

**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 September 30, 2019

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 000-51122

EyePoint Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

480 Pleasant Street
Watertown, MA
(Address of principal executive offices)

26-2774444
(I.R.S. Employer
Identification No.)

02472
(Zip Code)

(617) 926-5000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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, par value \$0.001	EYPT	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** **No**

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 108,117,440 shares of the registrant's common stock, \$0.001 par value, outstanding as of November 4, 2019.

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In thousands except share amounts)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,760	\$ 45,261
Accounts and other receivables, net	8,855	627
Prepaid expenses and other current assets	3,887	1,434
Inventory	2,559	279
Total current assets	47,061	47,601
Property and equipment, net	386	288
Operating lease right-of-use assets	3,186	—
Intangible assets, net	28,284	30,129
Restricted cash	150	150
Total assets	\$ 79,067	\$ 78,168
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,461	\$ 2,640
Accrued expenses	4,446	3,789
Accrued development milestone	—	15,000
Deferred revenue	—	30
Operating lease liabilities - current portion	461	—
Total current liabilities	10,368	21,459
Long-term debt	46,733	17,621
Operating lease liabilities - noncurrent	3,028	—
Other long-term liabilities	3,000	1,455
Total liabilities	63,129	40,535
Contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.001 par value, 150,000,000 shares authorized at September 30, 2019 and December 31, 2018; 108,029,244 and 95,372,236 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	108	95
Additional paid-in capital	469,866	445,192
Accumulated deficit	(454,876)	(408,493)
Accumulated other comprehensive income	840	839
Total stockholders' equity	15,938	37,633
Total liabilities and stockholders' equity	\$ 79,067	\$ 78,168

See notes to consolidated financial statements

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Product sales, net	\$ 1,009	\$ —	\$ 8,941	\$ —
License and collaboration agreement	1,054	56	1,125	798
Royalty income	446	430	1,666	1,331
Total revenues	<u>2,509</u>	<u>486</u>	<u>11,732</u>	<u>2,129</u>
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	327	—	1,363	—
Research and development	3,484	6,233	11,237	14,323
Sales and marketing	7,778	3,646	22,373	5,158
General and administrative	4,365	4,161	13,790	10,662
Amortization of acquired intangible assets	615	—	1,845	—
Total operating expenses	<u>16,569</u>	<u>14,040</u>	<u>50,608</u>	<u>30,143</u>
Loss from operations	<u>(14,060)</u>	<u>(13,554)</u>	<u>(38,876)</u>	<u>(28,014)</u>
Other income (expense):				
Interest and other income, net	183	129	692	181
Interest expense	(1,770)	(815)	(4,389)	(1,535)
Loss on extinguishment of debt	—	—	(3,810)	—
Change in fair value of derivative liability	—	(18,886)	—	(45,164)
Total other expense, net	<u>(1,587)</u>	<u>(19,572)</u>	<u>(7,507)</u>	<u>(46,518)</u>
Net loss	<u>\$ (15,647)</u>	<u>\$ (33,126)</u>	<u>\$ (46,383)</u>	<u>\$ (74,532)</u>
Net loss per share - basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.44)</u>	<u>\$ (0.45)</u>	<u>\$ (1.27)</u>
Weighted average shares outstanding - basic and diluted	<u>106,938</u>	<u>75,170</u>	<u>102,900</u>	<u>58,840</u>
Net loss	\$ (15,647)	\$ (33,126)	\$ (46,383)	\$ (74,532)
Foreign currency translation adjustments	—	—	1	2
Comprehensive loss	<u>\$ (15,647)</u>	<u>\$ (33,126)</u>	<u>\$ (46,382)</u>	<u>\$ (74,530)</u>

See notes to consolidated financial statements

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Number of Shares	Par Value Amount				
Balance at June 30, 2018	74,512,048	\$ 74	\$ 374,766	\$ (363,991)	\$ 838	\$ 11,687
Cumulative effect adjustment for adoption of new accounting principle	—	—	—	218	—	218
Net loss	—	—	—	(33,126)	—	(33,126)
Exercise of warrants	20,184,224	21	28,842	—	—	28,863
Settlement of derivative liability	—	—	38,666	—	—	38,666
Stock-based compensation	—	—	1,397	—	—	1,397
Balance at September 30, 2018	<u>94,696,272</u>	<u>\$ 95</u>	<u>\$ 443,671</u>	<u>\$ (396,899)</u>	<u>\$ 838</u>	<u>\$ 47,705</u>
Balance at June 30, 2019	106,297,792	\$ 106	\$ 466,493	\$ (439,229)	\$ 840	\$ 28,210
Net loss	—	—	—	(15,647)	—	(15,647)
Issuance of stock, net of issue costs	1,707,995	2	2,410	—	—	2,412
Vesting of stock units	23,457	—	(14)	—	—	(14)
Stock-based compensation	—	—	977	—	—	977
Balance at September 30, 2019	<u>108,029,244</u>	<u>\$ 108</u>	<u>\$ 469,866</u>	<u>\$ (454,876)</u>	<u>\$ 840</u>	<u>\$ 15,938</u>

