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

FORM 10-Q

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

For the quarterly period ended June 30, 2018
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

KALA PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

100 Beaver Street, Suite 201
Waltham, MA
(Address of principal executive offices)

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

02453
(Zip Code)

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

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

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

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

(Do not check if a
smaller reporting company)

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 24,592,274 shares of Common Stock, \$0.001 par value per share, outstanding as of August 6, 2018.

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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, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 91,205	\$ 114,565
Prepaid expenses and other current assets	731	648
Total current assets	91,936	115,213
Noncurrent assets:		
Property and equipment, net	1,250	786
Right-of-use asset	226	413
Restricted cash	2,178	134
Total assets	<u>\$ 95,590</u>	<u>\$ 116,546</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,382	\$ 1,202
Accrued expenses	5,146	6,606
Lease liabilities	202	397
Current portion of long-term debt	1,667	6,667
Total current liabilities	9,397	14,872
Long-term liabilities:		
Long-term debt - less current portion	18,100	11,987
Other long-term liabilities	—	8
Total long-term liabilities	18,100	11,995
Total liabilities	27,497	26,867
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized as of June 30, 2018 and December 31, 2017; no shares issued or outstanding as of June 30, 2018 or December 31, 2017	—	—
Common stock, \$0.001 par value - 120,000,000 shares authorized as of June 30, 2018 and December 31, 2017; 24,592,274 and 24,538,309 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	25	25
Additional paid-in capital	228,355	224,025
Accumulated deficit	(160,287)	(134,371)
Total stockholders' equity	68,093	89,679
Total liabilities and stockholders' equity	<u>\$ 95,590</u>	<u>\$ 116,546</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

KALA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating expenses:				
Research and development	\$ 7,368	\$ 8,071	\$ 13,024	\$ 16,110
General and administrative	7,151	1,559	12,633	3,091
Total operating expenses	<u>14,519</u>	<u>9,630</u>	<u>25,657</u>	<u>19,201</u>
Loss from operations	(14,519)	(9,630)	(25,657)	(19,201)
Other income (expense):				
Interest income	313	37	522	83
Interest expense	(414)	(208)	(781)	(406)
Change in fair value of warrant liability	—	(1,185)	—	(1,221)
Total other income (expense)	<u>(101)</u>	<u>(1,356)</u>	<u>(259)</u>	<u>(1,544)</u>
Net loss	<u>\$ (14,620)</u>	<u>\$ (10,986)</u>	<u>\$ (25,916)</u>	<u>\$ (20,745)</u>
Net loss per share—basic and diluted	<u>\$ (0.60)</u>	<u>\$ (9.30)</u>	<u>\$ (1.06)</u>	<u>\$ (17.56)</u>
Weighted average shares outstanding—basic and diluted	<u>24,567,103</u>	<u>1,181,429</u>	<u>24,554,834</u>	<u>1,181,429</u>

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
Cash flows from operating activities:		
Net loss	(25,916)	(20,745)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	173	140
Amortization of right-of-use asset	187	175
Change in fair value of warrant liability	—	1,221
Amortization of debt discount	51	56
Stock-based compensation	4,152	1,089
Loss on disposal of fixed asset	4	—
Change in operating assets and liabilities		
Prepaid expenses and other current assets	12	(148)
Accounts payable	1,085	192
Accrued expenses	(1,460)	(13)
Lease liabilities	(195)	(175)
Other long-term liabilities	(8)	4
Net cash used in operating activities	<u>(21,915)</u>	<u>(18,204)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(545)	(109)
Net cash used in investing activities	<u>(545)</u>	<u>(109)</u>
Cash flows from financing activities:		
Proceeds from venture debt, net of debt issuance costs of \$50	2,728	—
Payment of principal on venture debt	(1,667)	—
Payment of deferred offering costs	—	(784)
Proceeds from exercise of stock options	83	—
Net cash provided by (used in) financing activities	<u>1,144</u>	<u>(784)</u>
Net decrease in cash and restricted cash	<u>(21,316)</u>	<u>(19,097)</u>
Cash and restricted cash at beginning of period	114,699	45,581
Cash and restricted cash at end of period	<u>93,383</u>	<u>26,484</u>
Reconciliation of cash and restricted cash:		
Cash and restricted cash at end of period	93,383	26,484
Less restricted cash	(2,178)	(134)
Cash at end of period	<u>\$ 91,205</u>	<u>\$ 26,350</u>
Supplemental disclosure of non-cash investing and financing activities:		
Deferred offering costs included in accounts payable and accruals	\$ —	\$ 458
Exercise of stock options in prepaid expenses and other current assets	\$ 95	\$ —
Purchases of property and equipment in accounts payable	\$ 95	\$ —
Cash paid for interest	\$ 800	\$ 348

See accompanying notes to these unaudited condensed consolidated financial statements.

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 biopharmaceutical company focused on the development and commercialization of therapies using its proprietary nanoparticle-based Mucus Penetrating Particles, or MPP, technology, with an initial focus on the treatment of eye diseases. The Company has applied the MPP technology to loteprednol etabonate, or LE, a corticosteroid designed for ocular applications, resulting in two lead product candidates. These product candidates are INVELTYS™ (KPI-121 1.0%), for the treatment of inflammation and pain following ocular surgery, for which the U.S. Food and Drug Administration (the “FDA”) has accepted for filing the Company’s New Drug Application (“NDA”) and given a target action date under the Prescription Drug User Fee Act (“PDUFA”) of August 24, 2018, and KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. The Company is evaluating opportunities for MPP nanosuspensions of LE with less frequent daily dosing regimens for the treatment of inflammation and pain following ocular surgery, for the temporary relief of the signs and symptoms of dry eye disease and for potential chronic treatment of dry eye disease. The Company is also evaluating compounds in its topically applied MPP receptor Tyrosine Kinase Inhibitor program, or rTKI program, that inhibit the vascular endothelial growth factor, or VEGF, pathway, for the potential treatment of a number of retinal diseases. The brand name INVELTYS has been conditionally approved by the FDA.

The Company is engaged in research and development activities, raising capital and recruiting skilled personnel. The Company is subject to a number of risks similar to those of other companies conducting high-risk, early-stage research and development of pharmaceutical product candidates. Principal among these risks are dependence on key individuals and intellectual property, competition from other products and companies and the technical risks associated with the successful research, development and marketing of its product candidates. The Company’s success is dependent upon its ability to raise additional capital in order to fund ongoing and future research and development, obtain regulatory approval of its product candidates, successfully commercialize its products, generate revenue, meet its obligations, and, ultimately, attain profitable operations.

Initial Public Offering—On July 25, 2017, the Company completed its initial public offering (“IPO”) of common stock pursuant to its registration statement on Form S-1, as amended (File No. 333-218936), which was declared effective by the Securities Exchange Commission (the “SEC”) on July 19, 2017. Pursuant to the registration statement, the Company issued and sold 6,900,000 shares of \$0.001 par value common stock at an initial offering price of \$15.00 per share, which included 900,000 shares of common stock pursuant to the underwriters’ option to purchase additional shares. The Company’s shares began trading on the Nasdaq Global Select Market under the symbol “KALA” on July 20, 2017.

Proceeds from the Company’s IPO were approximately \$94.0 million after deducting underwriting discounts and commissions of \$7.3 million and offering costs of \$2.2 million. Upon the closing of the IPO, all of the Company’s outstanding shares of convertible preferred stock automatically converted into 16,101,970 shares of common stock at the applicable conversion ratio then in effect. All of the Company’s outstanding warrants to purchase preferred stock automatically converted into warrants to purchase 202,020 shares of common stock.

Liquidity— Since inception, we have incurred significant losses from operations and negative cash flows from operations. As of June 30, 2018, we had an accumulated deficit of \$160.3 million. We have not generated any revenues to date from product sales and have financed operations primarily through the IPO, private placements of preferred stock, convertible debt financings and borrowings under credit facilities. The Company has devoted substantially all of its financial resources and efforts to research and development, including preclinical studies and clinical trials. The Company expects to continue to incur significant expenses and operating losses over the next several years. Net losses may fluctuate significantly from quarter-to-quarter and year-to-year.

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company believes that its existing cash on hand as of June 30, 2018, will enable it to fund its planned 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.

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 relied upon in preparing these condensed consolidated financial statements relate to, but are not limited to, the present value of lease liabilities and the corresponding right-of-use assets, the fair value of warrants, stock compensation, accrued expenses 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 sum of 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.

The Company applies the two-class method to calculate basic and diluted net loss per share attributable to common stockholders as its warrants to purchase common stock are participating securities.

The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common stockholders. However, the two-class method does not impact the net loss per share of common stock as the Company has been in a net loss position and the warrant holders do not participate in losses.

Basic and diluted shares outstanding are the same for each period presented as all common stock equivalents would be antidilutive due to the net losses incurred.

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 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 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, 2017 (the “Annual Report”).

The unaudited condensed consolidated financial statements include the accounts of Kala Pharmaceuticals, Inc. and its wholly owned subsidiary, Kala Pharmaceuticals Security Corporation, which was established in November 2017. All intercompany transactions and balances have been eliminated in consolidation.

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 period ended June 30, 2018 other than those noted below.

Leases

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

The components of a lease should be split into three categories: lease components (e.g., land, building, etc.), non-lease components (e.g., common area maintenance, maintenance, consumables, etc.), and non-components (e.g., property taxes, insurance, etc.). Then the fixed and in-substance fixed contract consideration (including any related to non-components) must be allocated based on fair values to the lease components and non-lease components.

Although separation of lease and non-lease components is required, certain practical expedients are available to entities. Entities electing the practical expedient would not separate lease and non-lease components. Rather, they would account for each lease component and the related non-lease component together as a single component. The Company's facilities operating leases have lease and non-lease components which the Company has elected to account for as one single lease component. The lease component results in a right-of-use asset being recorded on the balance sheet and amortized as lease expense on a straight-line basis to the statements of operations.

Recently Adopted Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in ASU 2017-09 are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company has prospectively adopted this new standard as of January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-15 should be applied retrospectively and early adoption is permitted, including adoption in an interim period. The Company has adopted this new standard as of January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which provides guidance to enhance the transparency and comparability of financial reporting related to leasing arrangements. Under this new lease standard, most leases are required to be recognized on the balance sheet as right-of-use assets and corresponding lease liabilities. Disclosure requirements have been enhanced with the objective of enabling financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company elected to early adopt ASU 2016-02, effective January 1, 2018, as permitted in the guidance. The standard has been implemented using the required modified retrospective approach and the Company has also elected to utilize the available practical expedients. In using the modified retrospective approach, the Company was required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented. Prior period results have been restated resulting in a material impact on the condensed consolidated balance sheets and the condensed consolidated statement of cash flows. The adoption of this standard did not have a material impact on the condensed consolidated statement of operations. The impact on the consolidated balance sheet as of December 31, 2017 and the condensed consolidated statement of cash flows for the six months ended June 30, 2017 is shown below.

Impact to Previously Reported Results

From December 31, 2017 consolidated balance sheet (in thousands):

	As Previously Reported	New Lease Standard Adjustment	As Restated
Right-of-use asset	\$ —	\$ 413	\$ 413
Accrued expenses	\$ 6,589	\$ 17	\$ 6,606
Other current and long-term liabilities	\$ 9	\$ (1)	\$ 8
Lease liabilities	\$ —	\$ 397	\$ 397

For the six months ended June 30, 2017 condensed consolidated statement of cash flows (in thousands):

	As Previously Reported	New Lease Standard Adjustment	As Restated
Amortization of right-of-use asset	\$ —	\$ 175	\$ 175
Lease liabilities	\$ —	\$ (175)	\$ (175)

3. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Development costs	\$ 2,157	\$ 3,054
Compensation and benefits	2,061	2,402
Professional fees	623	666
General and administrative consulting	145	229
Other	160	255
Accrued expenses	<u>\$ 5,146</u>	<u>\$ 6,606</u>

KALA PHARMACEUTICALS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. LEASES**

The Company entered into a three-year lease agreement for its headquarters on September 30, 2013, with a commencement date of February 1, 2014. On June 30, 2016, the lease was amended to extend the term from January 31, 2017 to January 31, 2019. In connection with the lease agreement, the Company issued a letter of credit to the landlord for \$84,000. The Company secured the letter of credit for the full amount of the letter with cash on deposit, which is reported as restricted cash. With the adoption of ASU 2016-02, the Company has recorded a right-of-use asset and corresponding lease liability.

On February 28, 2018, the Company entered into a lease agreement with 480 Arsenal Group LLC (the "Arsenal Group") 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 is eight years with an option to extend for an additional five years. The Company expects to occupy the premises by the end of 2018. The Company plans to use the premises as its new corporate headquarters and for research and development. The Company has not yet occupied this space as it is being renovated for the Company's use. The Company has concluded that it does not control the space as defined in ASU 2016-02 during the construction period and does not expect to gain control of the space until on or near construction completion and, as such, a right-of-use asset and corresponding lease liability have not been recorded.

In connection with the Watertown Lease, the Company issued a letter of credit to the Arsenal Group for \$2.0 million. The Company secured the letter of credit for the full amount of the letter with cash on deposit, which is reported as restricted cash.

On March 15, 2018, the Company entered into a lease agreement with Duffy Associates, LLC for the lease of a portion of the building located at 465 Waverley Oaks Road, Suite 301, Waltham, Massachusetts (the "Waverley Oaks Lease"). The term of the Waverley Oaks Lease is one year, and as such a right-of-use asset and corresponding lease liability has not been recorded. The Company plans to use this location for additional corporate offices before moving to its new corporate headquarters in Watertown, Massachusetts.

The components of lease expense and related cash flows were as follows (in thousands):

	For the three months ended June 30,	
	2018	2017
Lease cost		
Operating lease cost	\$ 99	\$ 99
Short-term lease cost	53	—
Total lease cost	\$ 152	\$ 99
Operating cash flows from operating leases	\$ 103	\$ 100
	For the six months ended June 30,	
	2018	2017
Lease cost		
Operating lease cost	\$ 198	\$ 196
Short-term lease cost	62	—
Total lease cost	\$ 260	\$ 196
Operating cash flows from operating leases	\$ 205	\$ 197

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2018 and December 31, 2017, the remaining lease term on the operating lease was 0.59 years and 1.08 years, respectively. As of June 30, 2018 and December 31, 2017, the discount rate was 6.50%.

Future minimum commitments due under these lease agreements as of June 30, 2018 are as follows (in thousands):

Years Ending December 31,	Operating Lease Obligation (1)	Other Lease Obligations (2)	Total
2018 (remaining six months)	\$ 171	\$ 101	\$ 272
2019	34	34	68
2020	—	—	—
2021	—	—	—
2022	—	—	—
Present value adjustment	(3)	—	(3)
Total minimum lease payments	\$ 202	\$ 135	\$ 337

- (1) Future minimum lease payments under the Company’s operating lease for its current corporate headquarters and lab space in Waltham, Massachusetts.
- (2) Future minimum lease payments under the Company’s operating lease for the Waverley Oaks Lease. Excluded from the table above is the Watertown Lease because the Company has concluded that it does not control the space during the construction period and does not expect to gain control of the space until on or near construction completion.

5. DEBT

2014 Debt Facility

In November 2014, the Company entered into a venture debt facility (“2014 Debt Facility”) for a total loan commitment of \$10.0 million. On October 13, 2016, the Company entered into a First Amendment to the 2014 Debt Facility the (“First Amendment”), which reaffirmed the initial commitment to a total of \$10.0 million of funding (“Term Loan A”) and increased the Company’s total borrowing capacity by an additional \$10.0 million (“Term Loan B” and together with Term Loan A, “Term Loans”). On September 28, 2017, the Company drew the additional \$10.0 million available under Term Loan B. On November 22, 2017, the Company entered into a Second Amendment to the 2014 Debt Facility to account for the formation of the Company’s wholly-owned subsidiary. On March 29, 2018, the Company entered into a Third Amendment to the 2014 Debt Facility the (“Third Amendment”), which reaffirmed the initial commitment to a total of \$20.0 million of funding (“Term Loan A”), increased the Company’s total borrowing capacity by an additional \$5.0 million and extended the interest-only end date for 12 months following the execution of the Third Amendment. The maturity date of the 2014 Debt Facility was also extended from October 13, 2020 to March 29, 2022. Under the terms of the facility, the borrowings accrue interest at an annual rate equal to 3.00% above the Prime Rate then in effect. The interest rate was 8.00% as of June 30, 2018 and 7.50% as of December 31, 2017.

The unpaid principal balance under the 2014 Debt Facility was \$20.0 million and \$18.9 million as of June 30, 2018 and December 31, 2017, respectively. The unamortized discount was \$233,000 and \$235,000 as of June 30, 2018 and December 31, 2017, respectively. During the three months ended June 30, 2018 and 2017, the Company recognized interest expense of \$414,000 and \$208,000, respectively, which consisted of amortization of the debt discount of \$21,000 and \$28,000 and the contractual coupon interest of \$393,000 and \$180,000, respectively. During the six months ended June 30, 2018 and 2017, the Company recognized interest expense of \$781,000 and \$406,000, respectively, which

KALA PHARMACEUTICALS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

consisted of amortization of the debt discount of \$51,000 and \$56,000, respectively, and the contractual coupon interest of \$730,000 and \$350,000, respectively.

The 2014 Debt Facility, as amended, is senior debt and is secured by substantially all of the assets of the Company other than intellectual property. The Company's ability to pay cash dividends is currently restricted by the terms of the 2014 Debt Facility. In the event the Company is determined to be in default under the 2014 Debt Facility, the outstanding balance accrues interest at five percentage points above the interest rate applicable immediately prior to the occurrence of the event of default and the lender has the right to declare all outstanding principal and interest payable. Under the terms of the 2014 Debt Facility, certain events including but not limited to, the Company's failure to pay obligations when due, failure to perform obligations under the agreement, insolvency or the occurrence of any circumstance that could reasonably be expected to have a material adverse effect on the Company, constitute events of default.

In connection with its borrowings under the 2014 Debt Facility, the Company issued preferred stock warrants. Upon each issuance of such preferred stock warrants, the Company estimated the fair value using the Black-Scholes option-pricing model, and recorded the estimated fair value as a liability separate from the loan balance, and an additional debt discount included within long-term debt that is amortized to interest expense over the term of the loan using the effective interest method. The initial fair value of all issuances of such preferred stock warrants on an aggregate basis was \$365,000. Upon the closing of the Company's IPO on July 25, 2017, all of the underlying preferred stock warrants were converted into warrants for common stock (see Note 6), and the warrant liability was re-measured to fair value and reclassified to additional paid-in capital.

The future annual principal payments due under the 2014 Debt Facility as of June 30, 2018 were as follows (in thousands):

Years Ending December 31,	
2018 (remaining six months)	\$ —
2019	5,000
2020	6,667
2021	6,667
2022	1,666
Total	<u>\$ 20,000</u>

6. WARRANTS

The Company has issued warrants in connection with debt transactions that were completed prior to 2014. Upon the completion of the IPO, the Company's outstanding warrants to purchase preferred stock converted into warrants to purchase common stock.

The following table summarizes the common stock warrants outstanding, 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, 2018	December 31, 2017
2013	\$ 7.50	April 2021	July 2017	82,816	82,816
2014	\$ 7.50	November 2024	July 2017	16,000	16,000
2016	\$ 8.27	October 2026	September 2017	14,512	14,512
				<u>113,328</u>	<u>113,328</u>

KALA PHARMACEUTICALS, INC.**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (Continued)**7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company classifies fair value based measurements using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows: Level 1, quoted market prices in active markets for identical assets or liabilities; Level 2, observable inputs other than quoted market prices included in Level 1 such as quoted market prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data; and Level 3, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including estimates and assumptions developed by the Company, reflective of those that a market participant would use, as inputs to certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The carrying value of accounts payable and accrued expenses approximate their fair value due to the short-term nature of these assets and liabilities. Management believes that the Company's long-term debt (See Note 5) bears interest at the prevailing market rate for instruments with similar characteristics and, accordingly, the carrying value of long-term debt, including the current portion, also approximates its fair value. The fair value of the outstanding debt was estimated using a discounted cash flow analysis based on current market interest rates for debt issuances with similar remaining years to maturity, adjusted for credit risk, which represents a Level 3 measurement. There were no transfers between fair value measurement levels during the six months ended June 30, 2018 or June 30, 2017.

The Company has historically classified the value of the warrant liability as Level 3 measurements within the fair value hierarchy because the fair value is derived using significant unobservable inputs, which included the estimated volatility, the estimated fair value of the underlying preferred stock, and to the extent that the number of exercisable shares underlying the warrants were adjustable based on the amount of the Term Loans drawn down or the probability that the Company would draw down on the debt facility. Upon the completion of the IPO, the Company's outstanding warrants to purchase preferred stock converted into warrants to purchase common stock and the Company reclassified the fair value of the warrant liability to additional paid-in capital. All warrants are currently classified as equity and their fair value is not recorded or re-measured.

The following table provides a summary of changes in the fair value of the Company's warrant liability, which is included as a component of other (income) expense (in thousands) which was subsequently remeasured to the fair value at the date of the IPO and reclassified to additional paid-in capital at that time:

	Three Months Ended June 30,	
	2018	2017
	Warrant Liability	Warrant Liability
Fair value - March 31,	\$ —	\$ 1,075
Change in fair value of warrant liability	—	1,185
Fair value - June 30,	<u>\$ —</u>	<u>\$ 2,260</u>

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six Months Ended June 30,	
	2018 Warrant Liability	2017 Warrant Liability
Fair value - December 31,	\$ —	\$ 1,039
Change in fair value of warrant liability	—	1,221
Fair value - June 30,	<u>\$ —</u>	<u>\$ 2,260</u>

8. STOCK-BASED COMPENSATION

Stock Incentive Plans—In December 2009, the Board of Directors (the “Board”) adopted the 2009 Employee, Director and Consultant Equity Incentive Plan (the “2009 Plan”) for the issuance of common stock and stock options to employees, officers, directors, consultants, and advisors.

In July 2017, the Company’s 2017 Equity Incentive Plan (the “2017 Plan”) became effective, as a result, and no further stock options or other awards will be made under the 2009 Plan. The 2017 Plan was established to provide equity based ownership opportunities for employees, officers, directors, consultants, and advisors. As of June 30, 2018, there were 937,532 shares of common stock available for grant under the 2017 Plan. In addition, any shares of common stock subject to awards under the 2009 Plan that expire, are forfeited, or are otherwise surrendered, without having been fully exercised or resulting in any common stock being issued will become available for issuance under the 2017 Plan, up to an additional 2,780,874 shares, which is the number of shares issuable pursuant to outstanding awards granted under the 2009 Plan.

Also approved under the 2017 Plan is an annual increase for each of the years through December 31, 2027, equal to the least of (i) 3,573,766 shares of common stock, (ii) 4% of the shares of common stock outstanding on December 31 of the prior year and (iii) an amount determined by the Board.

Under the plans, the Board determines the number of shares of common stock to be granted pursuant to the awards, as well as the exercise price and terms of such awards. The exercise price of incentive stock options could not be less than the fair value of the common stock on the date of grant. Stock options awarded under the plans expire 10 years after the grant date, unless the Board sets a shorter term. Options granted under the plans generally vest over a four-year period. A portion of the unvested stock options will vest upon the sale of all or substantially all of the stock or assets of the Company.

