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

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **November 12, 2021**

Kala Pharmaceuticals, Inc.
(Exact Name of Company as Specified in its Charter)

Delaware	**001-38150**	**27-0604595**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1167 Massachusetts Avenue
Arlington, MA 02476

(Address of Principal Executive Offices) (Zip Code)

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

490 Arsenal Way, Suite 120
Watertown, MA 02472

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	KALA	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☒

EXPLANATORY NOTE

On November 15, 2021, Kala Pharmaceuticals, Inc. (the "Company") filed with the Securities and Exchange Commission (the "SEC") a Current Report on Form 8-K (the "Original Form 8-K") to report that on November 15, 2021, the Company and its direct wholly owned subsidiary, Ceres Merger Sub, Inc. (the "Merger Subsidiary") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Combangio, Inc. ("Combangio") and Fortis Advisors LLC, solely in its capacity as Combangio Equityholder Representative in connection with the Merger Agreement, pursuant to which on November 15, 2021, the Merger Subsidiary merged with and into Combangio with Combangio surviving such merger and becoming a direct wholly owned subsidiary of the Company.

In the Original Form 8-K, the Company stated its intention to file the historical financial statements of Combangio and pro forma financial information required by parts (a) and (b) of Item 9.01 of Form 8-K not later than 71 calendar days after the date that the Original Form 8-K was required to be filed with the SEC. Pursuant to the instructions to Item 9.01 of Form 8-K, this Amendment No. 1 on Form 8-K/A (this "Amendment") amends and supplements the Original Form 8-K in order to provide the required financial information.

Except as provided herein, the disclosures contained in this Amendment have not been updated to reflect events, results or developments that have occurred since the filing of the Original Form 8-K. This Amendment should be read in conjunction with the Original Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited financial statements of Combangio, Inc. as of and for the nine months ended September 30, 2021 and as of and for the year ended December 31, 2020 and the independent auditors' report thereon are filed as Exhibit 99.2 hereto and are incorporated into this Item 9.01(a) by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed consolidated financial information of the Company as of and for the nine months ended September 30, 2021 and as of and for the year ended December 31, 2020 are filed as Exhibit 99.3 hereto and are incorporated into this Item 9.01(b) by reference.

(d) Exhibits.

2.1*†	Agreement and Plan of Merger, dated as of November 15, 2021, by and among Kala Pharmaceuticals, Inc., Ceres Merger Sub, Inc., Combangio, Inc. and, solely in its capacity as Combangio Equityholder Representative, Fortis Advisors LLC.
10.1*	Lease Termination Agreement, dated November 12, 2021, by and between Kala Pharmaceuticals, Inc. and Columbia Massachusetts Arsenal Office Properties, LLC.
23.1	Consent of Haskell & White LLP.
99.1**	Press Release of Kala Pharmaceuticals, Inc. dated November 15, 2021.
99.2	Audited financial statements of Combangio, Inc. as of and for the nine months ended September 30, 2021 and as of and for the year ended December 31, 2020.
99.3	Unaudited pro forma condensed consolidated financial information as of and for the nine months ended September 30, 2021 and as of and for the year ended December 31, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 8-K/A to be signed on its behalf by the undersigned hereunto duly authorized.

KALA PHARMACEUTICALS, INC.

Date: January 28, 2022

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

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the inclusion in this Form 8-K/A (Amendment No. 1) of Kala Pharmaceuticals, Inc. of our report, dated November 9, 2021, on our audit of the financial statements of Combangio, Inc. as of September 30, 2021, and for the nine month period then ended, and as of December 31, 2020, and for the year then ended. Our report included an explanatory paragraph expressing substantial doubt regarding Combangio, Inc.'s ability to continue as a going concern based on its recurring losses and limited liquidity. The financial statements do not include any adjustments that might result from the outcome of that uncertainty.

We also consent to the incorporation by reference of our report referred to in the paragraph above in the Registration Statement on Form S-3 (File No. 333-238087) and the Registration Statements on Form S-8 (File Nos. 333-219403, 333-224083, 333-230206, 333-236402, 333-239426 and 333-253503) of Kala Pharmaceuticals, Inc.

/s/ HASKELL & WHITE LLP

Irvine, California
January 28, 2022

Exhibit 99.2

Financial Statements and Independent Auditors' Report

COMBANGIO, INC.

As of September 30, 2021 and for the Nine Months Then Ended, and
As of December 31, 2020 and for the Year Then Ended

COMBANGIO, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Combangio, Inc.

We have audited the accompanying financial statements of Combangio, Inc. (the "Company"), which comprise the balance sheets as of September 30, 2021 and December 31, 2020, and the related statements of operations, stockholders' equity, and cash flows for the nine months ended September 30, 2021 and the year ended December 31, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and December 31, 2020, and the results of its operations and its cash flows for the nine months ended September 30, 2021 and the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has experienced recurring losses, has limited liquidity and management has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

/s/ HASKELL & WHITE LLP

Irvine, California
November 9, 2021

COMBANGIO, INC.