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Number of Shares	Par Value Amount				
Balance at January 1, 2018	45,256,999	\$ 45	\$ 331,609	\$ (322,585)	\$ 836	\$ 9,905
Cumulative effect adjustment for adoption of new accounting principle	—	—	—	218	—	218
Net loss	—	—	—	(74,532)	—	(74,532)
Other comprehensive income	—	—	—	—	2	2
Issuance of stock, net of issue costs	28,790,548	29	40,909	—	—	40,938
Fair value of warrants issued	—	—	355	—	—	355
Exercise of stock options	310,900	—	503	—	—	503
Vesting of stock units	153,601	—	(27)	—	—	(27)
Exercise of warrants	20,184,224	21	28,842	—	—	28,863
Settlement of derivative liability	—	—	38,666	—	—	38,666
Stock-based compensation	—	—	2,814	—	—	2,814
Balance at September 30, 2018	<u>94,696,272</u>	<u>\$ 95</u>	<u>\$ 443,671</u>	<u>\$ (396,899)</u>	<u>\$ 838</u>	<u>\$ 47,705</u>
Balance at January 1, 2019	95,372,236	\$ 95	\$ 445,192	\$ (408,493)	\$ 839	\$ 37,633
Net loss	—	—	—	(46,383)	—	(46,383)
Other comprehensive income	—	—	—	—	1	1
Issuance of stock, net of issue costs	12,234,495	12	20,743	—	—	20,755
Exercise of stock options	166,760	1	307	—	—	308
Vesting of stock units	255,753	—	(87)	—	—	(87)
Stock-based compensation	—	—	3,711	—	—	3,711
Balance at September 30, 2019	<u>108,029,244</u>	<u>\$ 108</u>	<u>\$ 469,866</u>	<u>\$ (454,876)</u>	<u>\$ 840</u>	<u>\$ 15,938</u>

See notes to consolidated financial statements

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (46,383)	\$ (74,532)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Amortization of intangible assets	1,845	1,230
Depreciation of property and equipment	109	127
Amortization of debt discount	430	363
Non-cash interest expense	728	—
Loss on extinguishment of debt	3,810	—
Stock-based compensation	3,711	2,814
Change in fair value of derivative liability	—	45,164
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	(10,681)	(770)
Inventory	(2,280)	—
Accounts payable and accrued expenses	3,481	3,415
Right-of-use assets and operating lease liabilities	47	—
Deferred revenue	(30)	(505)
Deferred rent	—	27
Net cash used in operating activities	<u>(45,213)</u>	<u>(22,667)</u>
Cash flows from investing activities:		
Acquisition of Icon Bioscience Inc., net of cash acquired	—	(16,780)
Purchases of property and equipment	(207)	(153)
Net cash used in investing activities	<u>(207)</u>	<u>(16,933)</u>
Cash flows from financing activities:		
Proceeds from issuance of stock, net of issuance costs	20,755	34,471
Proceeds from exercise of warrants	—	28,863
Proceeds from issuance of long-term debt	50,000	20,000
Payment of debt issue costs	(1,341)	(1,347)
Payment of long-term debt principal	(20,000)	—
Payment of extinguishment of debt costs	(2,716)	—
Net settlement of stock units to satisfy statutory tax withholding	(87)	—
Proceeds from exercise of stock options	308	503
Payment of contingent development milestone	(15,000)	—
Net cash provided by financing activities	<u>31,919</u>	<u>82,490</u>
Effect of foreign exchange rate changes on cash and cash equivalents	—	(2)
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(13,501)</u>	<u>42,888</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>45,411</u>	<u>13,026</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 31,910</u>	<u>\$ 55,914</u>
Supplemental cash flow information:		
Cash interest paid	\$ 3,574	\$ 841
Supplemental disclosure of non-cash investing and financing activities:		
Accrued development milestone	—	15,000
Accrued term loan exit fee	3,000	1,200
Fair value of second tranche purchase liability	—	4,734
Fair value of warrants issued with debt	—	355
Fair value of second tranche warrants	—	18,165