In the past, the Company had granted stock options which contain performance-based vesting criteria. These criteria were milestone events that were specific to the Company’s corporate goals. Stock-based compensation expense associated with performance-based stock options is recognized if the achievement of the performance condition is considered probable using management’s best estimates. As of June 30, 2018 there were no performance-based awards outstanding.

For the three and six months ended June 30, 2018 and 2017, the Company granted 0 and 4,224 stock options to non-employee consultants, respectively. During the three months ended June 30, 2018 and 2017, the Company recognized \$0 and \$22,000, respectively, in stock compensation expense related to non-employee consultants. During the six months ended June 30, 2018 and 2017, the Company recognized \$11,000 and \$37,000, respectively, in stock compensation expense related to non-employee consultants.

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inducement Stock Option Awards—In April 2018, the Company issued to its General Counsel, Chief Compliance Officer and Corporate Secretary a non-statutory stock option to purchase an aggregate of 150,000 shares of the Company’s common stock at an exercise price of \$16.62 per share. Subject to his continued service to the Company, the stock option will vest over a four-year period, with 25% of the shares underlying the option award vesting on the one year anniversary of the grant date and the remaining 75% of the shares underlying the award vesting monthly thereafter. The stock option was issued outside of the 2017 Plan.

A summary of option activity for employee and non-employee awards under the 2009 Plan, the 2017 Plan and as material inducement grants for the six months ended June 30, 2018 is as follows (in thousands, except share and per share amounts):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	3,738,928	\$ 6.93	8.4	\$ 44,578
Granted	1,243,390	14.01		
Exercised	(53,965)	3.30		
Forfeited	(44,235)	5.95		
Outstanding at June 30, 2018	<u>4,884,118</u>	\$ 8.78	8.3	\$ 29,282
Options exercisable at June 30, 2018	<u>2,135,011</u>	\$ 4.37	7.3	\$ 20,151

The Company records stock-based compensation related to stock options granted at fair value. The Company utilizes the Black-Scholes option-pricing model to estimate the fair value of stock option grants and to determine the related compensation expense. The assumptions used in calculating the fair value of stock-based payment awards represent management’s best estimates. There were 103,013 options granted during the six months ended June 30, 2017. The assumptions used in determining fair value of the stock options granted in the six months ended June 30, 2018 are as follows:

	Six Months Ended June 30,			
	2018		2017	
Expected volatility	83%	– 85%	103%	– 122%
Risk-free interest rate	2.63%	– 2.96%	1.81%	– 2.29%
Expected dividend yield	0%		0%	
Expected term (in years)	5.27	– 6.13	5.04	– 9.82

The Company derived the risk-free interest rate assumption from the U.S. Treasury rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the awards being valued. The Company based the assumed dividend yield on its expectation of not paying dividends in the foreseeable future. The Company calculated the weighted-average expected term of options using the simplified method, as the Company lacks relevant historical data due to the Company’s limited operating experience. The estimated volatility is based upon the historical volatility of comparable companies with publicly available share prices. The impact of forfeitures on compensation expense are recorded as they occur.

During the three months ended June 30, 2018 and 2017, the weighted average grant-date fair value of options granted was \$11.46 and \$3.86, respectively. During the six months ended June 30, 2018 and 2017, the weighted average grant-date fair value of options granted was \$10.12 and \$3.86, respectively. The fair value is being expensed over the vesting period of the options on a straight-line basis as the services are being provided. As of June 30, 2018, there was

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$23.7 million of unrecognized compensation cost related to the stock options granted, which is expected to be expensed over a weighted-average period of 3.12 years.

Employee Stock Purchase Plan—In 2017, the Company approved the 2017 Employee Stock Purchase Plan (the “ESPP”). Under the ESPP, participating employees can authorize the Company to withhold a portion of their base pay during consecutive six-month payment periods for the purchase of shares of the Company’s common stock. At the conclusion of the period, participating employees can purchase shares of the Company’s common stock at 85% of the lesser of the closing price of the common stock on (i) the first business day of the plan period or (ii) the exercise date. The initial six-month period will not commence until January 1, 2019.

Reserved Shares—As of June 30, 2018 and December 31, 2017, the Company had reserved the following shares of common stock issuable upon exercise of rights under equity compensation plans:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
2017 Employee Stock Purchase Plan	223,341	223,341
Shares reserved for outstanding inducement stock option award	150,000	—
2009 Plan	2,780,874	2,868,449
2017 Plan	3,040,776	2,025,633
Total	<u>6,194,991</u>	<u>5,117,423</u>

Stock-based Compensation Expenses—Stock-based compensation expense was classified in the statements of operations as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Research and development	\$ 741	\$ 205	\$ 1,380	\$ 392
General and administrative	1,550	362	2,772	697
Total	<u>\$ 2,291</u>	<u>\$ 567</u>	<u>\$ 4,152</u>	<u>\$ 1,089</u>

9. INCOME TAXES

The Company did not record a provision or benefit for income taxes during the three and six months ended June 30, 2018 and 2017. The Company continues to maintain a full valuation allowance for its U.S. federal and state deferred tax assets.

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 lack of commercialization of any products or generation of any 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, 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

KALA PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operating loss carryforwards, which could be used annually to offset future taxable income. The Company files its corporate income tax returns in the United States and Massachusetts, California, Kentucky, Pennsylvania, New Hampshire, New York, North Carolina and Texas. 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, 2018 and 2017, 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 six months ended June 30, 2018 and 2017.

10. COMMITMENTS AND CONTINGENCIES

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 and June 2018, 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, the minimum annual payment will be \$38,000. If the Company achieves the first commercial sale of the product in the United States, European Union, or Japan, the annual minimum payment will increase to \$113,000. The Company is obligated to pay JHU low single-digit running royalties based upon a percentage of net sales of the licensed products. The Company also has an obligation to pay JHU certain one-time development and commercial milestone payments.

The Company recorded research and development expenses related to the JHU agreement of \$169,000 and \$0, respectively, for the three months ended June 30, 2018 and 2017 and \$200,000 and \$10,000, respectively, for the six months ended June 30, 2018 and 2017.

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

11. SUBSEQUENT EVENTS

The Company has evaluated all events and transactions that occurred after the balance sheet date through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its consolidated financial statements or disclosures.

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, 2017, which was filed with the Securities and Exchange Commission on April 2, 2018.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "target," "potential," "would," "could," "should," "continue" 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 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.

Overview

We are a biopharmaceutical company focused on the development and commercialization of therapeutics using our proprietary nanoparticle-based Mucus Penetrating Particles, or MPP, technology, with an initial focus on the treatment of eye diseases. Our MPPs are selectively-sized nanoparticles and have proprietary coatings. We believe that these two key attributes enable even distribution of drug particles on mucosal surfaces and significantly increase drug delivery to target tissues by enhancing mobility of drug particles through mucus and preventing drug particles from becoming trapped and eliminated by mucus. We have applied the MPP technology to loteprednol etabonate, or LE, a corticosteroid designed for ocular applications, resulting in two lead product candidates. These product candidates are INVELTYS™ (KPI-121 1.0%) for the treatment of inflammation and pain following ocular surgery, for which we have submitted a new drug application, or NDA, and KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. The brand name INVELTYS has been conditionally approved by the U.S. Food and Drug Administration, or the FDA.

In December 2017, the U.S. Food and Drug Administration, or FDA, accepted for filing our new drug application, or NDA, for the approval of INVELTYS, our topical twice-a-day product candidate, for the treatment of inflammation and pain following ocular surgery. The FDA has set August 24, 2018 as the Prescription Drug User Fee Act, or PDUFA, action goal date for our NDA. If approved, INVELTYS could be the first FDA-approved ocular corticosteroid product with a twice-a-day dosing regimen for the treatment of post-operative inflammation and pain. Other approved topical ocular corticosteroid products for this indication are dosed four times a day. Supporting the NDA submission are data from two completed Phase 3 clinical trials of INVELTYS in patients with inflammation and pain following cataract surgery, which is the most common type of ocular surgery in the United States. The first Phase 3 clinical trial was conducted in 2014 and was designed to evaluate INVELTYS administered twice a day and KPI-121 0.25% administered four times a day. Statistical significance was achieved in the primary efficacy endpoints of complete resolution of inflammation at day eight maintained through day 15 with no need for rescue medication compared to placebo and complete resolution of pain at day eight maintained through day 15 with no need for rescue medications compared to placebo with both INVELTYS and KPI-121 0.25%. Both INVELTYS and KPI-121 0.25% were well-tolerated, with no treatment-related serious adverse events observed during the course of the trial. In May 2017, the second, confirmatory Phase 3 clinical trial was completed, in which administration of INVELTYS two times a day achieved statistical significance for both primary efficacy endpoints of complete resolution of inflammation at day eight maintained through day 15 with no need for rescue medication compared to placebo and complete resolution of pain at day eight maintained through day 15 with no need for rescue medications compared to placebo and all secondary

endpoints. In this trial, INVELTYS was also well tolerated with no treatment-related significant adverse events observed during the course of the trial.

For INVELTYS, we are seeking FDA approval under Section 505(b)(2) of the U.S. Federal Food, Drug and Cosmetic Act, or the FDCA, which we plan to rely on for the potential approval of KPI-121 0.25% as well. We have retained worldwide commercial rights for our current product candidates. If INVELTYS and KPI-121 0.25% receive marketing approval, we expect to commercialize both in the United States, and we have started to build a commercial infrastructure to do so, with our own focused, specialty sales force. If INVELTYS receives marketing approval, we expect our commercial organization will initially consist of approximately 75 sales and marketing personnel. If KPI-121 0.25% is approved, we expect to further expand our sales force by up to approximately an additional 100 personnel. We expect to commercialize in the United States any of our other product candidates that receive marketing approval as well. In anticipation of the potential to commercialize our product candidates in other global markets, we will continue evaluating a variety of collaboration, distribution and other marketing arrangements with one or more third parties.

KPI-121 0.25% is our product candidate for patients with dry eye disease utilizing a two-week course of therapy. In January 2018, we announced topline results from two completed Phase 3 clinical trials of KPI-121 0.25%, which we refer to as STRIDE 1 and STRIDE 2 (STRIDE - Short Term Relief In Dry Eye), evaluating the safety and efficacy of KPI-121 0.25% versus placebo in patients with dry eye disease. In STRIDE 1, statistical significance was achieved for the primary sign endpoint of conjunctival hyperemia and the primary symptom endpoint of ocular discomfort severity change from baseline to day 15 in the intent to treat, or ITT, population; in addition, statistical significance was also achieved in STRIDE 1 for a second pre-specified primary symptom endpoint of ocular discomfort severity change from baseline to day 15 in patients with more severe baseline ocular discomfort. In STRIDE 2, statistical significance was achieved for the primary sign endpoint of conjunctival hyperemia, but statistical significance was not achieved for the primary symptom endpoint of ocular discomfort severity. KPI-121 0.25% was generally well tolerated in both STRIDE 1 and STRIDE 2, with no clinically significant treatment-related adverse events observed during the course of either trial, and with elevations in intraocular pressure, or IOP, in both trials similar to placebo.

In May 2018, we met with the FDA to discuss the results of our dry eye clinical trials and potential next steps for our dry eye disease program.

Following our meeting with the FDA, in June 2018, we announced that we plan to submit a NDA for the approval of KPI-121 0.25% to the FDA during the second half of 2018. The NDA will include data from three clinical trials studying approximately 2000 patients, including one Phase 2 trial and two Phase 3 efficacy and safety trials.

In addition, based upon the recommendation of the FDA, we initiated an additional Phase 3 clinical trial, STRIDE 3, in the third quarter of 2018 evaluating KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. We expect to receive top-line results for STRIDE 3 in the fourth quarter of 2019. The STRIDE 3 trial is a multicenter, randomized, double-blind, placebo controlled, parallel-arm study comparing KPI-121 0.25% to placebo, each with four times a day dosing for 14 days, in approximately 900 patients with dry eye disease. Subjects who meet initial screening and inclusion/exclusion criteria will undergo a 2-week run-in period. Subjects who continue to meet inclusion/exclusion criteria after the run-in will be randomized to either KPI-121 0.25% or placebo. The primary endpoint, Day 15 ocular discomfort severity, is based upon a patient diary in which ocular discomfort is recorded daily over the entire course of the trial using a visual analog grading scale.

If approved, KPI-121 0.25% could be the first FDA-approved product for the short-term treatment of dry eye disease.

We are evaluating opportunities for MPP nanosuspensions of LE with less frequent daily dosing regimens for the treatment of inflammation and pain following ocular surgery, for the temporary relief of the signs and symptoms of dry eye disease and for potential chronic treatment of dry eye disease. We also are evaluating compounds in our topically applied MPP receptor Tyrosine Kinase Inhibitor program, or rTKI program, that inhibit the vascular endothelial growth factor, or VEGF, pathway, for the potential treatment of a number of retinal diseases.

Financial Operations Overview

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, payments to universities under our license agreements and other 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, or CROs;
- facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities and supplies; and
- payments made under our third-party licensing agreements, including our license agreement with The Johns Hopkins University, or JHU.

We expense research and development costs as they are incurred. 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 tables under “Results of Operations”.

We expect our research and development expenses to increase for the foreseeable future as we advance our product candidates toward regulatory approval. 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.

Our research and development programs are at various stages of development. Successful development and completion of clinical trials is uncertain and may not result in approved products. Completion dates and completion costs can vary significantly for each 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 our ability to enter into collaborations with respect to each product candidate, the scientific and clinical success of each product candidate as well as ongoing assessments as to the commercial potential of product candidates. We will need to raise additional capital and may seek collaborations in the future to advance our various product candidates. 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.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation, related to our executive, finance, legal, commercial, business development and support functions. Other general and administrative expenses include travel expenses, professional fees for auditing, tax, consultants and legal services and allocated facility-related costs not otherwise included in research and development expenses.

We anticipate general and administrative expenses to increase for the foreseeable future as we increase our headcount to support our continued research and development activities and continue to build our commercial

infrastructure to support the continued development and potential launch of INVELTYS or any other product candidates. In addition, we anticipate increased expenses related to supporting a larger organization.

Interest Income

Interest income consists of interest earned on our cash balance held in a deposit account.

Interest Expense

Interest expense primarily consists of contractual coupon interest, amortization of debt discounts and debt issuance costs recognized on our debt facility.

Change in Fair Value of Warrant Liability

Prior to our IPO, we issued warrants for the purchase of preferred stock. These warrants were classified as liabilities as they were financial instruments that were issuable for contingently redeemable securities. We recognized gains and losses on the change in the fair value of outstanding warrants and these gains and losses are recorded as a component of other income (expense). Upon the closing of our IPO, the underlying preferred stock was converted into common stock, the preferred stock warrants were converted into warrants for common stock, and the fair value of the warrant liability at that time was reclassified to additional paid-in capital.

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, or U.S. GAAP. 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 policies from those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K except for the adoption of ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02") on January 1, 2018 as discussed below.

We elected to early adopt ASU 2016-02, effective January 1, 2018, as permitted. Under this new lease standard, most leases are required to be recognized on the balance sheet as right-of-use assets and corresponding lease liabilities. The standard has been implemented using the required modified retrospective approach and we have also elected to utilize the available practical expedients. In using the modified retrospective approach, we were required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented. Prior period results have been restated resulting in a material impact on the condensed consolidated balance sheet and condensed consolidated statement of cash flows. The adoption of this standard did not have a material impact on our condensed consolidated statements of operations.

Results of Operations**Comparison of the Three Months Ended June 30, 2018 and 2017**

The following table summarizes the results of our operations for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Change
	2018	2017	
	(in thousands)		
Operating expenses:			
Research and development	\$ 7,368	\$ 8,071	\$ (703)
General and administrative	7,151	1,559	5,592
Total operating expenses	<u>14,519</u>	<u>9,630</u>	<u>4,889</u>
Loss from operations	(14,519)	(9,630)	(4,889)
Other income (expense)			
Interest income	313	37	276
Interest expense	(414)	(208)	(206)
Change in fair value of warranty liability	—	(1,185)	1,185
Net loss	<u>\$ (14,620)</u>	<u>\$ (10,986)</u>	<u>\$ (3,634)</u>

Research and Development Expenses

The following table summarizes the research and development expenses incurred during the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Change
	2018	2017	
	(in thousands)		
KPI-121 development costs	\$ 3,391	\$ 5,283	\$ (1,892)
Employee-related costs	3,037	1,628	1,409
Other research and development costs	940	1,160	(220)
Total research and development	<u>\$ 7,368</u>	<u>\$ 8,071</u>	<u>\$ (703)</u>

Research and development expenses were \$7.4 million for the three months ended June 30, 2018 compared to \$8.1 million for the three months ended June 30, 2017, a decrease of \$0.7 million. This decrease is primarily the result of a \$1.9 million decrease in KPI-121 development costs due to the decrease in external costs associated with the completion of our Phase 3 clinical trials of INVELTYS for the treatment of inflammation and pain following cataract surgery and KPI-121 0.25% for the treatment of dry eye disease. This decrease was offset by a \$1.4 million increase in employee-related costs due to the additional hiring of clinical and regulatory personnel, overall merit increases and an increase in stock compensation expense related to stock option grants.

We expect that our research and development costs will increase as we advance our product candidates, pursue other product candidates and conduct additional clinical trials.

General and Administrative Expenses

General and administrative expenses were \$7.2 million for the three months ended June 30, 2018 compared to \$1.6 million for the three months ended June 30, 2017, an increase of \$5.6 million.

We incurred a \$2.5 million increase in employee-related costs primarily due to a \$1.3 million increase in general and administrative employee headcount expense and merit increases and a \$1.2 million increase in stock compensation expenses related to stock options granted during 2018. In addition, we incurred a \$1.2 million increase in

costs associated with legal, accounting and finance activities primarily as a result of operating as a public company, and a \$1.9 million increase in commercial related costs as we advance our product candidates toward regulatory approval.

Our general and administrative expenses are expected to increase for the foreseeable future as we continue to build out our corporate and commercial infrastructure to support the continued development and launch of INVELTYS or any other product candidates. If INVELTYS is approved by the FDA, we expect to incur material and ongoing increases in sales and marketing costs, a component of general and administrative expenses, related to our hiring of a field sales force to market INVELTYS in the United States. In addition, we anticipate increased expenses related to supporting a larger organization.

Interest Income

Interest income was \$313,000 for the three months ended June 30, 2018 compared to \$37,000 for the three months ended June 30, 2017. Interest income consists of interest earned on our cash balance held in an interest-bearing deposit account. The increase was attributable to a higher average cash balance during the three months ended June 30, 2018 due to the receipt of the proceeds from the IPO in July 2017.

Interest Expense

We incurred interest expense of \$0.4 million for the three months ended June 30, 2018 compared to \$0.2 million for the three months ended June 30, 2017. Interest expense is comprised of the contractual coupon interest and the amortization of debt discount associated with our venture debt facility. The increase was primarily attributable to an increase in our outstanding venture debt balance upon the September 2017 draw down of Term B Loan. In addition, the interest rate on our venture debt facility increased by 75 basis points from June 30, 2017 to June 30, 2018.

Change in Fair Value of Warrant Liability

The change in the fair value of our preferred stock warrant liability consisted of no gain or loss for the three months ended June 30, 2018 compared to a loss of \$1.2 million for the three months ended June 30, 2017. Upon the closing of our IPO, the underlying preferred stock was converted into common stock, the preferred stock warrants were converted into warrants for common stock, and the fair value of the warrant liability at that time was reclassified to additional paid-in capital.

Comparison of the Six Months Ended June 30, 2018 and 2017

The following table summarizes the results of our operations for the six months ended June 30, 2018 and 2017:

	Six Months Ended		Change
	June 30,		
	2018	2017	
	(in thousands)		
Operating expenses:			
Research and development	\$ 13,024	\$ 16,110	\$ (3,086)
General and administrative	12,633	3,091	9,542
Total costs and expenses	25,657	19,201	6,456
Loss from operations	(25,657)	(19,201)	(6,456)
Other income (expense)			
Interest income	522	83	439
Interest expense	(781)	(406)	(375)
Change in fair value of warranty liability	—	(1,221)	1,221
Net loss	<u>\$ (25,916)</u>	<u>\$ (20,745)</u>	<u>\$ (5,171)</u>

Research and Development Expenses

The following table summarizes the research and development expenses incurred during the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,		Change
	2018	2017	
	(in thousands)		
KPI-121 development costs	\$ 5,078	\$ 10,768	\$ (5,690)
Employee-related costs	5,844	3,170	2,674
Other research and development costs	2,102	2,172	(70)
Total research and development	<u>\$ 13,024</u>	<u>\$ 16,110</u>	<u>\$ (3,086)</u>

Research and development expenses were \$13.0 million for the six months ended June 30, 2018 compared to \$16.1 million for the six months ended June 30, 2017, a decrease of \$3.1 million. This decrease is primarily the result of a \$5.7 million decrease in KPI-121 development costs due to the decrease in external costs associated with the completion of our Phase 3 clinical trials of INVELTYS for the treatment of inflammation and pain following cataract surgery and KPI-121 0.25% for the treatment of dry eye disease. This decrease was partially offset by a \$2.7 million increase in employee-related costs due to the additional hiring of clinical and regulatory personnel, overall merit increases and an increase in stock compensation expense related to stock option grants.

General and Administrative Expenses

General and administrative expenses were \$12.6 million for the six months ended June 30, 2018 compared to \$3.1 million for the six months ended June 30, 2017, an increase of \$9.5 million.

We incurred a \$4.4 million increase in employee-related costs primarily due to a \$2.1 million increase in general and administrative employee headcount expense and overall merit increases and a \$2.1 million increase in stock compensation expenses related to stock options granted during 2018. In addition, we incurred a \$2.6 million increase in costs associated with legal, accounting and finance activities primarily as a result of operating as a public company, and a \$2.5 million increase in commercial related costs as we advance our product candidates toward regulatory approval.

Interest Income

Interest income was \$522,000 for the six months ended June 30, 2018 compared to \$83,000 for the six months ended June 30, 2017. Interest income consists of interest earned on our cash balance held in an interest-bearing deposit account. The increase was attributable to a higher average cash balance during the six months ended June 30, 2018 due to receipt of the proceeds from the IPO in July 2017.

Interest Expense

We incurred interest expense of \$0.8 million for the six months ended June 30, 2018 compared to \$0.4 million for the six months ended June 30, 2017. Interest expense is comprised of the contractual coupon interest and the amortization of debt discount associated with our venture debt facility. The increase was primarily attributable to an increase in our outstanding venture debt balance upon the September 2017 draw down of Term B Loan. In addition, the interest rate on our venture debt facility increased by 75 basis points from June 30, 2017 to June 30, 2018.

Change in Fair Value of Warrant Liability

The change in the fair value of our preferred stock warrant liability consisted of no gain or loss for the six months ended June 30, 2018 compared to a loss of \$1.2 million for the six months ended June 30 2017. Upon the closing of our IPO, the underlying preferred stock was converted into common stock, the preferred stock warrants were

converted into warrants for common stock, and the fair value of the warrant liability at that time was reclassified to additional paid-in capital.

