the prepayment date, (B) the Final Payment, (C) the Prepayment Fee, plus (D) all other Obligations that are due and payable, including Lenders' Expenses and interest at the Default Rate with respect to any past due amounts.

(ii) Notwithstanding anything herein to the contrary, Borrower shall also have the option to prepay part of Term Loans advanced by the Lenders under this Agreement, provided Borrower (i) provides written notice to Collateral Agent of its election to prepay the Term Loans at least ten (10) Business Days prior to such prepayment, (ii) prepays such part of the Term Loans in a denomination that is a whole number multiple of One Million Dollars (\$1,000,000.00), and (iii) pays to the Lenders on the date of such prepayment, payable to each Lender in accordance with its respective Pro Rata Share, an amount equal to the sum of (A) the



portion of outstanding principal of such Term Loans plus all accrued and unpaid interest thereon through the prepayment date, (B) the applicable Final Payment with respect to the portion of such Term Loans being prepaid, (C) the applicable Prepayment Fee with respect to the portion of such Term Loans being prepaid, and (D) all other Obligations that are then due and payable, including Lenders' Expenses and interest at the Default Rate with respect to any past due amounts. For the purposes of clarity, any partial prepayment shall be applied pro-rata to all outstanding amounts under each Term Loan, and shall be applied pro-rata within each Term Loan tranche to reduce amortization payments under Section 2.2(b) on a pro-rata basis.

(iii) Notwithstanding anything to the contrary contained in this Agreement, Borrower may rescind any notice of prepayment under clauses (i) and (ii) above if such prepayment would have resulted from a refinancing of all or a portion of the Term Loans, which refinancing or transaction shall not be consummated or shall otherwise be delayed.

(iv) Notwithstanding anything herein to the contrary promptly upon the Closing (as defined in the APA), Borrower shall make a payment of accrued and unpaid interest on the principal amount being prepaid pursuant to this Section 2.2(d)(iv) through the prepayment date, and shall make a payment in the aggregate amount of \$40,000,000.00, which will be applied as a partial prepayment of principal of the Term Loans advanced by the Lenders under this Agreement in an amount of \$36,697,247.71, plus the applicable Prepayment Fee with respect to such prepayment in an amount of \$733,944.95, plus the applicable Final Payment on such principal amount being prepaid in the amount of \$2,568,807.34. For the purposes of clarity, any of the prepayment made pursuant to this Section 2.2(d)(iv) shall be applied pro-rata to all outstanding amounts under each Term Loan, and shall be applied pro-rata within each Term Loan tranche to reduce amortization payments under Section 2.2(b) on a pro-rata basis. *For the purposes of clarification, the payment Obligations set forth in this Section 2.2(d)(iv) are required upon the occurrence of the Closing (as defined in the APA) and are not optional upon the occurrence of such contingencies, but such payment shall not be a mandatory payment as described in Section 2.2(c) and the Closing (as defined in the APA) and the related payment shall not constitute an acceleration of the Obligations or trigger a Default or Event of Default hereunder.*

6. Section 13.1 of the Loan Agreement is hereby amended by adding the following definitions thereto in alphabetical order:

“**APA**” is defined in the Second Amendment.

“**Acquired Assets**” is defined in the Second Amendment.

“**I/O Extension Event**” is the prepayment by Borrower of Forty Million Dollars (\$40,000,000.00) in accordance with the terms of Section 2.2(d)(iv) of this Agreement and the receipt of such prepayment by Lenders.

“**Second Amendment**” is that certain second amendment to this Agreement entered into by and between Borrower, Collateral Agent and the Lenders.

7. Section 13.1 of the Loan Agreement is hereby further amended by amending and restating the following definitions therein as follows:

“**Amortization Date**” is, (i) December 1, 2024, if the I/O Extension Event does not occur, and (ii) January 1, 2026, if the I/O Extension Event occurs.

“**Final Payment**” is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earliest to occur of (a) the Maturity Date, or (b) the acceleration of any Term Loan, or (c) the prepayment of a Term Loan pursuant to Section 2.2(c) or Section 2.2(d), equal to the original principal amount of such Term Loan multiplied by the Final Payment Percentage, payable to Lenders in accordance with their respective Pro Rata Shares. For the avoidance of doubt, the calculation of

any Final Payment due on the maturity date or upon acceleration shall not include the principal amount prepaid in accordance with Section 2.2(d)(ii) if a Final Payment based on such principal amount prepaid was made at the time of such prepayment.