See notes to consolidated financial statements

EYEPOINT PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Operations and Basis of Presentation

Overview

The accompanying condensed consolidated financial statements of EyePoint Pharmaceuticals, Inc. and subsidiaries (collectively, the “Company”) as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 are unaudited. Certain information in the footnote disclosures of these financial statements has been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in the Company’s Transition Report on Form 10-K for the six months ended December 31, 2018. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements as of and for the six months ended December 31, 2018, and include all adjustments, consisting only of normal recurring adjustments, that are necessary for the fair presentation of the Company’s financial position, results of operations, comprehensive loss and cash flows for the periods indicated. The preparation of financial statements in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires management to make assumptions and estimates that affect, among other things, (i) reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and (iii) reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the entire fiscal year or any future period.

The Company is a specialty biopharmaceutical company committed to developing and commercializing innovative ophthalmic products for the treatment of eye diseases. The Company has two products, YUTIQ® and DEXYCU®, which were approved by the U.S. Food and Drug Administration (“FDA”) in October 2018 and February 2018, respectively.

YUTIQ (fluocinolone acetonide intravitreal implant) 0.18 mg for intravitreal injection, was launched directly in the U.S. in February 2019. YUTIQ is indicated for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye, which affects between 55,000 to 120,000 people in the U.S. each year and causes approximately 30,000 new cases of blindness every year, making it the third leading cause of blindness. Injected into the eye in an office visit, YUTIQ is a micro-insert that delivers a micro-dose of a corticosteroid to the back of the eye on a sustained constant (zero order release) basis for up to 36 months. YUTIQ is based on the Company’s proprietary Durasert™ sustained-release drug delivery technology platform, which can deliver drugs for predetermined periods of time ranging from months to years.

DEXYCU (dexamethasone intraocular suspension) 9%, for intraocular administration, was launched directly in the U.S. in March 2019. Indicated for the treatment of post-operative ocular inflammation, DEXYCU is administered as a single dose at the end of ocular surgery and is the first long-acting intraocular product approved by the FDA for this indication. DEXYCU utilizes the Company’s proprietary Verisome® drug-delivery platform, which allows for a single intraocular injection that releases dexamethasone, a corticosteroid, over time. There were approximately 4.8 million cataract surgeries performed during 2018 in the U.S., with growth projected at an estimated annual rate of 8%, and the Company launched DEXYCU with a primary focus on its use following cataract surgery. The Company acquired DEXYCU in connection with its acquisition of Icon Bioscience, Inc. (“Icon”) in March 2018.

ILUVIEN® for diabetic macular edema (“DME”), the Company’s lead licensed product, is sold directly in the U.S. and several European Union (“EU”) countries by Alimera Sciences, Inc. (“Alimera”). In July 2017, the Company expanded its license agreement with Alimera to include the uveitis indication utilizing the Durasert technology in Europe, the Middle East and Africa (“EMEA”), which received European regulatory approval in March 2019 and, subject to obtaining pricing and reimbursement in each applicable country, will be marketed as ILUVIEN. Retisert®, one of the Company’s earlier generation products, was approved in 2005 by the FDA for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye and is sold in the U.S. by Bausch & Lomb Inc. (“Bausch & Lomb”). The Company’s development programs are focused primarily on developing sustained release products that utilize its Durasert and Verisome technology platforms to deliver

approved drugs to treat chronic diseases. The Company's strategy includes developing products independently while continuing to leverage its technology platforms through collaborations and license agreements.

Liquidity

The Company has a history of operating losses and has not had significant recurring cash inflows from revenue. The Company's operations have been financed primarily from sales of its equity securities, issuance of debt and a combination of royalty income and other fees received from collaboration partners. During the three months ended September 30, 2019, the Company received gross cash proceeds of approximately \$2.6 million from utilization of its at-the-market ("ATM") equity program (see Note 10). The Company had cash and cash equivalents of \$31.8 million at September 30, 2019. Accordingly, the foregoing conditions, taken together, continue to raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of these financial statements.

In the first quarter of 2019, the Company commenced the U.S. launch of its first two commercial products, YUTIQ and DEXYCU. During the ensuing months, the commercial progress of YUTIQ and DEXYCU has been positive, with demand for YUTIQ meeting the Company's expectations. However, the Company, has no history of direct commercialization of its products and management does not yet have sufficient historical evidence to assert that it is probable that the Company will receive sufficient revenues from its sales of YUTIQ and DEXYCU to fund operations. As of September 30, 2019, the Company has had recurring operating losses since its inception and has an accumulated deficit of approximately \$454.9 million and working capital of \$36.7 million. The Company expects that its existing cash and cash equivalents at September 30, 2019, and cash inflows from anticipated YUTIQ and DEXYCU product sales will be sufficient to fund the Company's operating plan into 2020.