Liquidity and Capital Resources

Since our inception, we have incurred significant operating losses. We have derived limited revenue to date from feasibility studies with collaboration partners. We have not yet commercialized any of our product candidates, which are in various phases of clinical development, and we do not expect to generate revenue from sales of any product before 2019, if ever. We have funded our operations to date with proceeds from our IPO, the sale of preferred stock, borrowings under venture debt facilities, the issuance of convertible promissory notes and warrants and to a lesser extent, payments received in connection with various feasibility studies.

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 incurred in 2017 of \$2.2 million.

Cash Flows

As of June 30, 2018, we had \$91.2 million in cash on hand and \$20.0 million in indebtedness. The following table summarizes our sources and uses of cash for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net cash used in operating activities	\$ (21,915)	\$ (18,204)
Net cash used in investing activities	(545)	(109)
Net cash provided by (used in) financing activities	1,144	(784)
Decrease in cash and restricted cash	<u>\$ (21,316)</u>	<u>\$ (19,097)</u>

Net Cash Used in Operating Activities

During the six months ended June 30, 2017, our cash used in operating activities was primarily due to our net loss of \$20.7 million as we incurred external research and development costs associated with our clinical trials during the six months ended June 30, 2017 and increased general and administrative costs, and net cash used by changes in our operating assets and liabilities of \$0.1 million partially offset by non-cash charges of \$2.7 million, consisting primarily of \$1.1 million in stock-based compensation and \$1.2 million in fair value of warrant liability.

During the six months ended June 30, 2018, our cash used in operating activities was primarily due to our net loss of \$25.9 million primarily consisting of \$13.0 million of research and development costs and \$12.6 million of general and administrative costs partially offset by non-cash charges of \$4.6 million, consisting primarily of \$4.2 million in stock-based compensation. Net cash used by changes in our operating assets and liabilities primarily consisted of a \$1.5 million decrease in accrued expenses due primarily to the decrease in external costs associated with our two Phase 3 clinical trials of KPI-121 0.25% for the treatment of dry eye disease. This decrease was partially offset by a \$1.1 million increase in accounts payable.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$0.1 million for the six months ended June 30, 2017, consisting of purchases of property and equipment, primarily laboratory equipment.

Net cash used in investing activities was \$0.5 million for the six months ended June 30, 2018 consisting of purchases of property and equipment, primarily equipment and software.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities was \$0.8 million for the six months ended June 30, 2017, consisting of payments of deferred offering costs related to our submission of a draft registration statement on Form S-1 in 2017.

Net cash provided by financing activities was \$1.1 million for the six months ended June 30, 2018, consisting of \$2.7 million of proceeds from our venture debt facility, net of debt issuance costs, offset by principal payments on our venture debt of \$1.7 million and \$83,000 in proceeds from the exercise of stock options.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we advance our preclinical activities and clinical trials. In addition, we expect to incur additional costs associated with operating as a public company and our transition into a fully integrated commercial organization.

Our expenses will also increase if and as we:

- seek marketing approval for INVELTYS and establish our sales, marketing and distribution capabilities for INVELTYS in advance of and upon any such approval;
- seek marketing approvals for KPI-121 0.25% and any other product candidates that successfully complete clinical development;
- pursue the clinical development of KPI-121 for the treatment of other additional indications or for use in other patient populations or, if approved, seek to broaden the label of INVELTYS or KPI-121 0.25%;
- pursue the preclinical and clinical development of product candidates derived from our rTKI program for use in the treatment of retinal diseases;
- expand our sales, marketing and distribution capabilities for our other product candidates, prior to or upon receiving marketing approval;
- scale up our manufacturing processes and capabilities to support commercialization of INVELTYS, for which we have submitted our NDA, and any of our other product candidates for which we seek and/or obtain marketing approval;
- leverage our proprietary MPP technology to advance additional high-value therapeutics into preclinical and clinical development;
- 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;
- expand our operational, financial and management systems and increase personnel, including personnel to support our clinical development, manufacturing and commercialization efforts and our operations as a public company; and
- increase our product liability insurance coverage as we initiate and expand our commercialization efforts.

On July 25, 2017, we completed an IPO of our common stock pursuant to which we issued and sold 6,900,000 shares of our common stock at a price of \$15.00 per share, which included 900,000 shares sold pursuant to the exercise

of the underwriters' option to purchase additional shares. We received net proceeds of \$94.0 million after deducting underwriting discounts and commission of \$7.3 million and offering costs incurred in 2017 of \$2.2 million. We believe that our existing cash on hand as of June 30, 2018 will enable us to fund our planned operating expenses, debt service obligations and capital expenditure requirements for at least the next 12 months. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including:

- the progress, costs and results of our ongoing Phase 3 clinical trial for KPI-121 0.25% and of any clinical activities for regulatory review of INVELTYS and KPI-121 0.25% outside of the United States;
- the costs and timing of process development and manufacturing scale-up activities associated with INVELTYS and KPI-121 0.25%;
- the costs, timing and outcome of regulatory review of INVELTYS and KPI-121 0.25%;
- the costs of commercialization activities for INVELTYS and/or KPI-121 0.25% if we receive marketing approval and pre-commercialization costs for INVELTYS and/or KPI-121 0.25% incurred prior to receiving any such marketing approval, including the costs and timing of establishing product sales, marketing, distribution and outsourced manufacturing capabilities;
- subject to receipt of marketing approval, revenue received from commercial sales of INVELTYS and KPI-121 0.25%;
- 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 any product candidates that we may derive from any other product candidates that we may develop;
- the extent to which we 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.

Until such time, if ever, that we can generate product revenue sufficient to achieve profitability, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaboration agreements, other third-party funding, strategic alliances, licensing arrangements 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 covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through other third-party funding, collaboration agreements, strategic alliances, licensing arrangements 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 future commercialization efforts or grant rights to develop and market products or product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations as of June 30, 2018:

Contractual Obligations	Payments Due by Period For Years Ending June 30,				
	Total	Less Than 1 Year	More Than 1 Year and Less Than 3 Years	More Than 3 Years and Less Than 5 Years	More than 5 Years
			(in thousands)		
Short and long-term debt obligations(1)	\$ 20,000	\$ 1,667	\$ 13,333	\$ 5,000	\$ —
Interest on short and long-term debt obligations(2)	3,719	1,611	1,938	170	—
Operating lease obligation(3)	240	240	—	—	—
Other lease obligations(4)	31,001	2,203	7,249	7,691	13,858
Minimum license payments(5)	81	43	38	—	—
Total	\$ 55,041	\$ 5,764	\$ 22,558	\$ 12,861	\$ 13,858

- (1) Short and long-term debt obligations relate to principal payments due on our 2014 Debt Facility.
- (2) Interest payments due on our 2014 Debt Facility.
- (3) Future minimum lease payments under our operating lease for our current corporate headquarters and lab space in Waltham, Massachusetts that expires on January 31, 2019 with an average rent of approximately \$34,000 per month.
- (4) Future minimum lease payments under our operating lease for our new corporate headquarters and lab space in Watertown, Massachusetts with an initial term of eight years and an average rent of approximately \$322,000 per month beginning November 1, 2018. Future minimum lease payments under our Waverley Oaks Lease Agreement that expires on March 14, 2019 with an average rent of approximately \$17,000 per month.
- (5) Consists of annual license payments associated with the JHU license agreement of \$38,000 per year prior to achievement of the first commercial sale in the United States, European Union or Japan and annual license payments associated with Massachusetts Eye and Ear Infirmary of \$5,000. As it relates to JHU, upon achievement of the first commercial sale in the United States, European Union or Japan, the minimum annual license payment will increase to approximately \$113,000 per year. This table does not include any other milestone or royalty payments which may become payable to third parties, as the amounts, timing and likelihood of such payments are not known with certainty.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We did not hold any cash equivalents or investments as of June 30, 2018. As of June 30, 2018, our exposure to the risk of changes in market interest rates related primarily to our borrowings under our 2014 Debt Facility, which are subject to a variable interest rate. We do not expect any material impact on our operating results from a reasonably possible change in market interest rates. A 50-basis point increase or decrease in interest rates would increase or decrease annual interest expense by \$100,000 related to our borrowings under our 2014 Debt Facility.

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, 2018. 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, 2018, 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 period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financing 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 this Quarterly Report on Form 10-Q, before deciding to invest in our common stock. If any of the following risks actually occur, our business, prospects, operating results and financial condition could suffer materially. In such event, the trading price of our common stock could decline and you might lose all or part of your investment.

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 losses over the next several years 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 \$25.9 million for the six months ended June 30, 2018, \$42.2 million for the year ended December 31, 2017, \$33.2 million for the year ended December 31, 2016 and \$16.7 million for the year ended December 31, 2015. As of June 30, 2018, we had an accumulated deficit of \$160.3 million. We have not generated any revenues to date from product sales and have financed our operations primarily through our initial public offering, or IPO, private placements of our preferred stock, convertible debt financings and borrowings under credit facilities. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and clinical trials. We expect to continue to incur significant expenses and operating losses over the next several years. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year.

We anticipate that our expenses will increase substantially as compared to prior periods as we prepare for commercialization of our product candidates, as a result of increased headcount, including management personnel to support our clinical, manufacturing and commercialization activities, expanded infrastructure, increased legal, compliance, accounting and investor and public relations expenses associated with being a public company and increased insurance premiums, among other factors. Our license agreement with The Johns Hopkins University, or JHU, under which we license certain of our patent rights and a significant portion of the technology for INVELTYS™ (KPI-121 1.0%) and KPI-121 0.25%, imposes royalty and other financial obligations on us, and we may enter into additional licensing and funding arrangements with third parties that may impose milestone payment, royalty, insurance and other obligations on us.

Our expenses will also increase if and as we:

- seek marketing approval for INVELTYS and establish our sales, marketing and distribution capabilities for INVELTYS in advance of and upon any such approval;
- conduct any necessary clinical trials and other development activities and/or seek marketing approvals for KPI-121 0.25% and any other product candidates;
- pursue the clinical development of KPI-121 for the treatment of other additional indications or for use in other patient populations or, if approved, seek to broaden the label of INVELTYS or KPI-121 0.25%;
- pursue the preclinical and clinical development of product candidates derived from our topically applied MPP receptor Tyrosine Kinase Inhibitor program, or rTKI program, for use in the treatment of retinal diseases;
- expand our sales, marketing and distribution capabilities for our other product candidates, prior to or upon receiving marketing approval;

- scale up our manufacturing processes and capabilities to support commercialization of INVELTYS, for which the FDA has accepted our New Drug Application, or NDA, for filing, KPI-121 0.25% and any of our other product candidates for which we seek and/or obtain marketing approval;
- leverage our proprietary MPP technology to advance additional potential high-value therapeutics into preclinical and clinical development;
- 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;
- expand our operational, financial and management systems and increase personnel, including personnel to support our clinical development, manufacturing and commercialization efforts and our operations as a public company; and
- increase our product liability insurance coverage as we initiate and expand our commercialization efforts.

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 to 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; 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 that is sufficient to achieve profitability unless and until we obtain marketing approval for and commercialize one or more of our product candidates. We do not expect to commercialize INVELTYS or any of our other product candidates before 2019, if ever. Achieving profitability will require us to be successful in a range of challenging activities, including:

- obtaining marketing approval for INVELTYS, for which the FDA has accepted our NDA for filing, KPI-121 0.25% or any other product candidates;
- manufacturing at commercial scale, marketing, selling and distributing those products for which we obtain marketing approval;
- hiring and building a full commercial organization required for the marketing, selling and distributing for those products which we obtain marketing approval;
- achieving an adequate level of market acceptance of and obtaining and maintaining coverage and adequate reimbursement from third-party payors for any products we commercialize; and
- obtaining, maintaining and protecting our intellectual property rights.

We may never succeed in these activities and 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 may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

We are an early-stage company. Our operations to date have been limited to organizing and staffing our company, acquiring rights to intellectual property, business planning, raising capital and developing KPI-121 and other product candidates. Consequently, any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as a new business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to transition from a company with a research and development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

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 programs or commercialization efforts.

We expect to devote substantial financial resources to our ongoing and planned activities, particularly as we seek marketing approval and prepare for commercialization of INVELTYS, seek marketing approval for KPI-121 0.25%, and continue the development of and potentially seek marketing approval for other product candidates. We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we commercialize INVELTYS, if approved, and advance our preclinical activities and clinical trials. In addition, our expenses will further increase if we elect to or are required to conduct any additional trials for INVELTYS or KPI-121 0.25%. We also expect to devote additional financial resources to conducting research and development, initiating clinical trials of, and potentially seeking regulatory approval for, other potential product candidates, including product candidates that we may develop using our rTKI program.

We have begun to incur commercialization expenses related to INVELTYS, including beginning to build a commercial infrastructure and expect to incur additional commercialization expenses in advance of potentially receiving marketing approval for INVELTYS. If we do obtain marketing approval for INVELTYS, or for KPI-121 0.25% or any other product candidate that we develop, we expect to incur significant additional commercialization expenses related to product sales, marketing, distribution and manufacturing. Furthermore, we will incur additional costs associated with operating as a public company, hiring additional personnel and expanding our facilities. Accordingly, we may 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 progress, costs and results of our additional Phase 3 trials for KPI-121 0.25%, STRIDE 3 (STRIDE – Short Term Relief in Dry Eye), and whether we determine to conduct any additional clinical trials or other activities for KPI-121 0.25%;
- the costs, timing and outcome of regulatory review of INVELTYS and KPI-121 0.25%, including whether any additional clinical trials or other activities are required for approval or label expansion;

- the progress, costs and results of any clinical activities for regulatory review of INVELTYS and KPI-121 0.25% outside of the United States;
- the costs and timing of process development and manufacturing scale-up activities associated with INVELTYS and KPI-121 0.25%;
- the costs of commercialization activities for INVELTYS and/or KPI-121 0.25% if we receive marketing approval and pre-commercialization costs for INVELTYS and/or KPI-121 0.25% incurred prior to receiving, any such marketing approval, including the costs and timing of establishing product sales, marketing, distribution and outsourced manufacturing capabilities;
- assuming receipt of marketing approval, the amount of revenue received from commercial sales of INVELTYS and KPI-121 0.25% or any other product candidates;
- 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 any product candidates that we may derive from any other product candidates that we may develop;
- the extent to which we 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 believe that our existing cash on hand as of June 30, 2018, will enable us to fund our planned operating expenses, debt service obligations and capital expenditure requirements for at least the next twelve months. We have based these 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.

Conducting preclinical testing and clinical trials and seeking market approvals are time-consuming, expensive and uncertain processes that take years to complete. Although the FDA has accepted for filing our NDA for INVELTYS, we may not receive approval to commercialize the product candidate, and even if we do, the resulting revenue may not enable us to achieve profitability. Additionally, while we are planning to submit an NDA to the FDA for KPI-121 0.25% during the second half of 2018, the FDA may decide not to accept the NDA for filing, or, if accepted, we may not receive approval to commercialize KPI-121 0.25%. Based upon the recommendation of the FDA, we also initiated an additional Phase 3 clinical trial, STRIDE 3 (STRIDE - Short Term Relief In Dry Eye), in the third quarter of 2018 evaluating KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. We may determine to conduct additional Phase 3 trials prior to or following submission of the NDA for KPI-121 0.25% or to potentially expand the label of KPI-121 0.25% if we receive marketing approval for a more narrow indication than we are targeting. In addition, we may never generate the necessary data or results required to obtain regulatory approval of KPI 121 0.25% or of any other products with the market potential sufficient to enable us to achieve profitability. We do not expect to generate revenue from sales of INVELTYS or any other product candidates until at least 2019, if at all. Accordingly, we will need to obtain substantial additional financing to achieve our business objectives. In addition, we may seek additional capital due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. 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 our product candidates.

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 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 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 credit facility may limit our ability to obtain additional debt financing.

If we raise additional funds through collaborations, strategic alliances, licensing arrangements 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 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 existing and future indebtedness may limit cash flow available to invest in the ongoing needs of our business.

As of June 30, 2018, we had \$20.0 million of outstanding borrowings under our a venture debt facility, or the 2014 Debt Facility, which we will begin repaying following the end of an interest-only period, in April 2019, in equal monthly installments until March 2022. Our obligations under this agreement are secured by substantially all of our assets other than our intellectual property. We could in the future incur additional indebtedness beyond our borrowings under our 2014 Debt Facility.

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 take certain 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 intend to satisfy our current and future debt service obligations with our existing cash. Nonetheless, 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 2014 Debt Facility 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 2014 Debt Facility, we may not be able to make accelerated payments, and the lender could seek to enforce security interests in the collateral securing such indebtedness.

Risks Related to Product Development

We are dependent on the success of our lead product candidates, INVELTYS and KPI-121 0.25%. If we are unable to successfully obtain marketing approvals for INVELTYS or KPI-121 0.25%, or experience significant delays in doing so, or if, after obtaining marketing approvals, we fail to successfully commercialize these product candidates, our business will be materially harmed.

We have devoted a significant portion of our financial resources and business efforts to the development of INVELTYS for the post-operative treatment of inflammation and pain following ocular surgery and KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. There is a significant risk that we will fail to successfully obtain marketing approval and/or commercialize INVELTYS and/or KPI-121 0.25%. Following completion of two Phase 3 clinical trials, we submitted an NDA for INVELTYS for the treatment of inflammation and pain following ocular surgery in October 2017. In December 2017, the FDA accepted the INVELTYS NDA for filing and set a PDUFA date of August 24, 2018. However, the FDA's decision to accept the NDA for filing and set a PDUFA date does not indicate that it has made any decision regarding approval nor does it guarantee approval by August 24, 2018, if at all. In January 2018, we announced that we had completed two Phase 3 clinical trials evaluating KPI-121 0.25%, STRIDE 1 and STRIDE 2, evaluating the safety and efficacy of KPI-121 0.25% versus placebo in patients with dry eye disease. In STRIDE 1, statistical significance was achieved for both primary endpoints. However, in STRIDE 2 we did not achieve statistical significance for the primary symptom endpoint of ocular discomfort severity. While we are planning to submit an NDA to the FDA for KPI-121 0.25% during the second half of 2018, the FDA may decide not to accept the NDA for filing, or, if accepted, we may not receive approval to commercialize KPI-121 0.25%. Based upon the recommendation of the FDA, we initiated an additional Phase 3 clinical trial, STRIDE 3, in the third quarter of 2018 evaluating KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. We may also determine to conduct additional Phase 3 trials prior to or following submission of the NDA for KPI-121 0.25% or to potentially expand the label of KPI-121 0.25% if we receive marketing approval for a more narrow indication than we are targeting. We cannot accurately predict when or if either of these product candidates will receive marketing approval. Our ability to generate product revenues will depend on our obtaining marketing approval for, and commercializing one or both of, INVELTYS and KPI-121 0.25%.

The success of INVELTYS and KPI-121 0.25% and any other product candidates will depend on many factors, including the following:

- applying for and receiving marketing approvals from applicable regulatory authorities for our product candidates;
- receiving regulatory approval of our manufacturing processes and our third-party manufacturers' facilities from applicable regulatory authorities;
- expanding and maintaining a workforce of experienced scientists and others with experience in MPP technology to continue to develop our product candidates;
- establishing sales, marketing and distribution capabilities for INVELTYS and KPI-121 0.25% and successfully launching commercial sales of any other product candidates for which we obtain marketing approval, whether alone or in collaboration with others;
- acceptance of INVELTYS and KPI-121 0.25% and our other product candidates, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- maintaining an acceptable safety profile of our products following approval;

- obtaining and maintaining coverage, adequate pricing, and adequate reimbursement from third-party payors, including government payors, for our product candidates;
- 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 on others' intellectual property rights.

Successful development of INVELTYS or KPI-121 0.25% for additional indications, if any, or for use in broader patient populations and our ability, if it is approved, to broaden the label for INVELTYS or KPI-121 0.25% will depend on similar factors.

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 our product candidates, which would materially harm our business.

If clinical trials of INVELTYS and KPI-121 0.25% or any other product candidate that we develop fail to demonstrate 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.

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 safety and efficacy of our 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. 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 safety and efficacy 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, we previously conducted a Phase 2 clinical trial of KPI-121 0.25% for the treatment of meibomian gland dysfunction which did not achieve its primary endpoint. The failure of this trial may have an adverse impact on the perceived safety or efficacy of KPI-121 0.25% in treating dry eye disease or other indications or of INVELTYS. In addition, we have not conducted any Phase 2 clinical trial of INVELTYS. The lack of Phase 2 trial data may have an adverse impact on the perceived safety or efficacy of INVELTYS for the treatment of post-operative inflammation and pain following ocular surgery or other indications, and may adversely affect our ability to obtain marketing approval for INVELTYS from the FDA or outside the United States.

In December 2017, the FDA accepted for filing our NDA for INVELTYS, which included results from our Phase 3 clinical trials evaluating INVELTYS in patients with inflammation and pain following cataract surgery, in which INVELTYS achieved statistical significance for both of its primary efficacy endpoints and all secondary endpoints. Clinical trial data are subject to differing interpretations, and the FDA, medical and scientific experts and others may not share our views of the Phase 3 data. Any such differing interpretations could adversely affect our ability to demonstrate the safety and efficacy of INVELTYS to the satisfaction of the FDA or other regulatory authorities. If the FDA's interpretation of our data differs from ours, the FDA could determine that we have not adequately demonstrated the safety and efficacy of INVELTYS and determine not to approve the NDA without further clinical trials or data, or at all.

In January 2018, we announced that we had completed two Phase 3 clinical trials evaluating KPI-121 0.25%, STRIDE 1 and STRIDE 2, evaluating the safety and efficacy of KPI-121 0.25% versus placebo in patients with dry eye disease. In STRIDE 1, statistical significance was achieved for both primary endpoints. However, in STRIDE 2 we did not achieve statistical significance for the primary symptom endpoint of ocular discomfort severity. While we are

planning to submit an NDA to the FDA for KPI-121 0.25% during the second half of 2018, the FDA may decide not to accept the NDA for filing, or, if accepted, we may not receive approval to commercialize KPI-121 0.25%. Based upon the recommendation of the FDA, we initiated an additional Phase 3 clinical trial, STRIDE 3, in the third quarter of 2018 evaluating KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. We may also determine to conduct additional Phase 3 trials prior to or following submission of the NDA for KPI-121 0.25% or to potentially expand the label of KPI-121 0.25% if we receive marketing approval for a more narrow indication than we are targeting. If the FDA determines that we have not sufficiently demonstrated efficacy for both signs and symptoms of dry eye, we may need to conduct additional clinical trials to support approval of KPI-121 0.25% for temporary relief of signs and symptoms of dry eye disease. If we conduct additional clinical trials of KPI-121 0.25%, our expenses will significantly increase and could delay or halt our ability to obtain marketing approval. Regulatory authorities outside the United States, in particular in the European Union, have not issued guidance on the requirements for approval of a dry eye drug. Our Phase 3 clinical trials of KPI-121 0.25% may not be sufficient to support an application for marketing approval outside the United States. Further, if regulatory authorities outside the United States do not accept the data from any trial we conduct in the United States, in particular if the European Union does not allow us to utilize the results from our Phase 3 clinical trials of KPI-121 0.25% pursuant to the Article 10(3) submission pathway or otherwise, we will likely need to conduct additional trials to obtain marketing approval in such jurisdiction, which would be costly and time-consuming and could delay or permanently halt our ability to commercialize the applicable product candidates in the applicable jurisdictions.