Balance Sheets

		September 30, 2021		December 31, 2020
Assets				
Current assets				
Cash and cash equivalents	**$**	**214,059**	$	1,408,634
Prepaid expenses and other current assets		**30,120**		37,670
Total current assets		**244,179**		1,446,304
Property and equipment, net (Note 2)		**40,906**		12,766
Other assets		**89,482**		106,721
Total assets	**$**	**374,567**	$	1,565,791
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	**$**	**31,108**	$	26,067
Payroll-related liabilities		**2,604**		—
Accrued expenses and other liabilities		**29,132**		19,359
Note payable (Note 3)		**—**		43,447
Total current liabilities		**62,844**		88,873
Commitments and contingencies (Notes 6 and 7)				
Stockholders' equity (Notes 4 and 5)				
Series Seed convertible preferred stock, $.001 par value; 47,449,583 shares authorized; 47,449,583 shares issued and outstanding; liquidation preference of $1,333,333		**47,449**		47,449
Series A convertible preferred stock, $.001 par value; 65,506,591 shares authorized; 65,506,589 shares issued and outstanding; liquidation preference of $5,053,659		**65,507**		65,507
Common stock, $.001 par value; 153,000,000 shares authorized; 11,061,890 shares issued and outstanding		**11,062**		11,062
Additional paid-in capital		**6,435,218**		6,387,504
Accumulated deficit		**(6,247,513)**		(5,034,604)
Total stockholders' equity		**311,723**		1,476,918
Total liabilities and stockholders' equity	**$**	**374,567**	$	1,565,791

See accompanying notes to financial statements and Independent Auditors' Report.

COMBANGIO, INC.

Statements of Operations

	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Costs and expenses		
Research and development	$ **588,903**	$ 924,913
General and administrative	**582,123**	484,759
Regulatory and clinical	**85,515**	179,368
Total costs and expenses	**1,256,541**	1,589,040
Loss from operations	**(1,256,541)**	(1,589,040)
Gain on extinguishment of debt	**43,767**	—
Other income	**697**	—
Interest income	**—**	69
Interest expense	**(32)**	(288)
Loss before income taxes	**(1,212,109)**	(1,589,259)
Income taxes	**800**	800
Net loss	**$ (1,212,909)**	$ (1,590,059)

See accompanying notes to financial statements and Independent Auditors' Report.

COMBANGIO, INC.

Statements of Stockholders' Equity
Nine Months Ended September 30, 2021 and the Year Ended December 31, 2020

	Series Seed Preferred Stock		Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2019	47,449,583	$47,449	40,152,319	$40,152	11,061,890	$11,062	$4,445,597	$(3,444,545)	$ 1,099,715
Series A convertible preferred stock issued at $0.0773 per share for cash, net of issuance costs of $20,722	—	—	25,354,270	25,355	—	—	1,913,808	—	1,939,163
Stock-based compensation	—	—	—	—	—	—	28,099	—	28,099
Net loss for the year ended December 31, 2020	—	—	—	—	—	—	—	(1,590,059)	(1,590,059)
Balance, December 31, 2020	47,449,583	47,449	65,506,589	65,507	11,061,890	11,062	6,387,504	(5,034,604)	1,476,918
Stock-based compensation	—	—	—	—	—	—	47,714	—	47,714
Net loss for the nine months ended September 30, 2021	—	—	—	—	—	—	—	(1,212,909)	(1,212,909)
Balance, September 30, 2021	47,449,583	$47,449	65,506,589	$65,507	11,061,890	$11,062	$6,435,218	$(6,247,513)	$ 311,723

See accompanying notes to financial statements and Independent Auditors' Report.

COMBANGIO, INC.

Statements of Cash Flows

	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Cash flows from operating activities		
Net loss	**$ (1,212,909)**	$ (1,590,059)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	**12,428**	1,772
Stock-based compensation	**47,714**	28,099
Gain on extinguishment of debt	**(43,767)**	—
Gain on sale of assets	**(697)**	—
Increase (decrease) from changes in:		
Prepaid expenses, other current assets and other assets	**24,789**	(46,269)
Accounts payable	**5,041**	(82,438)
Payroll-related liabilities	**2,604**	(360)
Accrued expenses and other liabilities	**10,093**	16,279
Net cash used in operating activities	**(1,154,704)**	(1,672,976)
Cash flows from investing activities		
Acquisition of property and equipment	**(40,871)**	(12,017)
Proceeds from sale of property and equipment	**1,000**	—
Net cash used in investing activities	**(39,871)**	(12,017)
Cash flows from financing activities		
Proceeds from the issuance of note payable	**—**	43,447
Proceeds from the issuance of Series A preferred stock	**—**	1,959,885
Equity offering costs	**—**	(20,722)
Net cash provided by financing activities	**—**	1,982,610
Net (decrease) increase in cash and cash equivalents	**(1,194,575)**	297,617
Cash and cash equivalents, beginning of the period	**1,408,634**	1,111,017
Cash and cash equivalents, end of the period	**$ 214,059**	$ 1,408,634
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	**$ 800**	$ 800

See accompanying notes to financial statements and Independent Auditors' Report.

COMBANGIO, INC.

Notes to Financial Statements (continued)

COMBANGIO, INC.

Notes to Financial Statements

1. Business and Significant Accounting Policies

Business

Combangio, Inc. (the "Company") was incorporated on February 3, 2014 pursuant to the laws of the State of Delaware. The Company is a development stage company that is developing a potent new category of therapeutics for the topical treatment of multiple severe corneal surface disorders.

Going Concern and Management's Plans

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate continuation of the Company as a going concern. The Company has an accumulated deficit of $6,247,513 at September 30, 2021, and used cash in operations of $1,154,704 during the nine months ended September 30, 2021. Additionally, the Company has no revenue-generating activities and working capital of $181,335 at September 30, 2021.

Successful completion of development of the Company's initial commercial products is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to generate cash from future operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management's plans with respect to the foregoing are to continue development and testing of the Company's technologies and obtain additional debt and/or equity capital from external sources. There is no assurance that additional funding will be available in the future when needed, on favorable terms, if at all.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

COMBANGIO, INC.

Notes to Financial Statements (continued)

1. Business and Significant Accounting Policies (continued)

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less, when acquired, to be cash equivalents. Substantially all of the Company's cash and cash equivalents are maintained at one financial institution domiciled in the United States. Amounts on deposit with this financial institution may, from time to time, exceed the federally-insured limit, as well as coverage provided by the Securities Investment Protection Corporation.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. The Company provides for depreciation over estimated useful lives of three years using the straight-line method. Leasehold improvements are depreciated over the lesser of the estimated useful life or the lease term. Repairs and maintenance expenditures that do not significantly add value to property and equipment, or prolong its life, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in the operating results of the related period.