The Company anticipates that it will need to raise additional capital to fund its operations until its cash flows reach a level sufficient to fund the Company's operating plan through 2020. Actual cash requirements could differ from management's projections due to many factors, including the success of commercialization for YUTIQ and DEXYCU, the actual costs of these commercialization efforts, additional investments in research and development programs, competing technological and market developments and the costs of any strategic acquisitions and/or development of complementary business opportunities.

Recently Adopted and Recently Issued Accounting Pronouncements

New accounting pronouncements are issued periodically by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as of the specified effective dates. Unless otherwise disclosed below, the Company believes that recently issued and adopted accounting pronouncements will not have a material impact on the Company's financial position, results of operations and cash flows or do not apply to the Company's operations.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which contains certain amendments to ASU 2016-02 intended to provide relief in implementing the new standard. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all operating leases, with an exception provided for leases with a duration of one year or less. The Company adopted ASU 2016-02 on January 1, 2019 using the modified retrospective transition approach which, pursuant to ASU 2018-11, allows companies to recognize existing leases at the adoption date without requiring comparable period presentation. Comparative periods are presented in accordance with the previous guidance in Accounting Standards Codification ("ASC") 840, *Leases*.

In adopting the new standard, the Company elected to utilize the available package of practical expedients permitted under the transition guidance within the new standard, which does not require the reassessment of the following: (i) whether existing or expired arrangements are or contain a lease, (ii) the lease classification of existing or expired leases, and (iii) whether previous initial direct costs would qualify for capitalization under the new lease standard. Additionally, the Company elected to combine lease and non-lease components and to exclude leases with a term of 12 months or less. The adoption of this accounting standard resulted in recording operating lease ROU assets for three real estate operating lease arrangements and corresponding operating lease liabilities of \$3.5 million and \$3.7 million, respectively, as of January 1, 2019. The operating lease assets at adoption were lower than the operating lease liabilities because the balance of the Company's deferred rent liabilities at December 31, 2018, which represented lease incentives, was reclassified into operating lease assets. The adoption of the standard did not have a material effect on the Company's consolidated statements of operations or consolidated statements of cash flows.

Under Topic 842, the Company determines whether the arrangement is or contains a lease at inception. Operating leases are recognized on the consolidated balance sheets as ROU assets, current portion of lease liabilities and long-term lease liabilities. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The operating lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Company utilized its 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. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to replace the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. This standard will be effective for the Company in the first quarter of its fiscal year ending December 31, 2020. The Company is currently evaluating the impact the adoption of this update will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 to our audited financial statements included in the Company's Transition Report on Form 10-K for the six-month transition period ended December 31, 2018. There have been no subsequent changes to the Company's significant accounting policies except for the policies discussed below related to revenue and cost of goods sold for commercial product sales and for the adoption of the new accounting standard for lessee operating leases (see Note 1).

Revenue Recognition

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, Revenue from Contracts with Customers ("ASC 606"), the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract, determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as)

the performance obligation is satisfied. Sales, value add, and other taxes collected on behalf of third parties are excluded from revenue.

Product sales, net — The Company began selling YUTIQ and DEXYCU in February and March 2019, respectively. The Company is currently selling YUTIQ and DEXYCU in the U.S. through a single third-party logistics provider (the “3PL”), which takes title to the goods. The 3PL distributes the products through a limited number of specialty distributors and specialty pharmacies (collectively the “Distributors”), with whom the Company has entered into formal agreements, for delivery to physician practices for YUTIQ and to hospital outpatient departments and ambulatory surgical centers for DEXYCU. The Company recognizes revenue on sales of products when the 3PL obtains control of the products, which occurs at a point in time, typically upon delivery. The Company expects to enter into arrangements with healthcare providers and payors that provide for government mandated and/or privately negotiated rebates, chargebacks, and discounts with respect to the purchase of the Company’s products.

Reserves for variable consideration— Product sales are recorded at the wholesale acquisition costs, net of applicable reserves for variable consideration. Components of variable consideration include trade discounts and allowances, provider chargebacks and discounts, payor rebates, product returns, and other allowances that are offered within contracts between the Company and its Distributors, payors, and other contracted purchasers relating to the Company’s product sales. These reserves, as detailed below, are based on the amounts earned, or to be claimed on the related sales, and are classified either as reductions of accounts receivable or a current liability, depending on how the amount is to be settled. Overall, these reserves reflect the Company’s best estimates of the amount of consideration to which it is entitled based on the terms of the respective underlying contracts. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, the Company adjusts these estimates, which would affect product revenue and earnings in the period such variances become known.