We performed additional analyses on a post-hoc basis on the results of our completed Phase 2 clinical trial for KPI-121 0.25% for the purpose of designing our Phase 3 clinical trials for KPI-121 0.25%. Following completion of our Phase 3 trials we conducted additional analyses on a post-hoc basis of the data from both our Phase 3 and Phase 2 clinical trials to support our planned NDA submission and inform our development plan. We may also conduct additional post-hoc analyses on the results of clinical trials in the future. Post-hoc analyses performed after unmasking trial results can result in the introduction of bias, may not be predictive of success in any future clinical trials and are given less weight by regulatory authorities than pre-specified analyses.

If we are required to conduct additional clinical trials or other testing of KPI-121 0.25% or INVELTYS or any other product candidate that 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.

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 INVELTYS, KPI-121 0.25% or any other product candidates that we may develop, including:

- clinical trials of our product candidates, including STRIDE 3, 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;
- regulators may recommend or require us to perform additional or unanticipated clinical trials to obtain approval or 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; 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, or REMS.

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 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 product candidates we 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 ophthalmic 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; and
- the lack of adequate compensation for prospective patients.

Our inability to locate and enroll a sufficient number of patients for our clinical trials would 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 any of our product candidates, we may need to abandon or limit our development of such product candidates.

If INVELTYS, KPI-121 0.25% or any other product candidates 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 more narrow 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. The most common adverse effects to date in trials evaluating the safety and efficacy of INVELTYS and KPI-121 0.25% have been eye pain, instillation site pain, blurred vision and photophobia, which is discomfort or pain due to exposure to light. There have been no serious adverse events related to the administration of KPI-121 reported in any of our clinical trials to date. Increases in intraocular pressure, or IOP, and cataract formation are additional adverse effects associated with the use of corticosteroids. We have no clinical safety data on or patient exposure to either KPI-121 concentration for longer than 28 days. Our understanding of the relationship between our products and these adverse effects may change as we gather more information, and additional unexpected adverse effects may occur. Compounds that initially show promise in clinical or earlier stage testing for treating ophthalmic 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 our product candidates (including use of KPI-121 0.25% more frequently than is prescribed) by patients could cause increases in IOP, and may result in additional unexpected side effects or adverse events. There can be no assurance that our product candidates will be used correctly, and if used incorrectly, such misuse could hamper commercial adoption of our product candidate, if approved, at the rate we currently expect.

We may not be successful in our efforts to develop product candidates based on our MPP technology or expand the use of our MPP technology for treating additional diseases and conditions.

We are currently directing all of our development efforts towards applying our MPP technology to develop product candidates that are designed to diffuse through the mucus layer and enable the active drug substance to reach cells in the underlying target tissue. We have product candidates at various stages of development for treatment of eye diseases and are exploring the potential use of our MPP technology in other diseases, including diseases of the lungs, cervical/vaginal tract and gastrointestinal tract. Our existing product candidates and any other potential product candidates that we identify may not be suitable for continued preclinical or clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If we do not successfully develop and commercialize our product candidates that we develop based upon our MPP technology approach, we will not be able to obtain substantial product revenues in future periods.

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. 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 product candidates 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.

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.

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. If the FDA does not accept the data from any trial that we conduct 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

Even if INVELTYS, KPI-121 0.25% or any other product candidates receives marketing approval, they 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 INVELTYS, KPI-121 0.25% 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. Common treatments in the United States for inflammation and pain following ocular surgery include corticosteroids. While the most commonly used corticosteroids are approved for four-times-a-day dosing, and the FDA has accepted for filing our NDA seeking approval of INVELTYS with twice-a-day dosing, doctors may continue to rely on ocular steroids other than INVELTYS and other treatments rather than INVELTYS, if and when it is approved for marketing by the FDA. It is also possible that other therapeutics will be approved for treatment of inflammation and pain following ocular surgery with twice-a-day or less frequent dosing.

While there are no drugs currently approved in the United States for the temporary relief of the signs and symptoms of dry eye disease, current treatments that are used in the United States for dry eye disease include over-the-counter artificial tears, Restasis®, Xiidra® and off-label use of corticosteroids. It is possible that doctors may continue to rely on these treatments rather than KPI-121 0.25%, if and when it is approved for marketing by the FDA. In addition, if generic versions of any products that compete with any of our product candidates are approved for marketing by the FDA, they 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.

If INVELTYS or KPI-121 0.25% does not achieve an adequate level of acceptance, formulary coverage, pricing or reimbursement we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of INVELTYS, KPI-121 0.25% or any other product candidate that we develop, if approved for commercial sale, 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 clinical indications for which the product is 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 availability of third-party formulary coverage and adequate reimbursement, particularly by Medicare in light of the prevalence of dry eye disease and cataracts in persons over age 55;
- the prevalence and severity of any side effects; and
- any restrictions on the use of our products together with other medications.

Our assessment of the potential market opportunity for INVELTYS, KPI-121 0.25% and other product candidates is based on industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties, some of which we commissioned. 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 dry eye disease in particular is difficult to precisely estimate. In particular, we commissioned ClearView Healthcare Partners, a life science strategy consulting firm, to conduct a survey of 30 dry eye disease patients, which we refer to as the patient survey. As the patient survey involved a limited number of patients, the results from such survey may be less reflective of the dry eye disease population as a whole than a survey conducted with a larger sample size. Our estimates of the potential market opportunities for our product candidates 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 INVELTYS, KPI-121 0.25% or any other product candidates may be smaller than we expect, and as a result our product revenue may be limited and it may be more difficult for us to achieve or maintain profitability.

If we are unable to establish sales, marketing and distribution capabilities or enter into sales, marketing and distribution agreements with third parties, we may not be successful in commercializing INVELTYS, KPI-121 0.25% or any other product candidates that we may develop if and when they are approved.

We have only recently begun to establish a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of therapeutic products. To achieve commercial success for any product for which we obtained marketing approval, we will need to establish sales, marketing and distribution capabilities, either ourselves or through collaborations or other arrangements with third parties.

We plan to build a specialty sales marketing and distribution infrastructure to market or co-promote INVELTYS, KPI-121 0.25% and possibly other product candidates that we develop in the United States, if and when they are approved. In advance of receiving marketing approval for INVELTYS, we have begun to build our commercial infrastructure. There are risks involved with establishing our own sales, marketing and distribution capabilities. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. Further, we may underestimate the size of the sales force required for a successful product launch and may need to expand our sales force earlier and at a higher cost than we anticipated. If the commercial launch of INVELTYS, KPI-121 0.25% or any other product candidate for which we establish a commercial infrastructure is delayed or does not occur for any reason, including if we do not receive marketing approval on the timeframe we expect, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize INVELTYS, KPI-121 0.25% or any other product candidates on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to clinicians 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 creating 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 plan to seek marketing approval and explore commercialization of KPI-121 0.25% in certain markets outside the United States, including the European Union, 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-121 0.25% ourselves. We may also consider seeking marketing approval outside the United States for other product candidates 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 INVELTYS, KPI-121 0.25% or any other product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market INVELTYS, KPI-121 0.25% or other product candidates effectively. If we do not establish sales, marketing and distribution capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing INVELTYS, KPI-121 0.25% or any other product candidates that we may develop.

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. Our product candidates will, if approved, 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 INVELTYS, KPI-121 0.25% and any other product candidates, and will face competition with respect to any other product candidates 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.

Our product candidates will target markets that are already served by a variety of competing products. Many of these existing products have achieved widespread acceptance among clinicians, patients and payors. In addition, many of these products 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 generic products.

Following ocular surgery, topical steroids are commonly used to manage and prevent complications from post-operative inflammation. The current market leaders for topical steroids in the United States, based on revenue, are Lotemax[®] products and Durezol[®]. There are also a number of companies in the United States developing products and therapies in preclinical research and clinical development for the treatment of inflammation and pain following ocular surgery, including the following: Valeant Pharmaceuticals International, Inc. is developing a loteprednol etabonate gel, formulated for topical delivery and for which an NDA has been filed with the FDA; Ocular Therapeutix, Inc. is developing Dextenza[™], a punctal plug that is currently in Phase 3 clinical development and has filed an NDA for the treatment of ocular pain following ophthalmic surgery; and Icon Bioscience, Inc. has received FDA approval for DEXYCU[™], which is formulated as a drug delivery system, or DDS, to be injected into the eye following cataract surgery for the treatment of inflammation.

Current disease management approaches for dry eye disease in the United States include the following: over-the-counter artificial tear eye drops, which are used on an intermittent or chronic basis to provide short term symptomatic relief of dryness and irritation; devices such as the TrueTear Intranasal Tear Neurostimulator, which received marketing authorization from the FDA in April 2017; off-label prescription drugs, including topical steroid drops and/or other similar products, which are prescribed on occasion for treatment of dry eye disease; on-label prescription drugs, including Restasis and Xiidra, which are the only prescription pharmaceutical products that are

approved in the United States for use in patients with dry eye disease. Restasis is approved for increasing tear production in patients whose tear production is presumed to be suppressed due to ocular inflammation and Xiidra is approved for treatment of the signs and symptoms of dry eye disease. Both are typically used chronically as part of the dry eye management regimen, which also includes artificial tears and other palliative therapies, such as hot compresses for the eye and lid hygiene management; and devices, such as punctal plugs that are inserted into the tear ducts to inhibit tear drainage, resulting in more moisture on the surface of the eye.

We are developing KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease, which may include the management of dry eye disease flares. Any product that is developed for the temporary treatment of the signs and symptoms of dry eye disease could directly compete with KPI-121 0.25%. There are several product candidates in preclinical and clinical development in the United States for the treatment of dry eye disease. If any of these product candidates is approved and such product candidate either treats the signs or symptoms of dry eye disease or reduces the frequency of flares in dry eye patients, it could reduce the overall market opportunity for KPI-121 0.25%. These product candidates are being developed by pharmaceutical companies, biotechnology companies, and specialty pharmaceutical and generic drug companies of various sizes, such as Sun Pharmaceuticals' Seciera™, Oyster Point's OC-01 and OC-02, ReGenTree's RGN-259, Aldeyra Therapeutics' reproxalap ophthalmic solution, Aurinia Pharmaceuticals' voclosporin ophthalmic solution and Surface Pharmaceutical's SURF-100 and SURF-200.

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.

In addition, our ability to compete may be affected in many cases by insurers or other third-party payors, particularly Medicare, seeking to encourage the use of generic products. Generic products are currently being used for certain of the indications that we are pursuing, and additional products are expected to become available on a generic basis over the coming years.

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. Given that we are developing products that utilize a known FDA-approved corticosteroid, our product candidates, if approved, may face competition from generic and branded versions of existing drugs based on corticosteroids that are administered in a different manner.

If our contracted manufacturing facilities experience production issues for any reason, we may be unable to manufacture commercial quantities of our product candidates for a substantial amount of time, which could have a material adverse effect on our business.

We will rely on third-party contract manufacturers to manufacture commercial supplies of INVELTYS and KPI-121 0.25%. Specifically, we will rely on Catalent Pharma Solutions, LLC, or Catalent, to manufacture and supply to us a minimum amount of INVELTYS and KPI-121 0.25% for commercial use; Alliance Contract Pharma, LLC, or Alliance, for manufacturing bulk KPI-121 concentrates, and Chemo Iberica SA, or Chemo Iberica, to manufacture and supply to us a bulk supply of loteprednol, or LE. We expect to rely on third parties to manufacture clinical supplies of other product candidates and commercial supplies of all of our products, if and when approved for marketing by applicable regulatory authorities, as well as for packaging, serialization, storage, distribution and other production logistics. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or manufacture our product candidates in accordance with regulatory requirements, if there are disagreements between us

and such parties, or if such parties are unable to expand capacities to support commercialization of any of our product candidates for which we obtain marketing approval, we may not be able to complete, or may be delayed in producing sufficient product candidates to meet our supply requirements. These facilities may also be affected by natural disasters, such as floods or fire, or such facilities could face manufacturing issues, such as contamination or regulatory concerns following a regulatory inspection of such facility. In such instances, we may need to locate an appropriate replacement third-party relationship, which may not be readily available or on acceptable terms, which would cause additional delay and increased expense, including as a result of additional required FDA approvals, and may have a material adverse effect on our business.

Our third-party manufacturers are subject to inspection and approval by the FDA before we can commence the manufacture and sale of any of our product candidates, and thereafter subject to FDA inspection from time to time. Failure by our third-party manufacturers to pass such inspections and otherwise satisfactorily complete the FDA approval regimen with respect to our 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. For example, one of our third-party testing laboratories recently received a FDA Form 483 containing two inspectional observations, relating to deficiencies in fully following responsibilities and procedures applicable to quality control units and in maintaining separate areas in the storage of drug products to prevent contamination or mix-ups. While the testing laboratory determined that the observations are non-critical and do not pose any risk or have any impact on its analytical programs, 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.

We or our third-party manufacturers may also encounter shortages in the raw materials or active pharmaceutical ingredient necessary to produce our product candidates in the quantities needed for our clinical trials or, if our product candidates are 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 or active pharmaceutical ingredient, including shortages caused by the purchase of such raw materials or active pharmaceutical ingredient by our competitors or others. The failure of us or our third-party manufacturers to obtain the raw materials or active pharmaceutical ingredient necessary to manufacture sufficient quantities of our product candidates, may have a material adverse effect on our business.

Even if we are able to commercialize INVELTYS, KPI-121 0.25% or any other product candidate that we may develop, 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 commercialize INVELTYS, KPI-121 0.25% or any other product candidates that we may develop successfully 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 drug 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 INVELTYS, KPI-121 0.25% or any other product that we commercialize and, even if they are available, the level of reimbursement may not be satisfactory.

Inadequate reimbursement may adversely affect the demand for, or the price of, any 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 INVELTYS, KPI-121 0.25% or any other product candidate for which we obtain marketing approval.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the indications for which the drug is approved by the FDA or similar regulatory authorities outside the United States. Moreover, eligibility for coverage and reimbursement does not imply that a drug 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 drugs, 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 drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs 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 drugs 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 drug 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 drug 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.

There can be no assurance that our product candidates, including INVELTYS and KPI-121 0.25%, even if they are approved for sale in the United States or in other countries, 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 our product candidates profitably.

Product liability lawsuits against us could divert our resources and could cause us to incur substantial liabilities and to limit commercialization of any products that we 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. We face an even greater risk if we commercially sell any products that we 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 any product candidates or products that we 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 commercialize any products that we develop.

We currently hold \$10 million in product liability insurance coverage in the aggregate, with a per incident limit of \$10 million, which may not be adequate to cover all liabilities that we may incur. We may need to increase our insurance coverage as we expand our clinical trials. We will need to further increase our insurance coverage if we commence commercialization of any of INVELTYS, KPI-121 0.25% or any product candidates 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 rely, 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 relied on third-party clinical research organizations, or CROs, in conducting our completed Phase 3 clinical trials of INVELTYS for the treatment of inflammation and pain following cataract surgery and our completed Phase 2 clinical trial and Phase 3 clinical trials of KPI-121 0.25% in patients with dry eye disease. We expect to continue to rely on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators, to conduct STRIDE 3 and expect to continue to rely on such parties to conduct clinical trials of any other 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, or GCPs, 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 rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

We contract with third parties for the manufacture of INVELTYS and KPI-121 0.25% for commercialization and for clinical trials and commercialization of any of our other existing and any future product candidates. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or products 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 or commercial quantities of INVELTYS and KPI-121 0.25% or any other product candidates. We will rely on Catalent to manufacture and supply to us a minimum amount of INVELTYS and KPI-121 0.25% for commercial use; Alliance for manufacturing bulk KPI-121 concentrates, and Chemo Iberica to manufacture and supply to us a bulk supply of LE. We expect to rely on such third-party manufacturers to manufacture commercial supplies of all of our products and clinical supplies of any other product candidates if and when approved for marketing by applicable regulatory authorities. Our current and anticipated future dependence upon others for the manufacture of INVELTYS and KPI-121 0.25% and any other product candidate

or product that 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. In addition, any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval.

To date, we have obtained materials for KPI-121 for our clinical trials from third-party manufacturers, including Catalent and Alliance. We have supply agreements in place with these contract manufacturers to provide commercial supply. We obtain the active pharmaceutical ingredient for KPI-121 from Chemo Iberica, a third-party active pharmaceutical ingredient, or API, manufacturer. While we have long-term commercial supply agreements with these third-party manufacturers, if these suppliers do not perform as we expect, we may be required to replace one or more suppliers. Although we believe that there are a number of potential long-term replacements to our suppliers, we may incur added costs and delays in identifying and qualifying any such replacements.

The FDA maintains strict requirements governing the manufacturing process. When a manufacturer seeks to modify or make even seemingly minor changes to that 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. The FDA has issued several guidances on this point. In connection with our application for approval to market INVELTYS, KPI-121 0.25% or other 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:

- INVELTYS, KPI-121 0.25% and any other product that we develop may compete with other product candidates and products for access to a limited number of suitable manufacturing facilities that operate under current good manufacturing practices, or cGMP, regulations;
- 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 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 products and harm our business and results of operations.

Any products that we may develop may compete with other product candidates and products for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us. 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.

Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. We do not currently have arrangements in place for redundant supply for bulk drug substances. If any one of our current contract manufacturers cannot perform as agreed, we may be required to replace that manufacturer. Although we believe that there are several potential alternative manufacturers who could manufacture our product candidates, we may incur added costs and delays in identifying and qualifying any such replacement.

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

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 INVELTYS, KPI-121 0.25% or any other product candidates for which we 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 other product candidates. For example, we may utilize a variety of collaboration, distribution and other marketing arrangements with one or more third parties to facilitate commercialization of KPI-121 0.25% outside the United States. We may also consider potential collaborative partnership opportunities prior to initiating IND-enabling studies on KPI-285 or any other product candidates we develop through our rTKI program. 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 products or 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 product candidates or products, 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 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 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 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 and potential commercialization of those 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 its potential commercialization 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 and 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 and products 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. 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 and products. 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 or products in a non-infringing manner. In particular, a competitor may develop an approach to deliver drugs through the mucus layer to the underlying target tissue that uses a different approach than our MPP technology, and therefore may not infringe on our patent rights.

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 and products, 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.

Recent patent reform legislation 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 recently developed 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. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, 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.

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. 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 one of 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 do 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.

Also, there are detailed rules and requirements regarding the patents that may be submitted to the FDA for listing in the Approved Drug Products with Therapeutic Equivalence Evaluations, or the Orange Book. We may be unable to obtain patents covering our product candidates that contain one or more claims that satisfy the requirements for listing in the Orange Book. Even if we submit a patent for listing in the Orange Book, the FDA may decline to list the patent, or a manufacturer of generic drugs may challenge the listing. If one of our product candidates is approved and a patent covering that product candidate is not listed in the Orange Book, a manufacturer of generic drugs would not have to provide advance notice to us of any Abbreviated New Drug Application filed with the FDA to obtain permission to sell a generic version of such product candidate.

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 INVELTYS, KPI-121 0.25% and other product candidates and 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 products 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. For example, we are aware of a third-party European patent that contains claims related to use of LE for the treatment of moderate to severe dry eye disease and the use of LE for reducing conjunctival redness associated with dry eye disease. This European patent will expire in early 2025, and is in force in Germany, the United Kingdom, Spain, Italy, and France. There is no United States counterpart patent or pending U.S. patent application. While we have obtained an opinion of European counsel that this patent is invalid, until this patent expires or a court of competent jurisdiction finally determines the patent is invalid in each country, the patent holder may be able to block our ability to develop and commercialize KPI-121 0.25% for the treatment of dry eye disease in Europe unless we obtain a license under this patent in each country where it is in force. Such a license may not be available on commercially reasonable terms or at all. If we are unable to invalidate the patent in each country or obtain a license on commercially reasonable terms, our ability to commercialize KPI-121 0.25% for the treatment of dry eye disease in Europe may be impaired, delayed or halted altogether.

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 as our product candidates near commercialization and as we gain the greater visibility associated with being a public company. 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 INVELTYS, KPI-121 0.25% or any other 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 and marketing our products 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 or product. 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 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.

INVELTYS, KPI-121 0.25% and certain aspects of our MPP technology are protected by patents 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 approved products 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 INVELTYS and KPI-121 0.25%, other product candidates and some aspects of our MPP technology. While we control patent prosecution of the licensed patent families relating to INVELTYS and KPI-121 0.25%, for the remainder of the patent families subject to our exclusive license agreement with JHU that relate to our MPP technology, JHU retains control of patent prosecution. Our rights with respect to in-licensed patents and patent applications may be lost if the applicable license agreement expires or is terminated. 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 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 our MPP technology as well as certain aspects of our patents that use LE as an active ingredient were developed using United States government funds. As a result, the United States government may have certain rights to intellectual property embodied in our current or future products and product candidates based on our MPP technology or that use LE as an active ingredient 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 license agreement with JHU, under which we license certain of our patent rights and a significant portion of the technology for INVELTYS, KPI-121 0.25% and other product candidates, 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 that is covered by these agreements or may face other penalties under the agreements. Such an occurrence could diminish the value of our products or product candidates. 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 JHU may conclude that we have materially breached the JHU licensing agreement and might therefore terminate the agreement, thereby removing our ability to market products covered by our license agreement with JHU. If the JHU licensing 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 license agreement with JHU is terminated, JHU 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 JHU license agreement will revert to JHU at no cost to JHU. This could have a material adverse effect on our competitive business position 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 the affected product candidates, 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 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 or we 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 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 our product candidates.

Our product candidates, including INVELTYS and KPI-121 0.25%, and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, 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. We have not received approval to market INVELTYS, KPI-121 0.25% or any other product candidate from regulatory authorities in any jurisdiction. In December 2017, the FDA accepted for filing our NDA for INVELTYS and set a PDUFA date of August 24, 2018. However, the FDA's decision to accept an NDA for filing and set a PDUFA date does not indicate that the FDA has made any decision regarding approval nor does it guarantee approval by the PDUFA date, if at all. Additionally, we are planning to submit an NDA to the FDA for KPI-121 0.25% during the second half of 2018. Based upon the recommendation of the FDA, we also initiated an additional Phase 3 clinical trial, STRIDE 3 (STRIDE - Short Term Relief In Dry Eye), in the third quarter of 2018 evaluating KPI-121 0.25% for the temporary relief of the signs and symptoms of dry eye disease. We may determine to conduct additional Phase 3 trials prior to or following submission of the NDA for KPI-121 0.25% or to potentially expand the label of KPI-121 0.25% if we receive marketing approval for a more narrow indication than we are targeting. In addition, we may never generate the necessary data or results required to obtain regulatory approval of KPI 121 0.25% or any other products 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 the product candidate's safety and efficacy. 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 INVELTYS, KPI-121 0.25% or any other product candidate that we develop is not effective, is only moderately effective 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. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

If we experience delays in obtaining approval or if we fail to obtain approval of INVELTYS, KPI-121 0.25% or any other 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.