Fair Value Measurements

The Company measures fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable. Unobservable inputs reflect the Company's own assumptions about current market conditions. The three-level hierarchy of inputs is as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

COMBANGIO, INC.

Notes to Financial Statements (continued)

1. Business and Significant Accounting Policies (continued)

Fair Value Measurements (continued0

The fair value of the Company's financial assets and liabilities measured on a recurring basis as of September 30, 2021 and December 31, 2020, are limited to its cash equivalents. The fair value of the Company's cash equivalents were determined using Level 1 inputs, as unadjusted quoted prices for these securities are regularly provided to the Company by independent pricing services.

Patent-related Expenditures

Expenditures related to patent research and applications, which are primarily comprised of legal fees, are expensed to general and administrative as incurred.

Regulatory and Clinical and Research and Development Expenses

Regulatory and clinical and research and development costs are expensed when incurred. Costs to acquire technologies to be used in research and development that have not reached technological feasibility and have no alternative future use are also expensed when incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the year's taxable income for federal and state income tax reporting purposes.

The Company's net deferred tax assets at September 30, 2021 and December 31, 2020 consist principally of net operating losses. The Company provided a 100% valuation allowance for the tax effect of these net operating losses, and as a result, no benefit for income taxes has been provided in the accompanying statements of operations. The Company provided the valuation allowance since management could not determine that it was "more likely than not" that the benefits of the deferred tax assets would be realized.

GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. A favorable tax position is to be included in the calculation of tax liabilities and expenses if a company concludes that it is more likely than not that its adopted tax position will prevail if challenged by tax authorities. The Company did not recognize any adjustments regarding its tax accounting treatments for the nine months ended September 30, 2021 or the year ended December 31, 2020. As a result of the Company's net operating losses, all income tax return years remain open to examination by tax authorities.

COMBANGIO, INC.

Notes to Financial Statements (continued)

1. Business and Significant Accounting Policies (continued)

Accounting for Stock-based Compensation

Share-based awards result in a cost that is measured at fair value on the awards' grant date based on the estimated number of awards that are expected to vest. Stock-based compensation is recognized on a straight-line basis over the award's vesting period.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes ASC 840, *Leases* and creates a new topic, ASC 842, *Leases*. This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. The main difference between previous U.S. GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. As a result, the Company will have to recognize a liability representing its lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. In May 2020, the FASB issued ASU 2020-05, which deferred the effective date to annual periods beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU removes certain exceptions for investments, intraperiod allocations and interim tax calculations and adds guidance to reduce complexity in accounting for income taxes. The effective date of the standard will be for annual periods beginning after December 15, 2020, with early adoption permitted. The various amendments in the standard are applied on a retrospective basis, modified retrospective basis and prospective basis, depending on the amendment. The Company is currently evaluating the new guidance to determine the impact it may have on its financial statements.

2. Property and Equipment

Property and equipment, net consisted of the following at:

	September 30, 2021	December 31, 2020
Laboratory equipment	$ 50,208	$ 13,109
Office furniture and equipment	5,403	2,723
Leasehold improvements	—	—
Less: accumulated depreciation	(14,705)	(3,066)
Property and equipment, net	$ 40,906	$ 12,766

COMBANGIO, INC.

Notes to Financial Statements (continued)

2. Property and Equipment (continued)

Depreciation expense for the nine months ended September 30, 2021 and for the year ended December 31, 2020 was $12,428 and $1,772, respectively.

3. Note Payable

In May 2020, the Company received a loan in the amount of $43,447 under the U.S. Small Business Administration Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a promissory note dated May 4, 2020. The Company applied for and was notified in January 2021 that the loan, and related accrued interest, totaling $43,767 was fully forgiven.

4. Stockholders' Equity

Series Seed Convertible Preferred Stock

The Company has authorized 47,449,583 shares of Series Seed Convertible Preferred Stock ("Series Seed") with a par value of $0.001.

In February 2016, the Company entered into a Series Seed Preferred Stock Investment Agreement which provides for the sale and issuance of the Company's Series Seed to investors. The financing provided for multiple closings and was completed in June 2018 whereby an aggregate amount of 47,449,583 shares of Series Seed were sold and issued at a purchase price of $0.0281 per share for an aggregate purchase price of $1,333,333 in cash.

The Series Seed contains a liquidation preference described below and is convertible at the holder's option into shares of common stock, initially on a share-for-share basis using a conversion rate of $0.0281 per share. The conversion ratio may be adjusted upon certain events and for certain stock issuances, splits and combinations. Conversion is automatic in the event of a public offering of the Company's common stock, or upon the vote or written consent of 50% of the outstanding shares of preferred stock voting as a single class on an as-converted basis.

The holders of shares of Series Seed shall be entitled to receive dividends when declared and on a pro rata basis with common stock and preferred stock according to the number of shares of common stock held. For this purpose, each holder of shares of Series Seed is treated as holding common shares then issuable on an as-converted basis. No dividends have been declared through September 30, 2021.

Each share of Series Seed has voting rights equal to the number of shares of common stock into which it is then convertible.

COMBANGIO, INC.

Notes to Financial Statements (continued)

4. Stockholders' Equity (continued)

Series A Convertible Preferred Stock

The Company has authorized 65,506,591 shares of Series A Convertible Preferred Stock ("Series A") with a par value of $0.001.

In September 2018, the Company entered into a Series A Preferred Stock Investment Agreement ("Series A Agreement") which provides for the sale and issuance of the Company's Series A to investors at a purchase price of $0.0773 per share.