8. Effective upon the prepayment made in accordance with the provisions of Section 2.2(d)(iv) of the Loan Agreement, the Amortization Table attached to the Disbursement Letter entered into as of the Effective Date will be appropriately amended and restated. For illustrative purposes only, assuming that the prepayment is made during June 2022, the Amortization Table will be amended and restated as set forth on Exhibit E hereto.

9. **Limitation of Amendment.**

- a. The amendments and consents set above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right, remedy or obligation which Lenders or Borrower may now have or may have in the future under or in connection with any Loan Document, as amended hereby.
  - b. This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect. For the avoidance of doubt, this Amendment shall be considered part of the Loan Documents.
10. To induce Collateral Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Collateral Agent and Lenders as follows:
- a. Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct in all material respects as of such date), and (b) no Event of Default has occurred and is continuing;
  - b. Borrower has the power and due authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;
  - c. The organizational documents of Borrower delivered to Collateral Agent on the Effective Date, and updated pursuant to subsequent deliveries by the Borrower to the Collateral Agent, remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;
  - d. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;
  - e. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (i) any law or regulation binding on or affecting Borrower, (ii) any contractual restriction with a Person binding on Borrower, (iii) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (iv) the organizational documents of Borrower;
  - f. The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order,

consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

- g. This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.
11. Except as expressly set forth herein, the Loan Agreement shall continue in full force and effect without alteration or amendment. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements.
12. This Amendment shall be deemed effective as of the Amendment Date upon (a) the due execution and delivery by Borrower to Collateral Agent of this Amendment and (b) Borrower's payment of all Lenders' Expenses incurred through the date hereof, which may be debited (or ACH'd) from the Designated Deposit Account in accordance with Section 2.3(d) of the Loan Agreement.
13. The Borrower hereby remises, releases, acquits, satisfies and forever discharges the Lenders and Collateral Agent, their agents, employees, officers, directors, predecessors, attorneys and all others acting or purporting to act on behalf of or at the direction of the Lenders and Collateral Agent ("**Releasees**"), of and from any and all manner of actions, causes of action, suit, debts, accounts, covenants, contracts, controversies, agreements, variances, damages, judgments, claims and demands whatsoever, in law or in equity, which any of such parties ever had, now has or, to the extent arising from or in connection with any act, omission or state of facts taken or existing on or prior to the date hereof, may have after the date hereof against the Releasees, for, upon or by reason of any matter, cause or thing whatsoever relating to or arising out of the Loan Agreement or the other Loan Documents on or prior to the date hereof through the date hereof. Without limiting the generality of the foregoing, the Borrower waives and affirmatively agrees not to allege or otherwise pursue any defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights they do, shall or may have as of the date hereof, including the rights to contest: (a) the right of Collateral Agent and each Lender to exercise its rights and remedies described in the Loan Documents; (b) any provision of this Amendment or the Loan Documents; or (c) any conduct of the Lenders or other Releasees relating to or arising out of the Loan Agreement or the other Loan Documents on or prior to the date hereof.
14. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of which, taken together, shall constitute one and the same instrument.
15. This Amendment and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of New York.

**[Balance of Page Intentionally Left Blank]**

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Loan and Security Agreement to be executed as of the date first set forth above.

**BORROWER:**

KALA PHARMACEUTICALS, INC.

By /s/ Mary Reumuth  
Name: Mary Reumuth  
Title: Chief Financial Officer

**BORROWER:**

COMBANGIO, INC.

By /s/ Mary Reumuth  
Name: Mary Reumuth  
Title: Treasurer

**COLLATERAL AGENT AND LENDER:**

OXFORD FINANCE LLC

By /s/ Colette H. Featherly  
Name: Colette H. Featherly  
Title: Senior Vice President

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**Exhibit A**

**Asset Purchase Agreement**

Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on May 23, 2022.

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## CERTIFICATIONS

I, Mark Iwicki, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kala 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

By: /s/ Mark Iwicki

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Mark Iwicki  
Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATIONS

I, Mary Reumuth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kala 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2022

By: /s/ Mary Reumuth

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Mary Reumuth  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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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 on Form 10-Q of Kala Pharmaceuticals, Inc. (the "Company") for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark Iwicki, President and Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to the best of his knowledge on the date hereof:

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

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

Date: August 11, 2022

/s/ Mark Iwicki  
\_\_\_\_\_  
Mark Iwicki  
Chief Executive Officer  
(Principal Executive Officer)

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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 on Form 10-Q of Kala Pharmaceuticals, Inc. (the "Company") for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mary Reumuth, Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to the best of her knowledge on the date hereof:

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

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

Date: August 11, 2022

/s/ Mary Reumuth

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Mary Reumuth  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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