If the FDA does not conclude that INVELTYS and KPI-121 0.25% satisfy the filing and approval requirements under Section 505(b)(2) of the Federal Food Drug and Cosmetics Act, or if the requirements for such product candidates under Section 505(b)(2) are not as we expect, the approval pathway for those product candidates may take longer, cost more and entail greater complications and risks than anticipated, and may not be successful.

The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, added Section 505(b)(2) to the Federal Food, Drug and Cosmetic Act, or FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies that were not conducted by or for the applicant, and for which the applicant has not received a right of reference, which could expedite the development program for INVELTYS and KPI-121 0.25% by potentially decreasing the amount of preclinical and clinical data that we would need to generate in order to obtain FDA approval.

We intend to seek FDA approval of INVELTYS and KPI-121 0.25% through the Section 505(b)(2) regulatory pathway and the FDA has accepted for filing our NDA for the approval of INVELTYS through the Section 505(b)(2) regulatory pathway. The FDA may refuse to file an application if it does not, on its face, contain information required under section 505(b)(2) of the act and the relevant implementing regulations. The FDA has also indicated that it will not file a 505(b)(2) application for a product that is a duplicate of a drug that is eligible for approval as a generic drug under section 505(j) of the FDCA. We do not believe that INVELTYS or KPI-121 0.25% is a duplicate of a drug product that is eligible for approval as a generic drug.

If the FDA does not allow us to pursue the Section 505(b)(2) regulatory pathway as anticipated, we may need to conduct additional non-clinical and clinical trials, provide additional data and information and meet additional standards for regulatory approval. If this were to occur, the time and financial resources required to obtain FDA approval for INVELTYS and KPI-121 0.25%, and complications and risks associated with approval of INVELTYS and KPI-121 0.25%, would likely substantially increase. Even if we are allowed to pursue the Section 505(b)(2) pathway to FDA approval, we cannot assure you that INVELTYS and KPI-121 0.25% will receive the requisite approvals for commercialization.

In addition, notwithstanding the approval of a number of products by the FDA under Section 505(b)(2) over the last few years, certain competitors and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA's interpretation of Section 505(b)(2) is successfully challenged, the FDA may be required to change its 505(b)(2) policies and practices, which could delay or even prevent the FDA from approving any NDA that we submit under Section 505(b)(2). In addition, the pharmaceutical industry is highly competitive, and Section 505(b)(2) NDAs are subject to special requirements designed to protect the patent rights of sponsors of previously approved drugs that are referenced in a Section 505(b)(2) NDA. These requirements may give rise to patent litigation and to mandatory delays in approval of our NDAs for up to 30 months, depending on the outcome of any litigation. It is not uncommon for a manufacturer of an approved product to file a citizen petition with the FDA seeking to delay approval of, or impose additional approval requirements for, pending competing products. If successful, such petitions can significantly delay, or even prevent, the approval of the new product. However, even if the FDA ultimately denies such a petition, the FDA may substantially delay approval while it considers and responds to the petition. Thus, even if we are able to utilize the Section 505(b)(2) regulatory pathway, there is no guarantee this would ultimately lead to faster product development or earlier approval of INVELTYS or KPI-121 0.25%.

Even if INVELTYS and KPI-121 0.25% are approved under Section 505(b)(2), their approval may be subject to limitations on the indicated uses for which the products may be marketed or to other conditions of approval, or may contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the products.

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

In order to market and sell INVELTYS, KPI-121 0.25% or other product candidates 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. Regulatory authorities outside the United States, in particular in the European Union, have not

issued guidance on the requirements for approval of a dry eye prescription medication. Our Phase 3 clinical trials of KPI-121 0.25% may not be sufficient to support an application for marketing approval outside the United States.

The time required to obtain approval 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.

Additionally, on June 23, 2016, the electorate in the United Kingdom voted in favor of leaving the European Union, commonly referred to as Brexit. On March 29, 2017, the United Kingdom formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. Since a significant proportion of the regulatory framework in the United Kingdom is derived from European Union directives and regulations, the withdrawal could materially impact the regulatory regime with respect to the approval of our product candidates in the United Kingdom or the European Union. Any delay in obtaining, or an inability to obtain, any marketing approvals, as a result of Brexit or otherwise, would prevent us from commercializing our product candidates in the United Kingdom and/or the European Union and restrict our ability to generate revenue and achieve and sustain profitability. If any of these outcomes occur, we may be forced to restrict or delay efforts to seek regulatory approval in the United Kingdom and/or European Union for our product candidates, 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 of our products for which we or our collaborators obtain marketing approval. Promotional communications with respect to drug 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 our product, which could limit sales of the 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 drugs to ensure drugs 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 FDCA relating to the promotion of prescription drugs or the promotion or manufacturing of drug products or medical devices may lead to investigations 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; or
- injunctions or the imposition of civil or criminal penalties.

Non-compliance with European Union requirements regarding safety monitoring or pharmacovigilance can also result in significant financial penalties. Similarly, failure to comply with the European Union's requirements regarding the protection of personal information can lead to significant penalties and sanctions.

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 drug 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, 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.

Under the CURES Act and the Trump Administration's regulatory reform initiatives, the FDA's policies, regulations and guidance may be revised or revoked and that could prevent, limit or delay regulatory approval of our product candidates, which would impact our ability to generate revenue.

In December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of drugs and spur innovation, but its ultimate implementation is unclear. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business, prospects, financial condition and results of operations.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of

the Trump administration may impact our business and industry. Namely, the Trump administration has taken several executive actions, including the issuance of a number of Executive Orders, that could impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. An under-staffed FDA could result in delays in the FDA's responsiveness or in its ability to review submissions or applications, issue regulations or guidance, or implement or enforce regulatory requirements in a timely fashion or at all. Moreover, on January 30, 2017, President Trump issued an Executive Order, applicable to all executive agencies, including the FDA, which requires that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency shall identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the "two-for-one" provisions. This Executive Order includes a budget neutrality provision that requires the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the Executive Order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within the Office of Management and Budget on February 2, 2017, the administration indicates that the "two-for-one" provisions may apply not only to agency regulations, but also to significant agency guidance documents. In addition, on February 24, 2017, President Trump issued an executive order directing each affected agency to designate an agency official as a "Regulatory Reform Officer" and establish a "Regulatory Reform Task Force" to implement the two-for-one provisions and other previously issued executive orders relating to the review of federal regulations, however it is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on the FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

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. In addition, we may be subject to transparency laws and patient privacy regulation by U.S. federal and state governments and by governments in foreign jurisdictions in which we conduct our business. 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; 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.

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.

Recently enacted and future legislation may affect our ability to commercialize and the prices we obtain for any products that are approved in the United States or foreign jurisdictions.

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 INVELTYS, KPI-121 0.25% or any other 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 drugs 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 drug 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 Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively the ACA. Among the provisions of

the ACA of importance to our business, including, without limitation, our ability to commercialize and the prices we may obtain for any of our product candidates and that are approved for sale, are the following:

- an annual, nondeductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- a new Medicare Part D coverage gap discount program, in which participating manufacturers must agree to offer 50% point-of-sale discounts off negotiated drug prices during the coverage gap period as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D;
- expansion of healthcare fraud and abuse laws, including the federal False Claims Act and the federal Anti-Kickback Statute, and the addition of new government investigative powers, and enhanced penalties for noncompliance;
- extension of manufacturers' Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs; and
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes include the Budget Control Act of 2011, which, 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 to the statute, will stay in effect through 2025 unless additional congressional action is taken, and the American Taxpayer Relief Act of 2012, which, 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 new 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 such product candidate is prescribed or used. Further, there have been several recent U.S. congressional inquiries and proposed 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 drug products.

We expect that these healthcare reforms, as well as other healthcare reform measures that may be adopted in the future, may result in additional reductions in Medicare and other healthcare funding, more rigorous coverage criteria, new payment methodologies and additional downward pressure on the price that we receive for any approved product 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 numerous legal challenges and Congressional actions to repeal and replace provisions of the law. In May 2017, the U.S. House of Representatives passed legislation known as the American Health Care Act of 2017. Thereafter, the Senate Republicans introduced and then updated a bill to replace the ACA known as the Better Care Reconciliation Act of 2017. The Senate Republicans also introduced legislation to repeal the ACA without companion legislation to replace it, and a "skinny" version of the Better Care Reconciliation Act of 2017. In addition, the Senate considered proposed healthcare reform legislation known as the Graham-Cassidy bill. None of these measures was passed by the U.S. Senate.

The Trump Administration has also taken executive actions to undermine or delay implementation of the ACA. In January 2017, President Trump signed an Executive Order directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. In October 2017, the President signed a second Executive Order allowing for the use of association health plans and short-term health insurance, which may provide fewer health benefits than the plans sold through the ACA exchanges. At the same time, the Trump Administration announced that it will discontinue the payment of cost-sharing reduction (CSR) payments to insurance companies until Congress approves the appropriation of funds for such CSR payments. The loss of the CSR payments is expected to increase premiums on certain policies issued by qualified health plans under the ACA. A bipartisan bill to appropriate funds for CSR payments was introduced in the Senate, but the future of that bill is uncertain.

More recently, with enactment of the Tax Cuts and Jobs Act of 2017, which was signed by the President on December 22, 2017, Congress repealed the “individual mandate.” The repeal of this provision, which requires most Americans to carry a minimal level of health insurance, will become effective in 2019. According to the Congressional Budget Office, the repeal of the individual mandate will cause 13 million fewer Americans to be insured in 2027 and premiums in insurance markets may rise. Further, each chamber of the Congress has put forth multiple bills designed to repeal or repeal and replace portions of the ACA. Although none of these measures has been enacted by Congress to date, Congress may consider other legislation to repeal and replace elements of the ACA. The Congress will likely consider other legislation to replace elements of the ACA, during the next Congressional session.

We will continue to evaluate the effect that the ACA and its possible repeal and replacement could have on our business. It is possible that repeal and replacement initiatives, if enacted into law, could ultimately result in fewer individuals having health insurance coverage or in individuals having insurance coverage with less generous benefits. While the timing and scope of any potential future legislation to repeal and replace ACA provisions is highly uncertain in many respects, it is also possible that some of the ACA provisions that generally are not favorable for the research-based pharmaceutical industry could also be repealed along with ACA coverage expansion provisions. Accordingly, such reforms, if enacted, could have an adverse effect on anticipated revenue from product candidates that we may successfully develop and for which we may obtain marketing approval and may affect our overall financial condition and ability to develop commercialize product candidates.

The costs of prescription pharmaceuticals in the United States has also been the subject of considerable discussion in the United States, and members of Congress and the Trump Administration have stated that they will address such costs through new legislative and administrative measures. 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.

Finally, legislative and regulatory proposals have also been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA’s approval process may significantly delay or prevent marketing approval, as well as subject us and any future collaborators to more stringent product labeling and post-marketing testing and other requirements.

If we or any third-party manufacturers we 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 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. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

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

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.K. Bribery Act 2010, or Bribery Act, the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws that apply in countries where we do business and may do business in the future. The Bribery Act, FCPA 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 Bribery Act or FCPA violations, and we may participate in collaborations and relationships with third parties whose actions could potentially subject us to liability under the Bribery Act, FCPA 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 Bribery Act, the FCPA or other legal requirements, including Trade Control laws. If we are not in compliance with the Bribery Act, the FCPA 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 Securities and Exchange Commission 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 Bribery Act, the FCPA, other anti-corruption laws or Trade Control laws by U.K., U.S. or other authorities could also have an adverse impact on our reputation, our business, results of operations and financial condition.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for net interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, in each case, for losses arising in taxable years beginning after December 31, 2017 (though any such net operating losses may be carried forward indefinitely), one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain how various states will respond to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

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, 2017, we had federal net operating loss carryforwards of \$120.9 million, which expire at various dates beginning in 2030 through 2037 and state net operating loss carryforwards of \$104.0 million, which expire at various dates beginning in 2030 through 2037. These net operating loss carryforwards could expire unused and be unavailable to offset our future income tax liabilities. Under the newly enacted federal income tax law, federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain how various states will respond to the newly enacted federal tax law. If our ability to use our historical net operating loss carryforwards is materially limited, it would harm our future operating results by effectively increasing our future tax obligations.

Risks Related to Employee Matters and Managing Growth

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 and business development expertise of Mark Iwicki, our President and Chief Executive Officer, Todd Bazemore, our Chief Operating Officer, Mary Reumuth, our Chief Financial Officer, Kim Brazzell, Ph.D., our Chief Medical Officer, and Hongming Chen, Sc.D., our Chief

Scientific Officer, as well as the other principal members of our management, scientific and clinical team. 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.

Recruiting and retaining qualified scientific, clinical, manufacturing, legal and sales and marketing personnel will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize products. 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. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

We expect to expand our development, regulatory and manufacturing capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, clinical, regulatory affairs, manufacturing, sales, marketing and distribution. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and our limited experience in managing such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

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

Our internal computer systems and those of our current and any future contractors or consultants, including any collaborator, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such material system failure, accident or security breach to date, if such an event were to occur and 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. For example, 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 or proprietary information, we could incur liability, our competitive position could be harmed and the further development and commercialization of our product candidates could be delayed.

Risks Related to Our Common Stock

Our executive officers, directors and principal stockholders, if they choose to act together, continue to have the ability to control all matters submitted to stockholders for approval.

As of June 30, 2018, our executive officers and directors and principal stockholders in the aggregate, own shares representing approximately 67% of our capital stock. As a result, if these stockholders were to choose to act together, they would be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, would control the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets.

This concentration of voting power may:

- delay, defer or prevent a change in control;
- entrench our management and our board of directors; or
- delay or prevent a merger, consolidation, takeover or other business combination involving us on terms that other stockholders may desire.

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 is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- 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. The market price for our common stock may be influenced by many factors, including:

- results of clinical trials of any of our product candidates;
- results of clinical trials of product candidates of our competitors;
- our success in commercializing INVELTYS and KPI-121 0.25%, if and when approved;
- 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 or management personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- 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;
- changes in the structure of healthcare payment systems;

- market conditions in the pharmaceutical and biotechnology sectors;
- 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 approvals for or if we otherwise fail to commercialize INVELTYS, KPI-121 0.25% or other product candidates. 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. 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. In addition, in July 2017, we registered all shares of common stock that we may issue under our equity compensation plans. These shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates.

We are an “emerging growth company,” and the reduced disclosure requirements applicable to emerging growth 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. 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.

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 now required to devote substantial time to new 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 and will make some activities more time-consuming and costly.

For as long as we remain an emerging growth 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 as described in the preceding risk factor.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we will be 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 will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, within the prescribed timeframe or at all, that our internal control over financial reporting is effective as required by Section 404. If we identify one or more material weaknesses 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 2014 Debt Facility 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. 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.

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

Sales of Unregistered Securities

In connection with the appointment of Eric Trachtenberg as General Counsel and Corporate Secretary, on April 5, 2018, we granted Mr. Trachtenberg a stock option to purchase up to 150,000 shares of our common stock. This option was an inducement grant 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 option award has an exercise price of \$16.62 per share, the closing price common stock on April 5, 2018. The option has a ten-year term and vests over four years, with 25% of the original number of shares vesting on April 2, 2019 and the remainder vesting in equal monthly installments over the following three years. Vesting of the option is subject to Mr. Trachtenberg's continued service with our Company, through the applicable vesting dates. We intend to file a registration statement on a Form S-8 to register the shares of common stock underlying this option prior to the time at which this option becomes exercisable.

Other than as stated above, we did not 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, or the Securities Act, and that have not otherwise been described in a Current Report on Form 8-K.

Use of Proceeds from our Public Offering of Common Stock

On July 25, 2017, we completed our IPO on Form S-1, as amended (File No. 333-218936), which was declared effective by the SEC on July 19, 2017.

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

As of June 30, 2018, we had used approximately \$38.8 million of the net offering proceeds, primarily to fund KPI-121 development costs, general corporate purposes and to build a commercial organization. There has been no material change in the planned use of proceeds from our IPO from that described in our final prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on July 20, 2017.

Repurchase of Shares or of Company Equity Securities

None.

Item 5. Other Information

In our Annual Report on Form 10-K for the year ended December 31, 2017, we reported weighted average shares outstanding – basic and diluted of 6,903,239 shares and net loss per share attributable to common stockholders – basic and diluted of \$6.11 for the year ended December 31, 2017. Subsequent to that filing, an immaterial error was identified resulting in a correction of our weighted average shares outstanding – basic and diluted to 11,375,000 shares and net loss per share – basic and diluted of \$3.71 for the year ended December 31, 2017. We intend to update our financial statements for the year ended December 31, 2017 in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

Exhibit Index

- EXHIBIT 10.1* - [Fourth Amendment to Exclusive License Agreement, dated June 22, 2018, by and between The Johns Hopkins University and the Registrant.](#)
- EXHIBIT 10.2 - [Form of Inducement Grant Stock Option Agreement.](#)
- EXHIBIT 10.3 - [Letter Agreement, dated March 25, 2018, by and between the Registrant and Eric Trachtenberg.](#)
- 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, President and 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 - XBRL Instance Document.
- EXHIBIT 101.SCH - XBRL Taxonomy Extension Schema Document.
- EXHIBIT 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.
- EXHIBIT 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.
- EXHIBIT 101.LAB - XBRL Taxonomy Extension Label Linkbase Document.
- EXHIBIT 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.

* Confidential treatment requested as to portions of the exhibit. Confidential materials omitted and filed separately with the Securities and Exchange Commission.

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 9, 2018

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

Dated: August 9, 2018

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

Fourth Amendment to Exclusive License Agreement

This Fourth Amendment to Exclusive License Agreement (the “Fourth Amendment”) is entered into by and between The Johns Hopkins University, a Maryland corporation having an address at 1812 Ashland Avenue, Suite 100, Baltimore, MD 21205 (“JHU”) and Kala Pharmaceuticals, Inc., a Delaware corporation having an address at 100 Beaver Street, Suite 201, Waltham, MA 02453 (“Kala” or “Company”).

WHEREAS, Kala and JHU entered into an Exclusive License Agreement dated November 10, 2009 (JHU Agmt No. [**]), as amended by a First Amendment dated November 19, 2012 (the “First Amendment”), a Second Amendment effective May 22, 2014 (the “Second Amendment”), and a Third Amendment effective August 26, 2014 (the “Third Amendment”) (as so amended, the “Agreement”), pursuant to which JHU licensed certain patent rights and know-how to Kala and modified certain milestones and other terms of the Agreement, and Kala, Graybug Vision, Inc. (formerly known as GrayBug, LLC and GrayBug, Inc.) (“Graybug”) and JHU entered into a Settlement and License Agreement effective October 24, 2014 (JHU Agmt No. [**]), hereinafter the “S&L Agreement”), to resolve a dispute over rights licensed to Kala and Graybug under certain JHU patent rights; and

WHEREAS, pursuant to the S&L Agreement, JHU co-licensed Kala and Graybug under all the patent rights arising from JHU Ref # [**] (“Other JHU Patent Rights”), granting Kala an exclusive, sublicensable, worldwide license in the field of use of a Particle for delivery of a biologically active material through mucus, mucin, or a mucosal barrier where such delivery does not involve administration via injection to the eye (“Kala Field”), and granting Graybug an exclusive, sublicensable, worldwide license in the field of use of a particle for delivery of a biologically active material to the eye via injection, excluding any particle comprising or consisting of loteprednol etabonate (“Graybug Field”); and

WHEREAS, Graybug terminated its license under each of the Other JHU Patent Rights, such that since August 5, 2017, only Kala retains a license to each of the Other JHU Patent Rights and pursuant to Section 2(b) of the S&L Agreement, Kala currently has an exclusive, sublicensable, worldwide license under the Other JHU Patent Rights in both the Kala Field and the Graybug Field, and Kala currently pays all patent costs associated therewith; and

WHEREAS, a valuable invention [**] (JHU Ref. # [**]), was developed during the course of research conducted by [**] (all hereinafter, “Inventors”); and

WHEREAS, JHU has acquired through assignment all rights, title and interest, with the exception of certain retained rights by the United States Government, in said valuable invention; and

WHEREAS, Kala desires to obtain certain rights in such invention as herein provided, and to commercially develop, manufacture, use and distribute products and processes based upon or embodying said valuable inventions throughout the world; and

WHEREAS, the parties wish to amend the Agreement on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, the parties agree as follows:

1. **Terms.** Capitalized terms in this Fourth Amendment shall have the same meaning as those in the Agreement, unless specifically defined in this Fourth Amendment. All section and paragraph references refer to sections or paragraphs as applicable, in the Agreement. References to the term "Agreement" in the Agreement shall be deemed to include the Fourth Amendment.
2. **Effective Date.** This Fourth Amendment shall be effective as of the date the last party hereto has executed this Fourth Amendment (the "Fourth Amendment Date").
3. **Agreement Second Whereas Recital.** As of the Fourth Amendment Date, the second "Whereas" recital of the Agreement shall be superseded in its entirety by the following:

"WHEREAS, a valuable invention entitled [**] (JHU Ref. # [**]) was developed during the course of research conducted by [**], and a valuable invention entitled [**] (JHU Ref. # [**]) was developed during the course of research conducted by [**], and a valuable invention entitled [**] (JHU Ref. # [**]) was developed during the course of research conducted by [**], and a valuable invention entitled [**] (JHU Ref. # [**]) and JHU Ref. # [**] was developed during the course of research conducted by [**], and a valuable invention entitled [**] (JHU Ref. # [**]) was developed during the course of research by [**], and a valuable invention entitled [**] (JHU Ref. # [**]) was developed during the course of research conducted for Company by: [**]; and conducted for JHU by: [**] (all inventors officially affiliated with JHU hereinafter, "Inventors"); and"

4. **Agreement Section 1.10.** As of the Fourth Amendment Date, Section 1.10 of the Agreement shall be superseded in its entirety by the following:

"PATENT RIGHTS" shall mean the issued patents and patent applications listed in EXHIBIT D for JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], and for KALA/JHU JOINTLY OWNED PATENT RIGHTS (JHU Ref # [**]) (all such patent applications for JHU Ref # [**], JHU Ref # [**], JHU Ref # [**],

JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref # [**], JHU Ref. # [**], JHU Ref # [**], JHU Ref # [**], and JHU Ref # [**] hereinafter referred to as "Patent Applications") and all continuations, divisions, claims of continuations-in-part applications directed to subject matter specifically described in the Patent Applications, continued prosecution applications and reissues, reexaminations, extensions and supplemental protection certificates thereof, and any corresponding foreign patent applications, and any patents, or other equivalent foreign

patent rights issuing, granted or registered thereon. "OPTION PATENT RIGHTS" shall mean the patents and applications listed in EXHIBIT D for JHU Ref # [**] (hereinafter referred to as "Option Patent Applications") and all continuations, divisions, claims of continuations-in-part applications directed to subject matter specifically described in the Option Patent Applications, continued prosecution applications and reissues, reexaminations, extensions and supplemental protection certificates thereof, and any corresponding foreign patent applications, and any patents, or other equivalent foreign patent rights issuing, granted or registered thereon. In the event of the exercise by Company of the option set forth in Section 2.5, the OPTION PATENT RIGHTS shall become PATENT RIGHTS for all purposes of this Agreement, except as set forth in Section 2.4.