In September 2018, an aggregate amount of 26,049,168 shares of the Company's Series A were issued in exchange for cash totaling $2,013,601. In September 2019, the Series A Agreement was amended and an aggregate amount of 14,103,151 shares of the Company's Series A were issued in exchange for cash totaling $1,090,173. In September 2020, the Series A agreement was further amended and an aggregate amount of 25,354,270 shares of the Company's Series A were issued in exchange for cash totaling $1,959,885.

Related issuance costs for the Series A aggregated $28,510.

The Series A contains a liquidation preference described below and are convertible at the holder's option into shares of common stock, initially on a share-for-share basis using a conversion rate of $0.0773 per share. The conversion ratio may be adjusted upon certain events and for certain stock issuances, splits and combinations. Conversion is automatic in the event of a public offering of the Company's common stock, or upon the vote or written consent of 50% of the outstanding shares of preferred stock voting as a single class on an as-converted basis.

The holders of shares of Series A shall be entitled to receive dividends when declared and on a pro rata basis with common stock and preferred stock according to the number of shares of common stock held. For this purpose, each holder of shares of Series A is treated as holding common shares then issuable on an as-converted basis. No dividends have been declared through September 30, 2021.

Each share of Series A has voting rights equal to the number of shares of common stock into which it is then convertible.

Common Stock

The Company has authorized 153,000,000 shares of common stock with a par value of $0.001.

In 2014, an aggregate amount of 8,000,000 shares of the Company's common stock was sold and issued at a purchase price of $.001 per share for an aggregate purchase price of $8,000 in cash.

COMBANGIO, INC.

Notes to Financial Statements (continued)

4. Stockholders' Equity (continued)

Common Stock (continued)

In 2016, an aggregate amount of 48,958 shares of the Company's common stock was sold and issued at a purchase price of $.026 per share for an aggregate purchase price of $1,273 in cash.

In 2016, an aggregate amount of 75,000 shares of the Company's common stock was granted and issued to a consultant in connection with a release agreement.

In 2016, the Company repurchased 208,333 shares of common stock pursuant to the terms of a restricted stock purchase agreement.

In November 2019, an aggregate amount of 3,146,265 shares of the Company's common stock was issued at $0.02 per share in exchange for licensed technology.

Liquidation Preferences

Upon liquidation, dissolution or winding up of the Company, or upon a deemed liquidation event (as defined), the holders of the Series Seed and Series A ("Preferred Stockholders"), on a pro rata basis, are entitled to receive, prior and in preference to any distribution of the assets of the Company to the holders of common stock, an amount per share equal to the greater of (a) the purchase price originally paid by the Preferred Stockholders, plus all accrued but unpaid dividends, or (b) such amount per share as would have been payable had all shares of preferred stock been converted into common stock immediately prior to such liquidation, dissolution or winding up of the Company.

After payment of the above preferential amounts required to be paid to the Preferred Stockholders, the remaining assets of the Company available for distribution to the stockholders shall be distributed to the holders of the common stock on a pro rata basis.

5. Stock Options

The Company's 2014 Equity Incentive Plan (the "2014 Plan") provides for the issuance of shares of the Company's common stock to employees, directors and consultants. The exercise price of options granted under the 2014 Plan is based on the fair value of the common stock on the grant date as approved by the Company's Board of Directors and no option shall have a term in excess of ten years from the option grant date. Options vest in various installments as outlined in the related stock option agreements, or as determined by the Company's Board of Directors. The Company has reserved up to 21,885,540 shares of its common stock to provide for the issuance of shares of the Company's common stock to employees, directors and consultants under its 2014 Plan.

COMBANGIO, INC.

Notes to Financial Statements (continued)

5. Stock Options (continued)

Total stock-based employee compensation expense for the nine months ended September 30, 2021 and for the year ended December 31, 2020 was $30,911 and $17,842, respectively. During the nine months ended September 30, 2021 and the year ended December 31, 2020, the Company recorded non-employee stock-based compensation expense of $16,803 and $10,257, respectively.

The fair value of each option grant was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Expected volatility	71% to 73%	67% to 78%
Dividend yield	0%	0%
Risk free interest rates	0.6% to 1.0%	0.5% to 2.8%
Expected term - employees	6.0 Years	6.0 Years
Expected term - non-employees	5.8 to 6.0 Years	5.0 to 9.3 Years

Expected volatility – Since the Company does not have sufficient stock price history, the expected volatility is calculated based on the average volatility for a peer group in the industry in which the Company does business.

Dividend yield of zero – The Company has not, and does not, intend to pay, dividends.

Risk-free interest rates – The Company applies the risk-free interest rate based on the U.S. Treasury yield for the expected term of the option.

Expected term - For employee stock options, the Company calculated the expected term as the average of the contractual term of the option and the vesting period. For non-employees, the Company estimated the expected term as the contractual term of the award.

The estimated fair value of the Company's common stock was determined by the Company's management and board of directors and considered the results of a qualified, independent third-party valuation firm.

COMBANGIO, INC.

Notes to Financial Statements (continued)

5. Stock Options (continued)

Stock Option Activity

A summary of stock option activity for the nine months ended September 30, 2021 and for the year ended December 31, 2020 is as follows:

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019	9,357,974	$ 0.02
Year ended December 31, 2020		
Granted	—	—
Cancelled / expired	—	—
Exercised	—	—
Balance, December 31, 2020	9,357,974	0.02
Nine months ended September 30, 2021		
Granted	8,439,675	0.02
Cancelled / expired	—	—
Exercised	—	—
Balance, September 30, 2021	17,797,649	$ 0.02

The following table summarizes information concerning outstanding and exercisable stock options at September 30, 2021 and December 31, 2020:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at September 30, 2021	17,797,649	$ 0.02	8.2
Exercisable at September 30, 2021	8,860,834	$ 0.02	7.7
Outstanding at December 31, 2020	9,357,974	$ 0.02	8.0
Exercisable at December 31, 2020	5,175,879	$ 0.02	7.9

As of September 30, 2021 and December 31, 2020, compensation cost related to nonvested options not yet recognized is $99,641 and $46,230, respectively, and the weighted average period over which this amount is expected to be recognized is 2.5 years and 1.7 years, respectively. The weighted average grant date fair value of all stock options granted during the nine months ended September 30, 2021 is $0.013 per share.

COMBANGIO, INC.

Notes to Financial Statements (continued)

6. Commitments and Contingencies

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. Management mitigates such potential risks by maintaining the Company's cash balances with entities that management believes possess high-credit quality.

As of December 31, 2020, the Company had $1,158,634 on deposit that was not federally-insured or insured by the Securities Investor Protection Corporation.

7. Related Party Transactions

Shared Premises

The Company is a party to an agreement with a company that has common beneficial ownership. The purpose of the agreement is to share facility related costs with the related company. The Company is obligated to reimburse the related company for a percentage of the rent based on space utilized and other incidental operating costs. Total rent expense incurred under the agreement during the nine months ended September 30, 2021 and the year ended December 31, 2020 was $39,499 and $32,331, respectively. At September 30, 2021 and December 31, 2020, there were no amounts payable under the agreement.

License Agreements

The Company is a party to several patent related license agreements with a university that is a shareholder of the Company. The purpose of the agreements is to license specified patented technology to the Company. Under the agreements, the Company is obligated to pay license fees, milestone payments upon certain events, royalties, and patent related costs. Total payments incurred under the agreements during the nine months ended September 30, 2021 and the year ended December 31, 2020 were $3,543 and $48,319, respectively. In 2019, the Company issued 2,254,617 shares of common stock to the university as additional consideration under a license agreement. There were no amounts payable to the university at September 30, 2021 or December 31, 2020.

Collaboration Agreement

The Company is a party to an agreement with a company that has common beneficial ownership. The purpose of the agreement is to collaborate for the research and development of technology. Under the terms of the agreement, the Company shall be obligated to pay research payments, milestone payments upon certain events, and royalties on sales of covered products as defined in the agreement. There were no expenses incurred under the agreement during the nine months ended September 30, 2021 or the year ended December 31, 2020. At September 30, 2021 and December 31, 2020 there were no amounts payable under the agreement.

COMBANGIO, INC.

Notes to Financial Statements (continued)

8. Income Taxes

Management has established a 100% valuation allowance against the Company’s net deferred tax assets due to the uncertainty that the deferred tax assets will be realized by the Company’s ability to generate sufficient future taxable income.

At September 30, 2021 and December 31, 2020, the Company had approximately $4,400,000 and $3,100,000, respectively, of net operating loss carryforwards for federal purposes that may potentially be available to offset future taxable income. Federal net operating losses generated before January 1, 2018 can be carried back for two years, and remaining, unused carrybacks can be carried forward 20 years. Net operating losses generated after January 1, 2018 carryforward indefinitely with no carryback and are limited to 80% of taxable income. Net operating losses begin to expire in 2033 for federal purposes and 2037 for state tax purposes. Utilization of the Company’s net operating losses in future periods may be limited by Section 382 of the Internal Revenue Code due to changes in the Company’s ownership structure, the effects of which have not been determined.

For each year between 2018 and 2020, the Company made a qualified small business election to utilize research tax credits as payroll tax credits. As a result, the Company has other current assets and other assets of $114,482 and $131,721 as of September 30, 2021 and December 31, 2020, respectively, representing credits to be utilized against future employer payroll taxes.

9. Subsequent Events

Management evaluated subsequent events through November 9, 2021, the date the financial statements were available to be issued.

On November 15, 2021, Kala Pharmaceuticals, Inc. ("Kala" or the "Company") and its newly formed, direct wholly owned subsidiary, Ceres Merger Sub, Inc. (the "Merger Subsidiary"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Combangio, Inc. ("Combangio") and Fortis Advisors LLC, solely in its capacity as Combangio Equityholder Representative in connection with the Merger Agreement, pursuant to which on November 15, 2021, the Merger Subsidiary merged with and into Combangio with Combangio surviving such merger and becoming a direct wholly owned subsidiary of the Company (the "Acquisition"). Combangio was a clinical-stage biotechnology company focused on developing regenerative biotherapeutics for severe ocular diseases based on mesenchymal stem cell secretomes, including, its lead product candidate, CMB-012 for the treatment of persistent corneal epithelial defects. Following the Acquisition, the Company refers to CMB-012 as KPI-012.

The unaudited pro forma consolidated financial information reflects transaction accounting adjustments, which reflect the application of the accounting required by generally accepted accounting principles in the United States ("U.S. GAAP") for the impacts of the Acquisition. The following unaudited pro forma condensed consolidated financial information was prepared using the cost accumulation and allocation model of accounting under U.S. GAAP and gives effect to the merger between the Merger Subsidiary and Combangio. For accounting purposes, the transaction was accounted for as an asset acquisition in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations*, and FASB ASC 350, *Intangibles—Goodwill and Other*, as substantially all of the fair value of the gross assets acquired was concentrated in a single asset, KPI-012.

The following unaudited pro forma condensed consolidated financial statements are derived from Kala's historical financial statements and Combangio's historical financial statements, and the unaudited pro forma adjustments give effect to Kala's acquisition of Combangio. The unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2021 and the year ended December 31, 2020 give effect to these transactions as if they had occurred on January 1, 2020. The unaudited pro forma condensed consolidated balance sheet as of September 30, 2021 gives effect to these transactions as if they had occurred on September 30, 2021.