5. **Amendment of Exhibit D; PATENT RIGHTS.** As of the Fourth Amendment Date, Exhibit D of the Agreement shall be superseded in its entirety by updated Exhibit D attached hereto and shall include the following additional JHU technologies and associated PATENT RIGHTS:
 - JHU Ref. # [**], entitled, [**] ("New PATENT RIGHTS").
 - Other JHU Patent Rights:
 - JHU Ref # [**], entitled [**];
 - JHU Ref # [**], entitled [**]; and
 - JHU Ref # [**], entitled [**].
6. **Other JHU Patent Rights Licensed Field.** The parties hereby expressly agree that as of the Fourth Amendment Effective, the field of Kala's exclusive license under PATENT RIGHTS arising from Other JHU Patent Rights (that is, JHU Ref # [**]) shall be the LICENSED FIELD as defined in Section 1.5 of the Agreement.
7. **Patent Reimbursement.** In accordance with Paragraph 3.6 of the Agreement, Company will reimburse JHU for the costs of preparing, filing, maintaining and prosecuting the New Patent Rights added to the Agreement pursuant to this Fourth Amendment incurred prior to the Fourth Amendment Date ("Prior New Patent Costs"). Promptly after the Fourth Amendment Date, JHU will send Company an invoice for Prior New Patent Costs, and Company will pay said invoice within [**] days of Company's receipt of the invoice. Company will reimburse JHU, within [**] days of the receipt of an invoice from JHU, for all costs incurred after the Fourth Amendment Date associated with the ongoing preparation, filing, maintenance, and prosecution of PATENT RIGHTS.
8. **Amendment & License Fee.** Company shall pay to JHU [**] Dollars (\$[**]) as an amendment and license fee (the "Fourth Amendment Fee") within [**] days of the Fourth Amendment Date. JHU is not required to submit an invoice for the Fourth Amendment Fee, which shall not be credited against royalties or other fees.
9. In all other respects the Agreement shall remain in full force and effect.
10. **Counterparts.** Signatures to this Fourth Amendment may be executed by way of facsimile or electronic signature, and such signatures shall be considered original. Signatures transmitted by email, portable document format (.pdf), or by any other electronic means

intended to preserve the original graphic and pictorial appearance of this Fourth Amendment shall have the same effect as the physical delivery of a paper document bearing the original signatures. All facsimile or electronic copies of this Fourth Amendment will be deemed to be duplicate originals. This Fourth Amendment may be executed simultaneously in any number of counterparts, any one of which need not contain the signature of more than one Party, but all of which shall be deemed an original and all such counterparts taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Fourth Amendment shall take effect as of the Fourth Amendment Date when it has been executed below by the duly authorized representatives of both parties.

THE JOHNS HOPKINS UNIVERSITY

KALA PHARMACEUTICALS, INC.

By: /s/ Steven L. Kousouris
Name: Steven L. Kousouris
Title: Sr Director – JHTV
Date: June 22, 2018

By: /s/ Eric L. Trachtenberg
Name: Eric L. Trachtenberg
Title: General Counsel & Corporate Secretary
Date: June 22, 2018

EXHIBIT D
PATENT RIGHTS

[**]

Institution Number	Application Number	Type of Patent Filing	Application Date	Publication or Patent Number	Publication or Grant Date	Filing Country
[**]	[**]	[**]	[**]			[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]	[**]	[**]	
[**]	[**]	[**]	[**]			[**]
[**]	[**]	[**]	[**]	[**]	[**]	[**]

Confidential Materials omitted and filed separately with the Securities and Exchange Commission.
A total of 8 pages were omitted. [**]

JHU/Kala Fourth Amendment
JHU Agmt Ref. No. [**]

Amended Exhibit D- Page 1 of 1

KALA PHARMACEUTICALS, INC.**Non-qualified Stock Option Agreement**1. Grant of Option.

This agreement evidences the grant by Kala Pharmaceuticals, Inc., a Delaware corporation (the “Company”), on April 5, 2018 (the “Grant Date”) to Eric Trachtenberg, an employee of the Company (the “Participant”), of an option to purchase, in whole or in part, on the terms provided herein, a total of 150,000 shares (the “Shares”) of common stock, \$0.001 par value per share, of the Company (“Common Stock”) at \$16.62 per Share. Unless earlier terminated, this option shall expire at 5:00 p.m., Eastern time, on April 4, 2028 (the “Final Exercise Date”).

The option evidenced by this agreement was granted to the Participant pursuant to the inducement grant exception under NASDAQ Stock Market Rule 5635(c)(4), and not pursuant to the Company’s 2017 Equity Incentive Plan (the “Plan”) or any equity incentive plan of the Company, as an inducement that is material to the Participant’s employment with the Company.

It is intended that the option evidenced by this agreement shall not be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the “Code”). Except as otherwise indicated by the context, the term “Participant”, as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms.

2. Vesting Schedule.

Except as otherwise provided herein, this option will become exercisable (“vest”) as to 25% of the original number of Shares on one-year anniversary of the Vesting Start Date and as to an additional 2.0833% of the original number of Shares at the end of each successive month following the one-year anniversary of the Vesting Start Date until the fourth anniversary of the Vesting Start Date. For purposes of this Agreement, the Vesting Start Date is April 2, 2018.

The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 hereof.

3. Exercise of Option.

(a) Form of Exercise. Each election to exercise this option shall be in writing, in the form of the Stock Option Exercise Notice attached as Annex A, signed by the Participant, and received by the Company at its principal office, accompanied by this agreement or in such

other form (which may be electronic) as is approved by the Company, and payment in full as follows:

- (1) in cash or by check, payable to the order of the Company;
- (2) by (i) delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding or (ii) delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding;
- (3) to the extent approved by the Board of Directors of the Company (the "Board"), by delivery (either by actual delivery or attestation) of shares of Common Stock owned by the Participant valued at their fair market value (valued in the manner determined by (or in a manner approved by) the Board) (the "Fair Market Value"), provided (i) such method of payment is then permitted under applicable law, (ii) such Common Stock, if acquired directly from the Company, was owned by the Participant for such minimum period of time, if any, as may be established by the Board and (iii) such Common Stock is not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements;
- (4) to the extent approved by the Board in its sole discretion, by delivery of a notice of "net exercise" to the Company, as a result of which the Participant would receive (i) the number of shares underlying the portion of this option being exercised, less (ii) such number of shares as is equal to (A) the aggregate exercise price for the portion of this option being exercised divided by (B) the Fair Market Value on the date of exercise;
- (5) to the extent permitted by applicable law and approved by the Board, by payment of such other lawful consideration as the Board may determine; or
- (6) by any combination of the above permitted forms of payment.

The Participant may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share. Share of Common Stock subject to this option will be delivered by the Company as soon as practicable following exercise, subject to the terms and conditions of this Agreement.

(b) Continuous Relationship with the Company Required. Except as otherwise provided in this Section 3, this option may not be exercised unless the Participant, at the time he exercises this option, is, and has been at all times since the Grant Date, an employee, director or officer of, or consultant or advisor to, the Company or any other entity the employees, officers, directors, consultants, or advisors of which are eligible to receive option grants under the Plan (an "Eligible Participant").

(c) Termination of Relationship with the Company. If the Participant ceases to be an Eligible Participant for any reason, then, except as provided in paragraphs (d) and (e) below,

the right to exercise this option shall terminate three months after such cessation (but in no event after the Final Exercise Date), provided that this option shall be exercisable only to the extent that the Participant was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Participant, prior to the Final Exercise Date, violates the restrictive covenants (including, without limitation, the non-competition, non-solicitation, or confidentiality provisions) of any employment contract, the Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions agreement to which the Participant is a party, if any, or any other agreement between the Participant and the Company, the right to exercise this option shall terminate immediately upon such violation.

(d) Exercise Period Upon Death or Disability. If the Participant dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he is an Eligible Participant and the Company has not terminated such relationship for “cause” as specified in paragraph (e) below, this option shall be exercisable, within the period of one year following the date of death or disability of the Participant, by the Participant (or in the case of death by an authorized transferee), provided that this option shall be exercisable only to the extent that this option was exercisable by the Participant on the date of his death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date.

(e) Termination for Cause. If prior to the Final Exercise Date, the Participant’s employment or other relationship with the Company is terminated by the Company for Cause (as defined in the offer letter, dated as of March 25, 2018, between the Participant and the Company, or any successor agreement thereto (the “Offer Letter”)), the right to exercise this option shall terminate immediately upon the effective date of such termination of employment or other relationship. If, prior to the Final Exercise Date, the Participant is given notice by the Company of the termination of his employment by the Company for Cause, and the effective date of such employment termination is subsequent to the date of delivery of such notice, the right to exercise this option shall be suspended from the time of the delivery of such notice until the earlier of (i) such time as it is determined or otherwise agreed that the Participant’s employment shall not be terminated for Cause as provided in such notice or (ii) the effective date of such termination of employment (in which case the right to exercise this option shall, pursuant to the preceding sentence, terminate upon the effective date of such termination of employment). The Participant’s employment shall be considered to have been terminated for Cause if the Company determines, within 30 days after the Participant’s resignation, that termination for Cause was warranted.

(f) Offer Letter. Notwithstanding anything to the contrary in this Section 3 or in Section 6, this option shall be subject to the accelerated vesting provisions set forth in Sections 7(b) and (c) of the Offer Letter.

4. Withholding. No Shares will be issued pursuant to the exercise of this option unless and until the Participant pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option. The Participant must satisfy all applicable federal, state, and local or other income and employment tax withholding obligations before the Company will deliver stock certificates or otherwise recognize ownership of Common Stock under this option. The

Company may elect to satisfy the withholding obligations through additional withholding on salary or wages. If the Company elects not to or cannot withhold from other compensation, the Participant must pay the Company the full amount, if any, required for withholding or have a broker tender to the Company cash equal to the withholding obligations. Payment of withholding obligations is due before the Company will issue any shares on exercise of this option or at the same time as payment of the exercise price, unless the Company determines otherwise. If approved by the Board, a Participant may satisfy the tax obligations in whole or in part by delivery (either by actual delivery or attestation) of shares of Common Stock, including shares retained from this option, valued at their Fair Market Value; provided, however, except as otherwise provided by the Board, that the total tax withholding where stock is being used to satisfy such tax obligations cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income), except that, to the extent that the Company is able to retain shares of Common Stock having a Fair Market Value that exceeds the statutory minimum applicable withholding tax without financial accounting implications or the Company is withholding in a jurisdiction that does not have a statutory minimum withholding tax, the Company may retain such number of shares of Common Stock (up to the number of shares having a Fair Market Value equal to the maximum individual statutory rate of tax) as the Company shall determine in its sole discretion to satisfy the tax liability associated with this option. Shares used to satisfy tax withholding requirements cannot be subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements.

5. Transfer Restrictions. This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Participant, either voluntarily or by operation of law, except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, and, during the lifetime of the Participant, this option shall be exercisable only by the Participant; provided, however, that, the Board may permit the gratuitous transfer of this option by the Participant to or for the benefit of any immediate family member, family trust or other entity established for the benefit of the Participant and/or an immediate family member thereof if the Company would be eligible to use a Form S-8 under the Securities Act of 1933, as amended, for the registration of the sale of the Common Stock subject to this option to such proposed transferee; provided further, that the Company shall not be required to recognize any such permitted transfer until such time as such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument in form and substance satisfactory to the Company confirming that such transferee shall be bound by all of the terms and conditions of this option. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees. For the avoidance of doubt, nothing contained in this Section 5 shall be deemed to restrict a transfer to the Company.

6. Adjustments for Changes in Common Stock and Certain Other Events.

(a) Changes in Capitalization. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any dividend or distribution to holders of Common Stock other than an ordinary cash dividend, the number and class of securities and exercise price per share of this option shall be equitably adjusted by the Company in the manner

determined by the Board. Without limiting the generality of the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to this option are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), then the Participant, if he exercises this option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon exercise of this option, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

(b) Reorganization Events. A “Reorganization Event” shall mean: (a) any merger or consolidation of the Company with or into another entity as a result of which all of the Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property or is cancelled, (b) any transfer or disposition of all of the Common Stock of the Company for cash, securities or other property pursuant to a share exchange or other transaction or (c) any liquidation or dissolution of the Company. In connection with a Reorganization Event, the Board may take any one or more of the following actions with respect to this option (or any portion thereof) on such terms as the Board determines: (i) provide that this option shall be assumed, or a substantially equivalent option shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), (ii) upon written notice to the Participant, provide that the unvested portion of this option will be forfeited immediately prior to the consummation of the Reorganization Event and/or the unexercised portion of this option will terminate immediately prior to the consummation of such Reorganization Event unless exercised by the Participant (to the extent then exercisable) within a specified period following the date of such notice, (iii) provide that this option shall become exercisable, realizable, or deliverable, or restrictions applicable to this option shall lapse, in whole or in part prior to or upon such Reorganization Event, (iv) in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the “Acquisition Price”), make or provide for a cash payment to the Participant with respect to this option equal to (A) the number of shares of Common Stock subject to the vested portion of this option (after giving effect to any acceleration of vesting that occurs upon or immediately prior to such Reorganization Event) multiplied by (B) the excess, if any, of (I) the Acquisition Price over (II) the exercise price of this option and any applicable tax withholdings, in exchange for the termination of this option, (v) provide that, in connection with a liquidation or dissolution of the Company, this option shall convert into the right to receive liquidation proceeds (net of the exercise price thereof and any applicable tax withholdings) and (vi) any combination of the foregoing.

For purposes of clause (i) above, this option shall be considered assumed if, following consummation of the Reorganization Event, this option confers the right to purchase, for each share of Common Stock subject to this option immediately prior to the consummation of the Reorganization Event, the consideration (whether cash, securities or other property) received as a result of the Reorganization Event by holders of Common Stock for each share of Common Stock held immediately prior to the consummation of the Reorganization Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if the

consideration received as a result of the Reorganization Event is not solely common stock of the acquiring or succeeding corporation (or an affiliate thereof), the Company may, with the consent of the acquiring or succeeding corporation, provide for the consideration to be received upon the exercise of this option to consist solely of such number of shares of common stock of the acquiring or succeeding corporation (or an affiliate thereof) that the Board determines to be equivalent in value (as of the date of such determination or another date specified by the Board) to the per share consideration received by holders of outstanding shares of Common Stock as a result of the Reorganization Event.

7. Miscellaneous.

(a) No Right To Employment or Other Status. The grant of this option shall not be construed as giving the Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with the Participant free from any liability or claim hereunder, except as otherwise expressly provided herein or provided for in the Offer Letter.

(b) No Rights As Stockholder; Clawback. Subject to the provisions of this option, the Participant shall not have any rights as a stockholder with respect to any shares of Common Stock to be issued with respect to this option until becoming the record holder of such shares. In accepting this option, the Participant agrees to be bound by any clawback policy the Company has in effect or may adopt in the future.

(c) Entire Agreement. This Agreement, together with the Offer Letter, constitute the entire agreement between the parties, and supersede all prior agreements and understandings, relating to the subject matter hereof.

(d) Amendment. Except with respect to any vesting terms set forth in the Offer Letter, the Board may amend, modify or terminate this Agreement, including but not limited to, substituting another option of the same or a different type and changing the date of exercise or realization. Notwithstanding the foregoing, the Participant's consent to such action shall be required unless (i) the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant's rights under this Agreement, or (ii) the change is permitted under Section 6 and the Offer Letter.

(e) Acceleration. The Board may at any time provide that this option shall become immediately exercisable in whole or in part, free from some or all restrictions or conditions, or otherwise realizable in whole or in part, as the case may be.

(f) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to this Agreement until (i) all conditions of this Agreement have been met to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and regulations and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has

executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.

(g) Administration by Board. The Board will administer this Agreement and may construe and interpret the terms hereof. Subject to the terms and provisions of the Offer Letter, the Board may correct any defect, supply any omission or reconcile any inconsistency in this Agreement in the manner and to the extent it shall deem expedient to carry the Agreement into effect and it shall be the sole and final judge of such expediency. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under this Agreement made in good faith.

(h) Appointment of Committees. To the extent permitted by applicable law, the Board may delegate any or all of its powers hereunder to one or more committees or subcommittees of the Board (a "Committee"). All references herein to the "Board" shall mean the Board or a Committee to the extent that the Board's powers or authority hereunder have been delegated to such Committee.

(i) Severability. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and each such other provision shall be severable and enforceable to the extent permitted by law.

(j) Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware, excluding choice-of-law principles of the law of such state that would require the application of the laws of a jurisdiction other than the State of Delaware.

(k) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one in the same instrument.

This option satisfies in full all commitments that the Company has to the Participant with respect to the issuance of stock, stock options or other equity securities.

KALA PHARMACEUTICALS, INC.

/s/ Eric Trachtenberg

Signature of Participant

Street Address

City/State/Zip Code

By: /s/ Mary Reumuth

Name: Mary Reumuth

Title: Chief Financial Officer

ANNEX A

KALA PHARMACEUTICALS, INC.
Stock Option Exercise Notice

Kala Pharmaceuticals, Inc.
100 Beaver Street, Suite 201
Waltham, MA 02453

Dear Sir or Madam:

I, _____ (the "Participant"), hereby irrevocably exercise the right to purchase _____ shares of the Common Stock, \$0.001 par value per share (the "Shares"), of Kala Pharmaceuticals, Inc. (the "Company") at \$ _____ per share pursuant to that certain stock option agreement with the Company dated _____. Enclosed herewith is a payment of \$ _____, the aggregate purchase price for the Shares. The certificate for the Shares should be registered in my name as it appears below or, if so indicated below, jointly in my name and the name of the person designated below, with right of survivorship.

Dated: _____

Signature

Print Name:

Address:

Name and address of persons in whose name the Shares are to be jointly registered (if applicable):



100 Beaver Street, Suite 201, Waltham, MA 02453 — Voice 781 996 5252 — Fax 781 642 0399 — www.kalarx.com

March 25, 2018

Mr. Eric Trachtenberg

Dear Eric:

On behalf of Kala Pharmaceuticals, Inc., a Delaware corporation (the "Company"), I am pleased to offer you the position of General Counsel and Corporate Secretary, pursuant to the terms of this letter.

1. Position. You will be employed to serve as the Company's General Counsel and Corporate Secretary. You shall report to the Company's Chief Executive Officer, such member or members of the Board of Directors of the Company (the "Board") or such other Company executive as the Board shall determine from time to time. You are expected to devote your full business time and your best professional efforts to the performance of your duties and responsibilities for the Company and to abide by all Company policies and procedures as in effect from time to time. You are expected to perform the duties of your position, together with such other duties as may reasonably be assigned to you from time to time, on the understanding that all assigned duties will be generally consistent with your position as General Counsel and Corporate Secretary. Moreover, during your employment with the Company, you are expected to conduct your business activities at all times in accordance with the highest legal, ethical and professional standards.

2. Base Salary. You will be paid on a bi-weekly basis at an annual base rate of \$385,000 subject to tax and other withholdings as required by law, with salary to be paid in accordance with Company's standard payroll practices. Your base salary will be reviewed annually by the Compensation Committee of the Board.

3. Cash Bonus. You will also be eligible to earn in each calendar year of your employment a performance-based cash bonus with a target of 40% of your annual base salary. Payment of this performance-based bonus shall be based on written Company and personal objectives and criteria established by the Board. The performance-based bonus, if any, will be determined by the Board in its discretion, and will be paid annually after the first of the year (but in no event later than March 15), subject to you being employed by the Company on the date annual bonuses are paid. Any bonus for the first fiscal year in which your employment begins shall be prorated, based on the number of days you are employed by the Company during that fiscal year.

4. Relocation. It is expected that you will relocate to the Company's headquarters in the Greater Boston, Massachusetts area no later than September 1, 2018. In support of this relocation, the Company will pay or reimburse you for reasonably incurred and documented relocation expenses, up to an amount to be reasonably determined by the Company after consultation with you and a third-party relocation partner company. The Company shall report all Relocation Expenses to the Internal Revenue Service, and you will be required to pay taxes on the Relocation Expenses to the extent required by applicable law. If within one year after your commencement of employment with the Company you voluntarily terminate employment with the Company for any reason or the Company terminates your employment for Cause (as defined below), you agree

to repay all Relocation Expenses to the Company. Such repayment will be deducted from any amounts due to you from the Company, including without limitation any salary, commissions, bonuses, vacation or other paid leave, severance or separation pay, and expense reimbursements, subject to applicable law. If such deduction does not fully satisfy the amount of Relocation Expenses required to be repaid to the Company, you agree to repay the remaining unpaid balance of the Relocation Expenses to the Company within thirty (30) days of the termination of your employment.

5. Benefits. You may participate in any and all benefit programs that the Company establishes and makes available to its employees from time to time, provided you are eligible under (and subject to all provisions of) the plan documents governing those programs. The benefit programs made available by the Company, and the rules, terms and conditions for participation in such programs, may be changed by the Company at any time without advance notice. Additionally, the Company will reimburse you for all actual, necessary and reasonable expenses you incur in the course of the Company's business, subject to the Company's expense policy as in effect from time to time and the terms of Exhibit A, attached hereto. Finally, the Company shall reimburse you (not later than sixty (60) days following your date of employment) for legal fees that you incurred in connection with the review and negotiation of this Agreement, in an amount not to exceed \$2,000.

6. Vacation. You are eligible for a maximum of four weeks of vacation per calendar year commencing on your date of employment. The number of vacation days for which you are eligible shall accrue at the rate of 1.66 days per month that you are employed during such calendar year. Any unused vacation will be treated upon termination of your employment in accordance with the Company's annual vacation accrual policy.

7. Equity Compensation.

(a) At the first Board meeting following your start date, currently scheduled for April 10th, you will be granted an option to purchase 150,000 shares of the Company's Common Stock at a price per share equal to the fair market value per share of the Common Stock on the date of grant, as determined by the Board. Twenty-five (25%) of the shares subject to the option shall vest twelve (12) months after your first date of employment subject to your continuing employment with the Company, and, except as provided in Section 7(b) and 7(c), no shares shall vest before such date. The remaining shares shall vest monthly over the following thirty-six (36) months in equal monthly amounts subject to your continuing employment with the Company. This option grant shall be subject to the terms and conditions of the Company's equity incentive plan, and your actual stock option agreement, including vesting requirements. No right to any stock is earned or accrued until such time that vesting occurs, nor does the grant confer any right to continue vesting or employment.

(b) Subject to Section 7(c) and 8(c) hereof, if the Company terminates your employment without Cause (as defined below) or you voluntarily terminate your employment for Good Reason (as defined below), then the options and any other equity awards granted to you by the Company, at any time, that vest based solely on your continued service with the Company will immediately vest as to the portion of the applicable award that would have vested if your employment with the Company had continued for twelve (12) months following such termination. The period for exercising any options so accelerated shall be as set forth in the applicable stock option plan, certificate or agreement.