The unaudited pro forma condensed consolidated financial information does not give effect to the potential impact of current financial conditions, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the integration of the two companies. The unaudited pro forma condensed consolidated financial information is preliminary and has been prepared for illustrative purposes only and is not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Kala acquired Combangio during the specified periods. The actual results reported in periods following the transaction may differ significantly from those reflected in the pro forma financial information presented herein for a number of reasons, including, but not limited to, differences between the assumptions used to prepare this pro forma financial information. The pro forma adjustments included in the accompanying unaudited pro forma condensed consolidated financial information are based on currently available data and assumptions that the Company believes are reasonable.

The assumptions and estimates underlying the unaudited adjustments to the pro forma condensed consolidated financial statements are described in the accompanying notes, which should be read together with the pro forma condensed consolidated financial statements.

The unaudited pro forma condensed consolidated financial statements should be read together with the Company's historical financial statements, which are included in the Company's latest annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 25, 2021 and the Company's latest quarterly report on Form 10-Q filed with the SEC on November 15, 2021, and Combangio's historical financial information included herein.

Pro Forma Condensed Consolidated Balance Sheet
As of September 30, 2021
(in thousands, except share and per share amounts)

	Historical				
	Kala as of September 30, 2021	**Combangio as of September 30, 2021 after Reclassifications (Note (a))**	**Transaction Accounting Adjustments for Acquisition**	**Notes**	**Pro Forma Condensed Consolidated**
Assets					
Current assets:					
Cash and cash equivalents	$ 124,503	$ 214	$ (5,000)	(a)	$ 119,717
Short-term investments	—	—	—		—
Accounts receivable, net	12,630	—	—		12,630
Inventory	7,708	—	—		7,708
Prepaid expenses and other current assets	4,245	30	—		4,275
Total current assets	149,086	244	(5,000)		144,330
Non-current assets:					
Property and equipment, net	3,142	41	—		3,183
Long-term inventory	11,039	—	—		11,039
Right-of-use assets	27,339	—	54	(a)	27,393
Restricted cash and other long-term assets	3,208	90	307	(a)	3,605
Total assets	193,814	375	(4,639)		189,550
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	5,845	31	—		5,876
Accrued expenses and other current liabilities	19,465	32	12,165 900	(a) (b) (a)	32,562
Current portion of lease liabilities	1,885	—	33	(a)	1,918
Total current liabilities	27,195	63	13,098		40,356
Long-term liabilities:					
Long-term lease liabilities	26,659	—	21	(a)	26,680
Other long-term liabilities	—	—	1,533 5,242	(a) (b) (a)	6,776
Long-term debt	78,491	—	—		78,491
Total long-term liabilities	105,150	—	6,796		111,946
Total liabilities	132,345	63	19,895		152,303
Commitments and Contingencies	—	—	—		—
Stockholders' equity:					
Series Seed convertible preferred stock	—	47	(47)	(c)	—
Series A convertible preferred stock	—	66	(66)	(c)	—
Common stock, $0.001 par value; 120,000,000 shares authorized as of September 30, 2021 and December 31, 2020; 65,085,224 and 58,915,375 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	65	11	(11)	(c)	65
Additional paid-in capital	556,224	6,435	(6,435)	(c)	556,224
Accumulated other comprehensive income	—	—	—		—
Accumulated deficit	(494,820)	(6,248)	6,559 (24,534)	(c) (c)	(519,042)
Total stockholders' equity	61,469	312	(24,534)		37,247
Total liabilities and stockholders' equity	$ 193,814	$ 375	$ (4,639)		$ 189,550

Pro Forma Condensed Consolidated Statement of Operations
For the Nine Months Ended September 30, 2021
(in thousands, except share and per share amounts)

	Historical				
	Kala Pharmaceuticals For the Nine Months Ended September 30, 2021	Combangio For the Nine Months Ended September 30, 2021 after Reclassifications (Note (g))	Transaction Accounting Adjustments for Acquisition	Notes	Pro Forma Condensed Consolidated
Product revenues, net	$ 9,384	$ —	$ —		$ 9,384
Costs and expenses:					
Cost of product revenues	2,679	—	—		2,679
Selling, general and administrative	81,034	582	—	(d)	81,616
Research and development	9,101	675	—		9,776
Total costs and expenses	92,814	1,257	—		94,071
Loss from operations	(83,430)	(1,257)	—		(84,687)
Other income (expense):					
Interest and other income	92	1	—		93
Interest and other expense	(6,304)	(1)	—		(6,305)
(Loss) gain on extinguishment of debt	(5,395)	44	—		(5,351)
Total interest and other expense	(11,607)	44	—		(11,563)
Net loss	(95,037)	(1,213)	—	(f)	(96,250)
Net loss per share—basic and diluted	$ (1.49)	$ —	$ —		$ (1.35)
Weighted average shares outstanding —basic and diluted	63,766,052	—	7,788,637	(e)	71,554,689

Pro Forma Condensed Consolidated Statement of Operations
For the Year Ended December 31, 2020
(in thousands, except share and per share amounts)

	Historical				
	Kala For the Year Ended December 31, 2020	Combangio For the Year Ended December 31, 2020 after Reclassifications (Note (g))	Transaction Accounting Adjustments for Acquisition	Notes	Pro Forma Condensed Consolidated
Product revenues, net	$ 6,362	$ —	$ —		$ 6,362
Costs and expenses:					
Cost of product revenues	3,173	—	—		3,173
Selling, general and administrative	81,068	485	1,179	(d)	82,732
Research and development	18,352	1,104	23,043	(a)	42,499
Total costs and expenses	102,593	1,589	24,222		128,404
Loss from operations	(96,231)	(1,589)	(24,222)		(122,042)
Other income (expense):					
Interest and other income	493	—	—		493
Interest and other expense	(8,589)	(1)	—		(8,590)
Total interest and other expense	(8,096)	(1)	—		(8,097)
Net loss	$ (104,327)	$ (1,590)	$ (24,222)	(f)	$ (130,139)
Net loss per share—basic and diluted	$ (1.99)	—	$ (2.16)		
Weighted average shares outstanding—basic and diluted	52,377,526	—	7,788,637	(e)	60,166,163

Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements

Basis of Presentation

The unaudited pro forma condensed consolidated financial statements were prepared in accordance with Article 11 of Regulation S-X, as amended by SEC Final Rule Release No. 33-10786, Amendments to Financial Disclosures About Acquired and Disposed Businesses, and present the pro forma financial condition and results of operations of the Company, based upon the historical financial information, after giving effect to the Acquisition and related adjustments set forth in the notes to the unaudited pro forma condensed consolidated financial statements.

The unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2021 and the year ended December 31, 2020 give effect to these transactions as if they had occurred on January 1, 2020. The unaudited pro forma condensed consolidated balance sheet as of September 30, 2021 gives effect to these transactions as if they had occurred on September 30, 2021.

The pro forma adjustments were prepared on the condition that there is a reasonable basis for each adjustment in addition to being in management's opinion, necessary to disclose a fair statement of the pro forma financial information.

The pro forma adjustments also include adjustments to align Combangio's accounting policies to the Company's accounting policies, specifically to account for its lease under ASC 842, *Accounting for Leases*, and reclasses to conform to Kala's presentation. No other accounting policy alignment was identified.

Acquisition of Combangio

On November 15, 2021, Kala Pharmaceuticals, Inc. ("Kala" or the "Company") and its newly formed, direct wholly owned subsidiary, Ceres Merger Sub, Inc. (the "Merger Subsidiary"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Combangio, Inc. ("Combangio") and Fortis Advisors LLC, solely in its capacity as Combangio Equityholder Representative in connection with the Merger Agreement, pursuant to which on November 15, 2021, the Merger Subsidiary merged with and into Combangio with Combangio surviving such merger and becoming a direct wholly owned subsidiary of the Company (the "Acquisition"). Combangio was a clinical-stage biotechnology company focused on developing regenerative biotherapeutics for severe ocular diseases based on mesenchymal stem cell secretomes, including, its lead product candidate, CMB-012 for the treatment of persistent corneal epithelial defects. Following the Acquisition, the Company refers to CMB-012 as KPI-012.

For accounting purposes, the transaction was accounted for as an asset acquisition in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations* and FASB ASC 350, *Intangibles—Goodwill and Other,* as substantially all of the fair value of the gross assets acquired was concentrated in a single asset, KPI-012.

In connection with the closing of the Acquisition on November 15, 2021, the Company made an upfront payment of an aggregate of $5.0 million in cash to former Combangio stockholders and other equityholders (the "Combangio Equityholders"), subject to customary adjustments, and agreed to issue an aggregate of 7,788,637 shares of the Company's common stock, $0.001 par value per share (the "Common Stock"), to the Combangio Equityholders with an aggregate value of approximately $16.1 million, consisting of (i) an aggregate of 6,815,072 shares of Common Stock issued on January 3, 2022 and (ii) an aggregate of 973,565 shares of Common Stock that were held back by the Company and will be issuable subject to the terms of the Merger Agreement to the Combangio Equityholders on February 15, 2023, which is the escrow release date. The aggregate value of the Company's Common Stock consideration was calculated using the closing price of the Company's Common Stock on the Nasdaq Global Select Market on November 15, 2021, the date that the Company gained control over Combangio. The Common Stock consideration constituted approximately 11.9% of the Company's Common Stock outstanding as of immediately prior to the closing of the Acquisition.

In addition, the Combangio Equityholders, are also entitled to receive from the Company contingent consideration (the "Contingent Consideration") of up to $105.0 million contingent upon the achievement of specified development, regulatory and sales based milestones related to KPI-012 (the "Milestone Payments"), payable in a combination of cash and Common Stock, as well as tiered cash royalties at percentage rates in the mid-to-high single digits payable on annual net sales of any products whose active ingredient comprises one or more biological factors secreted by mesenchymal stem cells or their progenitors, including KPI-012 ("Product Candidate") and a cash payment at a percentage rate in the high single digits of all income received by the Company or any of its affiliates from a product license granted by the Company to a third party to sell or otherwise commercialize the Product Candidate in countries where neither the Company nor its affiliates conduct sales of such Product Candidate.

As a result of the Acquisition, Kala acquired a license agreement originally entered into between Combangio and the Board of Trustees of the Leland Stanford Junior University in 2019. Under such license agreement, the Company acquired an exclusive license for specified patented technology.

Transaction costs incurred related to the Acquisition totaled $2.1 million, of which $0.9 million was incurred by Kala and $1.2 million was incurred by Combangio. Transaction costs incurred by Kala of $0.9 million, which were direct and incremental to the asset acquisition, were recognized as in-process research and development ("IPR&D") expense and transaction costs incurred by Combangio of $1.2 million were recognized as selling, general and administrative expense.

In certain limited circumstances, shares of Common Stock, if any, issued as Milestone Payments, are subject to customary registration rights, and the Company has agreed to file a registration statement registering such shares of Common Stock within 30 days after specified events have occurred.

Transaction Accounting Adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed consolidated financial information:

a. The purchase consideration was allocated to the assets acquired based on their relative fair values. As the asset acquired had not yet received regulatory approval and the asset use had no alternative future, the $23.0 million purchase price for Combangio's intellectual property was expensed as IPR&D in the Company's statement of operations on the consummation of the transaction. The $23.7 million total purchase price consists of the initial upfront cash payment of $3.8 million, transaction expenses of $0.9 million, initial Common Stock consideration of 7,788,637 shares with a fair value of $13.7 million based on Kala's closing stock price on the closing date discounted for a lack of marketability as the shares were not freely tradeable at issuance and $5.2 million, which is the initial fair value of the Milestone Payments that will be or can be paid in shares of Common Stock, as these Milestone Payments meet the definition of a derivative under ASC 815, *Derivatives and Hedging*. An additional cash payment of $1.2 million was made for transaction expenses incurred by Combangio that were recognized as selling, general and administrative expenses. See note (d) for more details.