(c) Subject to Section 8(c) hereof, if the Company, or its successor, terminates your employment without Cause or you voluntarily terminate your employment for Good Reason within twelve (12) months following a Change of Control (as defined below), then one hundred percent (100%) of the options and

any other equity awards granted to you by the Company, at any time, that vest based solely on your continued service with the Company and that are not then vested, and which have not been exercised, cancelled or forfeited, shall become vested and, if applicable, exercisable in full as of the date of such termination. The period for exercising any options so accelerated shall be as set forth in the applicable stock option plan, certificate or agreement.

(d) For purposes of this letter agreement, a “Change of Control” shall mean: (i) a merger or consolidation in which (A) the Company is a constituent party or (B) a subsidiary of the Company is a constituent party, and the Company issues shares of its capital stock pursuant to such merger or consolidation, except in the case of either clause (A) or (B) any such merger or consolidation involving the Company or a subsidiary of the Company in which the beneficial owners of the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue beneficially to own, immediately following such merger or consolidation, at least a majority by voting power of the capital stock of (x) the surviving or resulting corporation or (y) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation; (ii) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or a Company subsidiary of all or substantially all the assets of the Company and the Company subsidiaries taken as a whole (except in connection with a merger or consolidation not constituting a Change of Control under clause (i) or where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned Company subsidiary); or (iii) the sale or transfer, in a single transaction or series of related transactions, by the stockholders of the Company of more than 50% by voting power of the then-outstanding capital stock of the Company to any person or entity or group of affiliated persons or entities.

(e) For purposes of this letter agreement, “Good Reason” shall mean: (1) a material reduction in annual base salary, other than such a reduction that is proportionate to a reduction in salary of all executives of the Company generally; (2) a material breach by the Company of this letter agreement; (3) the relocation of your place of employment more than fifty (50) miles from your then current location without your express written consent; or (4) a material reduction in your job duties, authority or responsibilities so as to constitute a de facto demotion (other than a change effected in connection with the integration of the operations of the Company into the operations of an acquirer in connection with a Change of Control); provided that none of the foregoing shall qualify as Good Reason unless, within ninety (90) days of the occurrence of the event you claim so qualifies, you shall have provided the Board with written notice specifying in detail the basis for such claim and a reasonable opportunity to cure the claimed Good Reason and the Company fails to cure such Good Reason within thirty (30) days of its receipt of your notice; provided further that no termination for Good Reason shall so qualify unless you shall terminate your employment at the Company no more than thirty (30) days following the expiration of the Company’s cure period.

8. Severance.

(a) In the event that your employment is terminated by you for Good Reason or by the Company without Cause, you will receive severance of ten (10) months of your annual base salary then in effect plus a pro-rated portion of any bonus attributable to the year of termination payable at the time that active employees receive their bonus payments for that year but in any event by March 15 of the year following the year of your termination, based on the Company’s performance against previously established milestones, together with payment for the cost of up to ten (10) months of COBRA premiums for continued health benefit coverage. All payments (other than the pro-rated portion of any bonus) will be made in a lump sum on the Payment Date (as defined below). The payments and benefits provided for in this Section 8(a) shall be subject to Exhibit A attached hereto.

(b) For purposes of this letter agreement, “Cause” shall mean: (a) indictment or conviction of, any felony or any other crime involving dishonesty; (b) participation in any fraud, deliberate and substantial misconduct, breach of duty of loyalty or breach of fiduciary duty against the Company; (c) intentional and substantial damage to any property of the Company; (d) serious misconduct by you that in the good faith and reasonable judgment of the Board demonstrates gross unfitness to serve as General Counsel and Corporate Secretary of the Company; (e) persistent, unsatisfactory job performance that remains uncured for at least sixty (60) days following written notice detailing the same from the Company; (f) your failure to secure and maintain work visas or other documentation sufficient to allow your service to the Company in the manner contemplated herein; or (g) your breach of any material provision of this letter agreement or the Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement or any similar agreement to which you are a party, in either case, which breach (if capable of cure) remains uncured for a period of thirty (30) days after written notice to you from the Company. Termination of your employment for Cause will result in no severance pay.

(c) As a condition precedent to the receipt of any severance payments or the accelerated vesting of any equity awards pursuant to this letter agreement or pursuant to any equity award agreement, you will be required to execute a separation agreement and general release of claims in favor of the Company, substantially similar to the form attached hereto as Exhibit B, and any revocation period applicable to such release must expire, within sixty (60) days following your date of termination (the date on which the revocation period expires, the “Payment Date”). Notwithstanding the foregoing, if the 60th day following your date of termination occurs in the calendar year following the year in which your termination occurs, then the Payment Date shall be no earlier than January 1 of such subsequent calendar year.

9. At-Will Employment. This letter agreement shall not be construed as an agreement, either expressed or implied, to employ you for any stated term, and shall in no way alter the Company’s policy of employment at-will, under which both you and the Company remain free to terminate the employment relationship, with or without cause, at any time, with or without notice. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at-will” nature of your employment may only be changed by a written agreement approved by the Board and signed by you and the Company, which expressly states the intention to modify the at-will nature of your employment.

10. Arbitration and Equitable Relief. Should a dispute arise in connection with this letter agreement or your employment with the Company, the parties will first submit the dispute to non-binding mediation. The Company will pay for the mediation and select the mediator. Should the dispute remain unresolved after one day of mediation, the Company and you agree that said dispute or controversy arising out of, in relation to, or in connection with this letter agreement or your employment with the Company, or the making, interpretation, construction, performance or breach of this letter agreement shall be finally settled by binding arbitration in Massachusetts under the then current expedited rules of the American Arbitration Association by one (1) arbitrator mutually selected by the parties or in the event the parties cannot mutually agree, then appointed in accordance with such rules. The arbitrator may grant injunctive or other relief in such dispute or controversy, including awarding reasonable attorneys’ fees, filing fees and other costs to the prevailing party. The decision of the arbitrator, shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator’s decision in any court of competent jurisdiction. The parties agree that, any provision of applicable law notwithstanding, they will not request and the arbitrator shall have no authority to award, punitive or exemplary damages against any party. Notwithstanding anything in this Section 10 to the contrary, claims may be made in any Massachusetts court of competent jurisdiction by you or the Company for equitable

relief to prevent a breach or threatened breach of any confidentiality or non-competition obligations of the other party

11. Indemnification. You shall be entitled to corporate indemnification and insurance coverages to the same extent provided to other senior officers and directors of the Company.

12. Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement. As a condition of your employment, you are required to sign and comply with the Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement in the form attached as Exhibit C.

13. Miscellaneous.

(a) You represent that you are not bound by any employment contract, restrictive covenant or other restriction preventing (or that purports to prevent) you from being employed by or carrying out your responsibilities for the Company, or which is in any way inconsistent with the terms of this letter agreement.

(b) The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any. You are required to execute authorizations for the Company to obtain consumer reports and/or investigative consumer reports and use them in conducting background checks as a condition to your employment. The Company may obtain background reports from time to time during your employment with the Company, as necessary.

(c) For purposes of federal immigration law, you will be required to provide the Company with documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

(d) You represent that you have disclosed to the Company any and all agreements relating to your prior employment that may affect your eligibility to be employed by the Company or limit the manner in which you may be employed. It is the Company's understanding that any such agreements do not prevent you from performing the duties of your position, and you represent that such is the case. You agree not to bring any third party confidential information to the Company, including that of your former employer, and covenant that in performing your duties for the Company you will not in any way utilize any such information.

(e) As an employee of the Company, you are required to comply with all Company policies and procedures. Violations of the Company's policies may lead to immediate termination of your employment. Further, the Company's premises, including all workspaces, furniture, documents, and other tangible materials, and all information technology resources of the Company (including computers, data and other electronic files, and all internet and email) are subject to oversight and inspection by the Company at any time. Company employees should have no expectation of privacy with regard to any Company premises, materials, resources, or information.

(f) Notices. Any notices from one party to the other will be in writing and will be given by addressing the same to the other at the address set forth in this letter agreement. Notices to the Company will be marked "Board of Directors". Notice will be deemed to have been duly given when (a) deposited in the United States mail with proper postage for first class registered or certified mail, return receipt requested, (b) sent by any reputable commercial courier or (c) delivered personally.

(g) Assignment. All of the terms and provisions of this letter agreement shall be binding on and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives successor and assigns of the parties hereto (including, in the case of the Company, any acquiror), except that your duties and responsibilities under this letter agreement are of a personal nature and shall not be assignable or delegable in whole or in part by you.

(h) Modification; Amendment. This letter agreement may not be modified or amended except by a written agreement signed by you and an authorized representative of the Company.

(i) Entire Agreement. This letter agreement contains and constitutes the entire understanding and agreement between the parties hereto with respect to the terms of your employment with the Company and supersedes any and all prior or contemporaneous agreements, discussions and understandings, whether written or oral, relating to the subject matter of this letter agreement or your employment with the Company.

(j) Governing Law. This letter agreement will be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Massachusetts applicable to contracts made and to be performed therein, without giving effect to the principles thereof relating to the conflict of laws

(k) Counterparts. This letter agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

If you agree with the provisions of this offer, please sign the enclosed duplicate of this letter agreement in the space provided below and return it along with your signed Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement to Sandy Lazzari via email at Sandy.Lazzari@kalarx.com by 5pm on March 28, 2018, with originals to follow. If you do not accept this offer by March 28, 2018 this offer will be deemed withdrawn.

[Signature page follows.]

Very truly yours,

KALA PHARMACEUTICALS, INC.

By: /s/ Mark Iwicki

Name: Mark Iwicki

Title: Chief Executive Officer and Chairman of the Board of
Directors

The foregoing correctly sets forth the terms under which I will be employed by the Company, effective as of April 2, 2018. I am not relying on any representations other than those set forth above:

By: /s/ Eric Trachtenberg

Name: Eric Trachtenberg

March 29, 2018

Date

Enclosures (4)

Duplicate Original Letter Agreement

Exhibit A: Payments Subject to Section 409A

Exhibit B: Form of Separation and Release Agreement

Exhibit C: Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement

EXHIBIT A

Payments Subject to Section 409A

1. Subject to this Exhibit A, any severance payments that may be due under the letter agreement shall begin only upon the date of your “separation from service” (determined as set forth below) which occurs on or after the termination of your employment. The following rules shall apply with respect to distribution of the severance payments, if any, to be provided to you under the letter agreement, as applicable:

(a) It is intended that each installment of the severance payments under the letter agreement provided under shall be treated as a separate “payment” for purposes of Section 409A. Neither the Company nor you shall have the right to accelerate or defer the delivery of any such payments except to the extent specifically permitted or required by Section 409A.

(b) If, as of the date of your “separation from service” from the Company, you are not a “specified employee” (within the meaning of Section 409A), then each installment of the severance payments shall be made on the dates and terms set forth in the letter agreement.

(c) If, as of the date of your “separation from service” from the Company, you are a “specified employee” (within the meaning of Section 409A), then:

(i) Each installment of the severance payments due under the letter agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when your separation from service occurs, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid on the dates and terms set forth in the letter agreement; and

(ii) Each installment of the severance payments due under the letter agreement that is not described in this Exhibit A, Section 1(c)(i) and that would, absent this subsection, be paid within the six-month period following your “separation from service” from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, your death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following your separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments if and to the maximum extent that that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of your second taxable year following the taxable year in which the separation from service occurs.

2. The determination of whether and when your separation from service from the Company has occurred shall be made and in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Exhibit A, Section 2, “Company” shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Code.

3. All reimbursements and in-kind benefits provided under this letter agreement shall be made or provided in accordance with the requirements of Section 409A to the extent that such reimbursements or in-kind benefits are subject to Section 409A, including, where applicable, the requirements that (i) any reimbursement is for expenses incurred during your lifetime (or during a shorter period of time specified in this letter agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

4. The Company makes no representation or warranty and shall have no liability to you or to any other person if any of the provisions of the letter agreement (including this Exhibit) are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.

Exhibit B

Form of Separation and Release Agreement



100 Beaver Street, Suite 201, Waltham, MA 02453 — Voice 781 996 5252 — Fax 781 642 0399 — www.kalarx.com

BY [METHOD OF DELIVERY]

[INSERT DATE]

[INSERT EMPLOYEE NAME]

[INSERT EMPLOYEE ADDRESS]

Dear [INSERT EMPLOYEE NAME]:

The purpose of this letter agreement is to confirm the terms regarding your separation of employment from Kala Pharmaceuticals, Inc. (the "Company"), effective **[INSERT SEPARATION DATE]**. The Company will provide you with the severance benefits described in Section 2 below if you sign and return this letter agreement (the "Agreement") to the Company by **[Insert Return Date — At least 21 days after agreement is received by the employee (but no earlier than the Separation Date)]** and it becomes binding between you and the Company. By signing and returning this Agreement and not revoking your acceptance, you will be entering into a binding agreement with the Company and will be agreeing to the terms and conditions set forth in the numbered paragraphs below, including the release of claims set forth in Section 3. Therefore, you are advised to consult with an attorney before signing this Agreement and you have been given at least twenty-one (21) days to do so. If you sign this Agreement, you may change your mind and revoke your agreement during the seven (7) day period after you have signed it by notifying me in writing. If you do not so revoke, this Agreement will become a binding agreement between you and the Company upon the expiration of the seven (7) day period.

If you choose not to sign and return this Agreement by **[Insert Return Date - Same as Above]** or if you timely revoke your acceptance in writing, you shall not receive any severance benefits from the Company. You will, however, receive payment on your Separation Date, as defined below, for your final wages and any unused vacation time accrued through the Separation Date. You may also, if eligible, elect to continue receiving group medical insurance pursuant to the federal "COBRA" law, 29 U.S.C. § 1161 *et seq.* Please consult the COBRA materials to be provided by the Company under separate cover for details regarding these benefits. Further, pursuant to the Company's 2009 Employee, Director and Consultant Equity Incentive Plan (as amended to date, the "2009 Plan"), you will have up to 90 days after the Separation Date to exercise any vested stock options you may have (as provided for by the 2009 Plan) subject to the terms of the letter agreement between you and the Company dated (the "2017 Letter Agreement"). All unvested stock options will be cancelled on the Separation Date.

The following numbered paragraphs set forth the terms and conditions that will apply if you timely sign and return this Agreement.

1. **Separation Date.** Your effective date of separation from the Company is [INSERT SEPARATION DATE]' (the "Separation Date"). As of the Separation Date, all salary payments from the Company will cease and any benefits you had as of the Separation Date under Company-provided benefit plans, programs, or practices will terminate, except as required by federal or state law.

1 Please note that, if the Separation Date is after the date of this Agreement, the Agreement will need to be modified, as certain return dates will change.

2. **Description of Severance Benefits.** If you timely sign and return this Agreement and do not revoke your acceptance, the Company will provide the following severance benefits set forth in the 2017 Letter Agreement as amended from time to time, between you and the Company (the "Severance Benefits"). You will not be eligible for, nor shall you have a right to receive, any payments or benefits from the Company following the Separation Date other than as described in this Section 2 and the 2017 Letter Agreement.

3. **Representation on Action.** You represent that you have not filed or reported any complaints, claims or actions against any of the Released Parties with any state, federal or local agency or court.

4. **Release.** In consideration of the Severance Benefits, which you acknowledge you would not otherwise be entitled to receive, you hereby fully, forever, irrevocably and unconditionally release, remise and discharge the Company, its affiliates, subsidiaries, parent companies, predecessors, and successors, and all of their respective past and present officers, directors, stockholders, partners, members, employees, agents, representatives, plan administrators, attorneys, insurers and fiduciaries (each in their individual and corporate capacities) (collectively, the "Released Parties") from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, and expenses (including attorneys' fees and costs), of every kind and nature that you ever had or now have against any or all of the Released Parties, including, but not limited to, any and all claims arising out of or relating to your periods of employment with and/or separations from the Company, including, but not limited to, all claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e et seq., the Americans With Disabilities Act of 1990, the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq., 42 U.S.C. § 12101 et seq., the Genetic Information Nondiscrimination Act of 2008, 42 U.S.C. § 2000ff et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq., the Worker Adjustment and Retraining Notification Act ("WARN"), 29 U.S.C. § 2101 et seq., the Rehabilitation Act of 1973, 29 U.S.C. § 701 et seq., Executive Order 11246, Executive Order 11141, the Fair Credit Reporting Act, 15 U.S.C. § 1681 et seq., and the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1001 et seq., all as amended; all claims arising out of the Massachusetts Fair Employment Practices Act., M.G.L. c. 151B, § 1 et seq., the Massachusetts Wage Act, Mass. Gen. Laws ch. 149, § 148 et seq. (Massachusetts law regarding payment of wages and overtime), the Massachusetts Civil Rights Act, M.G.L. c. 12, §§ 11H and 11I, the Massachusetts Equal Rights Act, M.G.L. c. 93, § 102 et seq. and M.G.L. c. 214, § 1C, the Massachusetts Small Necessities Leave Act, M.G.L. c. 149, § 52D, the Massachusetts Equal Pay Law, M.G.L. c. 149, § 105A et seq., the Massachusetts Maternity Leave Act, M.G.L. c. 149, § 105D, and the Massachusetts Privacy Act, M.G.L. c. 214, § 1B, all as amended; all claims arising out of the California Fair Employment and Housing Act, Cal. Gov't. Code § 12900 et seq., the California Equal Pay Act, Cal. Lab. Code § 1197.5 et seq., the California

Family Rights Act, Cal. Gov't. Code § 12945.1 et seq. and § 19702.3, Cal. Lab. Code § 233 (California's kin care law), Cal. Code Regs. tit. 2, §§ 7291.2—7291.16 (California's pregnancy leave law), California Unruh Civil Rights Act, Cal. Civ. Code § 51 et seq., and Cal. Lab. Code §§ 98.6 and 1102.5 (California whistleblower protection laws), all as amended; all common law claims including, but not limited to, actions in defamation, intentional infliction of emotional distress, misrepresentation, fraud, wrongful discharge, and breach of contract; all federal and state whistleblower claims to the extent permitted by law; all claims to any non-vested ownership interest in the Company, contractual or otherwise, and any claim or damage arising out of your periods of employment with and/or separation from the Company (including a claim for retaliation) under any common law theory or any federal, state or local statute or ordinance not expressly referenced above; provided, however, that nothing in this Agreement prevents you from filing a charge with, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission or a state fair employment practices agency (except that you acknowledge that you may not recover any monetary benefits in connection with any such claim, charge or proceeding and you further waive any rights or claims to any payment, benefit, attorneys' fees or other remedial relief in connection with any such claim, charge or proceeding).

5. **Section 1542 Waiver.** You understand and agree that the claims released in Section 4 above include not only claims presently known to you, but also include all unknown or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character that would otherwise come within the scope of the released claims as described in Section 4. You understand that you may hereafter discover facts different from what you now believe to be true, which if known, could have materially affected this Agreement, but you nevertheless waive any claims or rights based on different or additional facts. You knowingly and voluntarily waive any and all rights or benefits that you may now have, or in the future may have, under the terms of Section 1542 of the Civil Code of the State of California, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

6. **Post-Separation Obligations.** You acknowledge and reaffirm your obligation to keep confidential and not to disclose any and all non-public information concerning the Company that you acquired during the course of your periods of employment with the Company, including, but not limited to, any non-public information concerning the Company's business affairs, business prospects, and financial condition. You further acknowledge and reaffirm your obligations under the Non-Competition, Non-Solicitation, Confidentiality and Assignment of Inventions Agreement you previously executed for the benefit of the Company, which remains in full force and effect.

7. **Non-Disparagement.** You understand and agree that, in consideration of the Severance Benefits, you shall not make any false, disparaging or derogatory statements to any person or entity, including, without limitation, any media outlet, industry group, financial institution or current or former employee, consultant, client or customer of the Company, regarding the Company or any of its directors, officers, employees, agents or representatives or about the Company's business affairs or financial condition; provided, however, that nothing herein shall be construed as preventing you from making truthful disclosures to any governmental entity or in any litigation or arbitration.

8. **Cooperation.** To the extent permitted by law, you agree to cooperate fully with the Company in the defense or prosecution of any claims or actions which already have been brought, are currently pending, or which may be brought in the future against or on behalf of the Company, whether before a state or federal court, any state or federal government agency, or a mediator or arbitrator. Your full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare its claims or defenses, to prepare for trial or discovery or an administrative hearing or a mediation or arbitration and to act as a witness when requested by the Company at reasonable times designated by the Company. You agree that you will notify the Company promptly in the event that you are served with a subpoena or in the event that you are asked to provide a third party with information concerning any actual or potential complaint or claim against the Company.

9. **Return of Company Property.** You represent and confirm that you have returned to the Company all Company-owned property in your possession, custody or control, including, without limitation, all keys, files, documents and records (and copies thereof), equipment (including, but not limited to, computer hardware, software and printers, wireless handheld devices, cellular phones, pagers, etc.), Company identification and Company vehicles, and that you have left intact all electronic Company documents, including, without limitation, those that you developed or helped to develop during your employment. You further confirm that you have cancelled all accounts for your benefit, if any, in the Company's name, including, without limitation, credit cards, telephone charge cards, cellular phone and/or pager accounts, and computer accounts.

10. **Business Expenses and Final Compensation.** You acknowledge that you have been reimbursed by the Company for all business expenses incurred in conjunction with the performance of your employment and that no other reimbursements are owed to you. You further acknowledge that you have received payment in full for all services rendered in conjunction with your periods of employment by the Company, including, without limitation, payment for all wages, bonuses, equity, commissions and accrued, unused vacation time, and that no other compensation is owed to you except as provided herein.

11. **Amendment and Waiver.** This Agreement shall be binding upon the parties and may not be modified in any manner, except by an instrument in writing of concurrent or subsequent date signed by duly authorized representatives of the parties hereto. This Agreement is binding upon and shall inure to the benefit of the parties and their respective agents, assigns, heirs, executors, successors and administrators. No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar to or waiver of any right on any other occasion.

12. **Validity.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby and said illegal or invalid part, term or provision shall be deemed not to be a part of this Agreement.

13. **Confidentiality.** To the extent permitted by law, you understand and agree that as a condition of the Severance Benefits herein described, the terms and contents of this Agreement, and the contents of the negotiations and discussions resulting in this Agreement, shall be maintained as

confidential by you and your agents and representatives and shall not be disclosed except to the extent required by federal or state law or as otherwise agreed to in writing by the Company, provided, however, that nothing herein shall prevent you from making truthful disclosures to any governmental entity or in any litigation or arbitration.

14. **Tax Provision.** In connection with the Severance Benefits to be provided to you pursuant to this Agreement, the Company shall withhold and remit to the tax authorities the amounts required under applicable law, and you shall be responsible for all applicable taxes with respect to such Severance Benefits under applicable law. You acknowledge that you are not relying upon advice or representation of the Company with respect to the tax treatment of any of the Severance Benefits.

15. **Nature of Agreement.** You understand and agree that this Agreement is a severance agreement and does not constitute an admission of liability or wrongdoing on the part of the Company.

16. **Acknowledgments.** You acknowledge that you have been given at least twenty-one (21) days to consider this Agreement, and that the Company is hereby advising you to consult with an attorney of your own choosing prior to signing this Agreement. You understand that you may revoke this Agreement for a period of seven (7) days after you sign this Agreement by notifying me in writing, and the Agreement shall not be effective or enforceable until the expiration of this seven (7) day revocation period. You understand and agree that by entering into this Agreement, you are waiving any and all rights or claims you might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, and that you have received consideration beyond that to which you were previously entitled.