   In addition, the potential Milestone Payments solely payable in cash upon specified sales milestones and the royalty payments based upon specified sales are not yet considered probable, and thus have not been accrued in the pro forma condensed consolidated balance sheet as of September 30, 2021.

   The following table summarizes the total purchase consideration as of November 15, 2021 (in thousands):

Cash	$ 3,821
Transaction expenses	901
Equity (6,815,072 shares at $1.79 per share and 973,565 at $1.58 per share) (1)	13,698
Contingent consideration (2)	5,242
Total consideration	$ 23,662

(1) Equity consists of 6,815,072 shares of Common Stock issued on January 3, 2022 and 973,565 shares of Common Stock, which will not be issued until the escrow release date.

(2) Contingent consideration consists of the fair value of certain milestone payments, which met the definition of a derivative under ASC 815, due to the settlement of those milestone payments being payable in a combination of cash and Common Stock. The total potential maximum payout for the contingent consideration is $105.0 million and is contingent upon the achievement of specified development, regulatory and sales-based milestones related to KPI-012. The total potential maximum payout for the Milestone Payments, which met the definition of a derivative under ASC 815, is $40.0 million and are contingent upon the achievement of specified development, regulatory and commercialization milestones.

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The following is the preliminary allocation of the purchase consideration based on the relative fair value of assets acquired and the liabilities assumed by the Company in the Acquisition (in thousands):

Cash and cash equivalents	$ 214
Prepaid expense and other current assets	30
Property and equipment	41
Other assets (1)	144
Workforce (3)	307
In-Process Research and Development - Intellectual Property (4)	23,043
Liabilities (1) (2)	(117)
Total consideration	$ 23,662

(1) In connection with its purchase accounting for the Acquisition, Kala reflected the adoption of ASC 842 for Combangio as if Combangio had adopted ASC 842 on the November 15, 2021 acquisition date. As a result of this adoption, Kala recorded an operating lease right-of-use asset and operating lease liability of $54 thousand as of the acquisition date. The operating lease liability consists of a $33 thousand short term liability and $21 thousand long-term liability. There was no material impact to the amount and timing of quarterly expense recognition of lease costs, which had been recognized in accordance with ASC 840. Therefore, assuming an ASC 842 adoption date of January 1, 2020 for Combangio for pro forma purposes would not have a material impact on the unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2021 or the year ended December 31, 2020, and as such, no ASC 842 pro forma adjustment is reflected.

(2) Combangio had certain payroll related liabilities of $3 thousand that were reclassed to accrued expenses and other current liabilities to conform to Kala's presentation.

(3) The workforce was valued using replacement cost and the key assumptions utilized were recruiting costs and salary. The estimated useful life of the workforce is 5 years.

(4) The IPR&D related to KPI-012 totaling $23.0 million was fair valued using an income approach, specifically a discounted cash flow method, adjusted for the probability of success. The projected cash flows used to estimate the fair value of the IPR&D reflect significant assumptions regarding the estimates a market participant would make in order to evaluate a drug development asset including estimates of potential cash flows to be generated by the project, estimates regarding timing of and the expected expenses to advance the clinical programs to commercialization, and estimates regarding timing of and expected amounts of certain cash flow adjustments, such as milestone payments and capital expenditures. The projected cash flows were then adjusted for the probabilities of success and then discounted to present value using an appropriate discount rate.

b. Represents the commitment to issue 7,788,637 shares of Common Stock recorded at its initial fair value of $13.7 million on November 15, 2021, which was valued with the assistance of a third-party valuation firm. The fair value for the shares issued on January 3, 2022 of $12.2 million was recorded as accrued expenses and other current liabilities and the fair value for the shares to be issued after the escrow release date of February 15, 2023 of $1.5 million was recorded as long-term liability.

c. Represents the elimination of the historical equity of Combangio, the allocation of the purchase price of $23.0 million to IPR&D expense and $1.2 million of transaction expenses that were recorded as selling, general and administrative expenses. In connection with the Acquisition, each share of Combangio's preferred stock and common stock was converted into a right to receive such share's pro rata portion of the closing cash and share consideration.

d. Reflects an adjustment of approximately $1.2 million for the estimated transaction costs incurred by Combangio, such as adviser fees, legal and accounting expenses that were not incurred as of September 30, 2021. For the nine months ended September 30, 2021, there were $48 thousand of transaction expenses incurred by Kala that are not expected to be incurred in the twelve months after the consummation of the Acquisition.

e. Represents the increase in the weighted average shares due to the issuance of 7,788,637 shares of common stock in connection with the Acquisition. Unaudited basic and diluted pro forma net loss per share is computed by dividing pro forma net loss by the pro forma weighted average number of Kala common stock outstanding after the closing of the Acquisition. The potential shares that could be issued in connection with specified milestones are not included in basic or diluted net loss per share as the contingencies have not been met as of the balance sheet date.

f. Given Kala's and Combangio's history of net losses and valuation allowance, management assumed an annual effective income tax rate of 0%. Therefore, the pro forma adjustments to the pro forma condensed consolidated statements of operations resulted in no additional income tax adjustment.

g. Combangio had regulatory and clinical expenses of $86 thousand and $179 thousand for the nine months ended September 30, 2021 and the year ended December 31, 2020, respectively, that were reclassed to research and development expense to conform to Kala's presentation.