17. **Voluntary Assent.** You affirm that no other promises or agreements of any kind have been made to or with you by any person or entity whatsoever to cause you to sign this Agreement, and that you fully understand the meaning and intent of this Agreement. You state and represent that you have had an opportunity to fully discuss and review the terms of this Agreement with an attorney. You further state and represent that you have carefully read this Agreement, understand the contents herein, freely and voluntarily assent to all of the terms and conditions hereof, and sign your name of your own free act.

18. **Arbitration and Equitable Relief.** Should a dispute arise in connection with, relating to, or concerning this Agreement, the parties obligations thereunder, your employment with or your separation from employment with the Company, the parties will first submit the dispute to non-binding mediation. The Company will pay for the mediation and select the mediator. Should the dispute remain unresolved after one day of mediation, the Company and you agree that said dispute or controversy arising out of, in relation to, or in connection with this Agreement or your employment with the Company, or the making, interpretation, construction, performance or breach of this Agreement shall be finally settled by binding arbitration in Massachusetts under the then current expedited rules of the American Arbitration Association by one (1) arbitrator mutually selected by the parties or in the event the parties cannot mutually agree, then appointed in accordance with such rules. The arbitrator may grant injunctive or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court of competent jurisdiction. The parties agree that, any provision of applicable law notwithstanding, they will not request and the arbitrator shall have no authority to award, punitive or exemplary damages against any party. Notwithstanding anything in this Section 18 to

the contrary, claims may be made in any Massachusetts court of competent jurisdiction by you or the Company for equitable relief to prevent a breach or threatened breach of any provision of this Agreement. Both you and the Company expressly waive any right that any party either has or may have to a jury trial of any dispute arising out of or in any way related to your employment with or termination from the Company.

19. **Applicable Law.** This Agreement will be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Massachusetts applicable to contracts made and to be performed therein, without giving effect to the principles thereof relating to the conflict of laws.

20. **Entire Agreement.** This Agreement contains and constitutes the entire understanding and agreement between the parties hereto with respect to your Severance Benefits and the settlement of claims against the Company and cancels all previous oral and written negotiations, agreements, and commitments in connection therewith. Nothing in this Section 20, however, shall modify, cancel or supersede your obligations set forth in Section 6 above.

[Signature page follows.]

If you have any questions about the matters covered in this Agreement, please call **[INSERT NAME AND TELEPHONE NUMBER]**.

Very truly yours,

Kala Pharmaceuticals, Inc.

By: _____
[INSERT NAME]
[INSERT TITLE]

I hereby agree to the terms and conditions set forth above. I have been given at least twenty-one (21) days to consider this Agreement, and I have chosen to execute this on the date below. I intend that this Agreement will become a binding agreement between me and the Company if I do not revoke my acceptance in seven (7) days.

[INSERT EMPLOYEE NAME] Date _____

To be returned in a timely manner as set forth on the first page of this Agreement.

NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY AND
ASSIGNMENT OF INVENTIONS AGREEMENT

KALA PHARMACEUTICALS, INC.

March 25, 2018

Mr. Eric Trachtenberg
1130 Tower Lane East
Penn Valley, PA 19072

Dear Eric:

This letter is to confirm our understanding with respect to (i) your agreement not to compete with Kala Pharmaceuticals, Inc. or any present or future parent, subsidiary or affiliate thereof (collectively, the "Company"), (ii) your agreement not to solicit certain employees, consultants, customers and business partners of the Company, (iii) your agreement to protect and preserve information and property which is confidential and proprietary to the Company and (iv) your agreement with respect to the ownership of inventions, ideas, copyrights, patents, trademarks or other intellectual property which may be used in the business of the Company (the terms and conditions agreed to in this letter are hereinafter referred to as the "Agreement").

In consideration of and as a condition of the compensation and other benefits of my employment by the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, we have agreed as follows:

1. Prohibited Competition.

(a) Certain Acknowledgements and Agreements.

(i) We have discussed, and you recognize and acknowledge, the competitive and proprietary aspects of the business of the Company.

(ii) You further recognize and acknowledge the competitive and proprietary nature of the Company's business operations. You acknowledge and agree that a business will be deemed competitive with the Company if it engages in a line of business in which it performs or plans to perform any of the services, or researches, produces, develops, manufactures, licenses, distributes or sells any products or services, provided or offered by the Company, or if it performs any other services and/or engages in the production, research, development,

manufacture, license, distribution or sale of any service or product similar to the Company's services or products, which services or products were performed, produced, researched, developed, manufactured, licensed, distributed, sold or provided, or planned to be performed, produced, researched, developed, manufactured, licensed, distributed, sold or provided, by the Company during your employment by the Company, or which services or products were designed to perform the same function or achieve the same results as any of the foregoing, whether or not similar, in the Company's Field of Interest.

(iii) You understand and acknowledge that the term "Company's Field of Interest" means the actual or planned research, production, development, manufacture, licensing, distribution, sale or use of microparticle and nanoparticle technologies for delivering pharmaceutical agents, including, without limitation, microparticles and nanoparticles for use in delivering therapeutic or prophylactic agents to or through mucus, mucin, or mucosal barriers or tissues in humans. You acknowledge and agree that the actual or planned business of the Company may change over the course of your employment and that, notwithstanding the foregoing, the term "Company's Field of Interest" shall include any and all services, products or technologies performed, produced, researched, developed, manufactured, licensed, distributed, sold or provided, or planned to be performed, produced, researched, developed, manufactured, licensed, distributed, sold or provided, by the Company at any time during your employment.

(iv) You further acknowledge that, during the course of your performing services for the Company, the Company will furnish, disclose or make available to you Confidential Information (as defined below) related to the Company's business and that the Company may provide you with unique and specialized training. You also acknowledge that such Confidential Information and such training have been developed and will be developed by the Company through the expenditure by the Company of substantial time, effort and money and that all such Confidential Information and training could be used by you to compete with the Company. You also acknowledge that if you become employed or affiliated with any competitor of the Company in violation of your obligations in this Agreement, it is inevitable that you would disclose the Confidential Information to such competitor and would use such Confidential Information, knowingly or unknowingly, on behalf of such competitor. Further, in the course of your employment, you will be introduced to customers and others with important relationships to the Company. You acknowledge that any and all "goodwill" created through such introductions belongs exclusively to the Company, including, without limitation, any goodwill created as a result of direct or indirect contacts or relationships between you and any customers of the Company.

(v) For purposes of this Agreement, “Confidential Information” means confidential, secret and proprietary information and know-how of the Company, whether in written, oral, electronic or other form, including but not limited to, information and facts concerning business plans, customers, future customers, suppliers, licensors, licensees, partners, investors, affiliates or others, training methods and materials, financial information, sales prospects, client lists, inventions, or any other scientific, technical or trade secrets of the Company or of any third party provided to you or the Company under a condition of confidentiality, provided that Confidential Information will not include information that is in the public domain other than through any fault or act by you. The term “trade secrets,” as used in this Agreement, will be given its broadest possible interpretation under the law of the Commonwealth of Massachusetts and will include, without limitation, anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records, any secret scientific, technical, merchandising, production or management information, or any design, process, procedure, formula, invention, improvement or other confidential or proprietary information or documents.

(vi) Notwithstanding the foregoing or anything else contained in this Agreement, nothing in this Agreement shall be interpreted to (x) restrict your ability, after you cease to be an employee of the Company, to practice law, in violation of any applicable rules of professional conduct; or (y) expand the scope of your duty to maintain privileged or confidential information obtained in connection with your role as counsel for the Company beyond what is permitted under applicable rules of professional conduct.

(b) Non-Competition. During the period in which you perform services for or at the request of the Company and for a period of one (1) year following the termination of your performance of services for or at the request of the Company for any reason or for no reason you will not, without the prior written consent of the Company:

(i) For yourself or on behalf of any other, directly or indirectly, either as principal, agent, stockholder, employee, consultant, representative, owner, officer, director, investor, lender or in any other capacity, own, manage, operate or control, or be concerned, connected or employed by, or otherwise associate in any manner with, engage in or have a financial interest in, any business or enterprise in the Company’s Field of Interest anywhere in the world, except that nothing contained herein shall preclude you from purchasing stock in any such business or enterprise if such stock is publicly traded, and provided that your holdings do not exceed one percent (1%) percent of the issued and outstanding capital stock of such business or enterprise; or

(ii) Either individually or on behalf of or through any third party, directly or indirectly, solicit, divert or appropriate or attempt to solicit, divert or appropriate any actual or prospective clients, customers, accounts or business partners of the Company which were contacted, solicited or served by the Company during your employment with the Company; or

(iii) Either individually or on behalf of or through any third party, directly or indirectly, interfere with, or attempt to interfere with, the relations between the Company and any vendor or supplier to the Company.

(c) Non-Solicitation. During the period in which you perform services for or at the request of the Company and for a period of eighteen (18) months following the termination of your performance of services for or at the request of the Company for any reason or for no reason you will not, without the prior written consent of the Company:

(i) Either individually or on behalf of or through any third party, directly or indirectly, (A) solicit, entice or persuade or attempt to solicit, entice or persuade any other employees of or consultants to the Company to leave the services of the Company for any reason, or (B) employ or engage, cause to be employed or engaged, or solicit the employment or engagement of any employee of or consultant to the Company while any such person is providing services to the Company or within six months after any such person ceases providing services to the Company; or

(ii) Either individually or on behalf of or through any third party, directly or indirectly, interfere with, or attempt to interfere with, the relations between any other employees of or consultants to the Company and the Company.

(d) Reasonableness of Restrictions. You further recognize and acknowledge that (i) the types of employment which are prohibited by this Section 1 are narrow and reasonable in relation to the skills which represent your principal salable asset both to the Company and to your other prospective employers and (ii) the specific but broad geographical scope of the provisions of this Section 1 is reasonable, legitimate and fair to you in light of the Company's need to market its services and sell its products in a large geographic area in order to have a sufficient customer base to make the Company's business profitable and in light of the limited restrictions on the type of employment prohibited herein compared to the types of employment for which you are qualified to earn your livelihood.

(e) Survival of Acknowledgements and Agreements; Extension. Your acknowledgements and agreements set forth in this Section 1 will survive the termination of your provision of services to the Company for any reason or for no reason. If you violate

any of the provisions set forth in this Section 1, you shall continue to be bound by the restrictions set forth in this Section 1 until a period of one (1) year has expired, in the case of a violation of Section 1(b), or a period of eighteen (18) months, in the case of a violation of Section 1(c), has expired without any violation of such provisions.

2. Protected Information. You will at all times, both during the period while you are performing services for the Company and after the termination of your provision of services to the Company for any reason or for no reason, and except as permitted by Section 5 below, maintain in confidence, and without the prior written consent of the Company, you will not use, except in the course of performance of your duties for the Company or by court order, disclose or give to others, any Confidential Information. In the event you are questioned by anyone not employed by the Company or by an employee of or a consultant to the Company not authorized to receive Confidential Information, in regard to any Confidential Information, or concerning any fact or circumstance relating thereto, you will promptly notify the Company, except as permitted by Section 5 below. Upon the termination of your provision of services to the Company for any reason or for no reason, or if the Company otherwise requests, (i) you will return to the Company all tangible Confidential Information and copies thereof (regardless how such Confidential Information or copies are maintained) and (ii) you will deliver to the Company any property of the Company which may be in your possession, including products, materials, memoranda, notes, records, reports, or other documents or photocopies of the same. The terms of this Section 2 are in addition to, and not in lieu of, any statutory or other contractual obligation that you may have relating to the protection of the Company's Confidential Information. The terms of this Section 2 will survive indefinitely any termination of your provision of services to the Company for any reason or for no reason.

3. Ownership of Ideas, Copyrights and Patents.

(a) Property of the Company. All ideas, discoveries, creations, manuscripts and properties, innovations, improvements, enhancements, processes, know-how, inventions, designs, developments, apparatus, techniques, methods, laboratory notebooks, software, works of authorship and formulae which may be used in the business of the Company, whether patentable, copyrightable or not, which you may conceive, reduce to practice or develop during the period while you are performing services for the Company and for one (1) year thereafter, alone or in conjunction with another or others, whether during or out of regular business hours, whether or not on the Company's premises or with the use of its equipment, and whether at the request or upon the suggestion of the Company or otherwise (all of which are collectively referred to herein as "Inventions"), will be the sole and exclusive property of the Company. You agree not to publish any of the Inventions without the prior written consent of the Company or its designee. Without limiting the foregoing, you also acknowledge that all original works of authorship which are made by you (solely or jointly with others) within the scope of your employment or which relate to the business of the Company or a Company affiliate and which are protectable by copyright are "works made for hire" pursuant to the United States Copyright Act (17 U.S.C. Section 101). You hereby assign to

the Company or its designee all of your right, title and interest in and to all Inventions and all related patents, patent applications, copyrights and copyright applications. You further represent that, to the best of your knowledge and belief, none of the Inventions will violate or infringe upon any right, patent, copyright, trademark or right of privacy, or constitute libel or slander against or violate any other rights, of any person, firm or corporation, and that you will use your best efforts to prevent any such violation.

(b) Cooperation. At any time during or after the period during which you are performing services for the Company, you will fully cooperate with the Company and its attorneys and agents in the preparation and filing of all papers and other documents as may be required to protect the Company's rights and interests in and to any of such Inventions, such papers and documents to include, without limitation, any copyright applications, patent applications, trademark applications, declarations, oaths, formal assignments, assignments of priority rights, and powers of attorney with respect to any such Inventions, and such full cooperation to include, without limitation, joining in any proceeding to obtain letters patent, copyrights, trademarks or other legal rights, in each case, in the United States and in any and all other countries, provided that the Company will bear the expense of such preparations and filings, and that any copyright, patent or other legal or intellectual property rights so issued to you personally will be assigned by you to the Company or its designee without charge by you. You further agree that if the Company is unable, after reasonable effort, to secure your signature on any such papers or documents, any executive officer of the Company shall be entitled to execute any such papers or documents as your agent and attorney-in-fact, and you hereby irrevocably designate and appoint each executive officer of the Company as your agent and attorney-in-fact to execute any such papers or documents on your behalf, and to take any and all actions as the Company may deem necessary or desirable in order to protect its rights and interests in any Inventions, under the conditions described in this sentence.

(c) Licensing and Use of Innovations. With respect to any ideas, discoveries, creations, manuscripts and properties, innovations, improvements, enhancements, processes, know-how, inventions, designs, developments, apparatus, techniques, methods, laboratory notebooks, software, works of authorship and formulae, and works of any similar nature (from any source), which you conceived, reduced to practice or developed prior to performing services for the Company, but which you provide to the Company or incorporate in any Company product or system (all of which are collectively referred to herein as "Innovations"), you hereby grant to the Company a royalty-free, fully paid-up, non-exclusive, perpetual and irrevocable license throughout the world to use, modify, create derivative works from, disclose, publish, translate, reproduce, deliver, perform, dispose of, and to authorize others so to do, all such Innovations. You will not include in any Innovations you deliver to the Company or use on its behalf, without the prior written approval of the Company, any material which is or will be patented, copyrighted or trademarked by you or others unless you provide the Company with the written permission of the holder of any patent, copyright or trademark owner for the Company to use such material in a manner consistent with then-current Company policy.

(d) Prior Inventions. Listed on Exhibit 3(d) to this Agreement are any and all Innovations in which you claim or intend to claim any right, title and interest, including, without limitation, patent, copyright or trademark interests which, to the best of your knowledge, will be or may be delivered to the Company in the course of your employment or incorporated into any Company product or system. You acknowledge that your obligation to disclose such information is ongoing during the period that you provide services to the Company.

4. Disclosure to Future Employers. You agree that you will provide, and that the Company, in its discretion, may similarly provide, a copy of the covenants contained in Sections 1, 2 and 3 of this Agreement to any business or enterprise which you may directly or indirectly own, manage, operate, finance, join, control or in which you may participate in the ownership, management, operation, financing, or control, or with which you may be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise.

5. Scope of Disclosure Restrictions. Nothing in this Agreement prohibits the Employee from communicating with government agencies about possible violations of federal, state, or local laws or otherwise providing information to government agencies, filing a complaint with government agencies, or participating in government agency investigations or proceedings. The Employee is not required to notify the Company of any such communications; provided, however, that nothing herein authorizes the disclosure of information the Employee obtained through a communication that was subject to the attorney-client privilege. Further, notwithstanding the Employee's confidentiality and nondisclosure obligations, the Employee is hereby advised as follows pursuant to the Defend Trade Secrets Act: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order."

6. No Conflicting Agreements. You hereby represent and warrant that you have no commitments or obligations inconsistent with this Agreement and you will indemnify and hold the Company harmless against any and all losses, damages, liabilities or expenses arising from any claim based upon circumstances alleged to be inconsistent with such representation and warranty.

7. Name & Likeness Rights. You hereby authorize the Company to use, reuse, and to grant others the right to use and reuse, your name, photograph, likeness (including caricature), voice, and biographical information, and any reproduction or simulation thereof, in any form of media or technology now known or hereafter developed (including, but not limited to, film, video

and digital or other electronic media), both during and after your employment, for whatever purposes the Company deems necessary.

8. General.

(a) Notices. All notices, requests, consents and other communications hereunder will be in writing, will be addressed to the receiving party's address set forth above or to such other address as a party may designate by notice hereunder, and will be either (i) delivered by hand, (ii) sent by overnight courier, or (iii) sent by registered mail, return receipt requested, postage prepaid. All notices, requests, consents and other communications hereunder will be deemed to have been given either (i) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above, (ii) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (iii) if sent by registered mail, on the fifth business day following the day such mailing is made.

(b) Entire Agreement. This Agreement embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement of any kind not expressly set forth in this Agreement will affect, or be used to interpret, change or restrict, the express terms and provisions of this Agreement.

(c) Modifications and Amendments. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by the parties hereto.

(d) Waivers and Consents. The terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent will be deemed to be or will constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent will be effective only in the specific instance and for the purpose for which it was given, and will not constitute a continuing waiver or consent.

(e) Assignment. The Company may assign its rights and obligations hereunder to any person or entity that succeeds to all or substantially all of the Company's business or assets or any corporation with which, or into which, the Company may be merged. You may not assign your rights and obligations under this Agreement without the prior written consent of the Company, and any such attempted assignment by you without the prior written consent of the Company will be void.

(f) Benefit. All statements, representations, warranties, covenants and agreements in this Agreement will be binding on the parties hereto and will inure to the benefit of the respective successors and permitted assigns of each party hereto. Nothing

in this Agreement will be construed to create any rights or obligations except between the Company and you, and no person or entity other than the Company will be regarded as a third-party beneficiary of this Agreement.

(g) Governing Law. This Agreement and the rights and obligations of the parties hereunder will be construed in accordance with and governed by the laws of the Commonwealth of Massachusetts, without giving effect to the conflict of law principles thereof.

(h) Jurisdiction, Venue and Service of Process. Any legal action or proceeding with respect to this Agreement will be brought in the courts of the Commonwealth of Massachusetts or of the United States of America for the District of Massachusetts. By execution and delivery of this Agreement, each of the parties hereto accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts.

(i) WAIVER OF JURY TRIAL. ANY ACTION, DEMAND, CLAIM OR COUNTERCLAIM ARISING UNDER OR RELATING TO THIS AGREEMENT WILL BE RESOLVED BY A JUDGE ALONE AND EACH OF THE COMPANY AND YOU WAIVE ANY RIGHT TO A JURY TRIAL THEREOF.

(j) Severability. The parties intend this Agreement to be enforced as written. However, (i) if any portion or provision of this Agreement is to any extent declared illegal or unenforceable by a duly authorized court having jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, will not be affected thereby, and each portion and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law and (ii) if any provision, or part thereof, is held to be unenforceable because of the duration of such provision or the geographic area covered thereby, the court making such determination will have the power to reduce the duration and/or geographic area of such provision, and/or to delete specific words and phrases (“blue-penciling”), and in its reduced or blue-penciled form such provision will then be enforceable and will be enforced.

(k) Headings and Captions. The headings and captions of the various subdivisions of this Agreement are for convenience of reference only and will in no way modify or affect the meaning or construction of any of the terms or provisions hereof.

(l) Injunctive Relief. You hereby expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in Section 1, 2 or 3 of this Agreement will result in substantial, continuing and irreparable injury to the Company. Therefore, in addition to any other remedy that may be available to the Company, the Company will be entitled to injunctive or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of Section 1, 2 or 3 of this Agreement.

(m) No Waiver of Rights, Powers and Remedies. No failure or delay by a party hereto in exercising any right, power or remedy under this Agreement, and no course of dealing between the parties hereto, will operate as a waiver of any such right, power or remedy of the party. No single or partial exercise of any right, power or remedy under this Agreement by a party hereto, nor any abandonment or discontinuance of steps to enforce any such right, power or remedy, will preclude such party from any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The election of any remedy by a party hereto will not constitute a waiver of the right of such party to pursue other available remedies. No notice to or demand on a party not expressly required under this Agreement will entitle the party receiving such notice or demand to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the party giving such notice or demand to any other or further action in any circumstances without such notice or demand.

(n) Not Employment Contract. You acknowledge that this Agreement does not constitute a contract of employment, does not imply that the Company will continue your employment for any period of time and does not change the at-will nature of your employment.

(o) Counterparts. This Agreement may be executed in two or more counterparts, and by different parties hereto on separate counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

(p) Opportunity to Review. You hereby acknowledge that you have had adequate opportunity to review these terms and conditions and to reflect upon and consider the terms and conditions of this Agreement, and that you have had the opportunity to consult with counsel of your own choosing regarding such terms. You further acknowledge that you fully understand the terms of this Agreement and have voluntarily executed this Agreement.

[Remainder of page intentionally left blank.]

If the foregoing accurately sets forth our agreement, please so indicate by signing and returning to us the enclosed copy of this letter.

Very truly yours,

KALA PHARMACEUTICALS, INC.

By: /s/ Mark Iwicki

Name: Mark Iwicki

Title: Chairman and Chief Executive Officer

Accepted and Approved:

/s/ Eric Trachtenberg

Name: Eric Trachtenberg

March 29, 2018

Date

*[NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY AND
ASSIGNMENT OF INVENTIONS AGREEMENT]*

EXHIBIT 3(d)

PRIOR INVENTIONS

*[NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY AND
ASSIGNMENT OF INVENTIONS AGREEMENT]*

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)) 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) 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
 - c) 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 9, 2018

By: /s/ Mark Iwicki

Mark Iwicki
President and Chief Executive Officer
(Principal Executive Officer)

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)) 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) 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
 - c) 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 9, 2018

By: /s/ Mary Reumuth

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

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

In connection with the Quarterly Report on Form 10-Q of Kala Pharmaceuticals, Inc. (the "Company") for the period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

Date: August 9, 2018

/s/ Mark Iwicki

Mark Iwicki

President and Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of Kala Pharmaceuticals, Inc. (the "Company") for the period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

Date: August 9, 2018

/s/ Mary Reumuth

Mary Reumuth
Chief Financial Officer