Distribution fees — The Company compensates its Distributors for services explicitly stated in the Company’s contracts and are recorded as a reduction of revenue in the period the related product sale is recognized.

Provider chargebacks and discounts — Chargebacks are discounts that represent the estimated obligations resulting from contractual commitments to sell products at prices lower than the list prices charged to our Distributors. These Distributors charge us for the difference between what they pay for the product and our contracted selling price. These reserves are established in the same period that the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability. Reserves for chargebacks consist of amounts that the Company expects to pay for units that remain in the distribution channel inventories at each reporting period-end that the Company expects will be sold under a contracted selling price, and chargebacks that Distributors have claimed, but for which the Company has not yet settled.

Government rebates — The Company is subject to discount obligations under state Medicaid programs and Medicare. These reserves are recorded in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability which is included in accrued expenses and other current liabilities on the condensed consolidated balance sheets. The Company’s liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimated future claims that will be made for product that has been recognized as revenue, but which remains in the distribution channel inventories at the end of each reporting period.

Payor rebates — The Company expects to contract with certain private payor organizations, primarily insurance companies, for the payment of rebates with respect to utilization of its products. The Company estimates these rebates and records such estimates in the same period the related revenue is recognized, resulting in a reduction of product revenue and the establishment of a current liability.

Co-Payment assistance— The Company offers co-payment assistance to commercially insured patients meeting certain eligibility requirements. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to receive associated with product that has been recognized as revenue.

Product returns — The Company generally offers a limited right of return based on its returned goods policy, which includes damaged product and remaining shelf life. The Company estimates the amount of its product sales

that may be returned and records this estimate as a reduction of revenue in the period the related product revenue is recognized, as well as reductions to trade receivables, net on the condensed consolidated balance sheets.

Cost of sales, excluding amortization of acquired intangible assets— Cost of sales, excluding amortization of acquired intangible assets, consist of costs associated with the manufacture of YUTIQ and DEXYCU, certain period costs, product shipping and, as applicable, royalty expense. The inventory costs for YUTIQ include purchases of various components, the active pharmaceutical ingredient (“API”) and internal labor and overhead for the product manufactured in the Company’s Watertown, MA facility. The inventory costs for DEXYCU include purchased components, the API and third-party manufacturing and assembly. Capitalization of inventory costs begins after FDA approval of the product. Prior thereto, inventory costs of products and product candidates are recorded as research and development expense, even if this inventory may later be sold as commercial product.

3. Acquisition of Icon Bioscience, Inc.

On March 28, 2018, the Company and its newly-created wholly-owned subsidiary, Oculus Merger Sub, Inc., acquired Icon, a specialty biopharmaceutical company, through a reverse triangular merger (the “Icon Acquisition”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) between the Company, Icon, and Shareholder Representative Services LLC (“SRS”), solely in its capacity as representative of Icon’s securityholders. The Icon Acquisition was accounted for as an asset acquisition because substantially all of the fair value of the gross assets acquired were deemed to be concentrated in a group of similar identifiable assets related to Icon’s lead product, DEXYCU. A portion of the Icon Acquisition was funded by a debt financing and an equity financing, both of which closed concurrently with the Icon Acquisition (see Notes 9 and 10).

Pursuant to the Merger Agreement, the Company made a closing payment of \$15.0 million to SRS, net of an estimated \$127,000 working capital adjustment, and is obligated to pay certain post-closing contingent cash payments upon the achievement of specified milestones and based upon certain net sales and partnering revenue standards, in each case subject to the terms and conditions set forth in the Merger Agreement. These include but are not limited to (i) a one-time development milestone of \$15.0 million payable in cash upon the first commercial sale of DEXYCU in the U.S., (ii) sales milestone payments totaling up to \$95.0 million upon the achievement of certain sales thresholds and subject to certain Centers for Medicare & Medicaid Services (“CMS”) reimbursement conditions set forth in the Merger Agreement, (iii) quarterly earn-out payments equal to 12% on net sales of DEXYCU in a given year, which earn-out payments will increase to 16% of net sales of DEXYCU in such year beginning in the calendar quarter for such year to the extent aggregate annual DEXYCU consideration exceeds \$200.0 million in such year, (iv) quarterly earn-out payments equal to 20% of partnering revenue received by the Company for DEXYCU outside of the U.S., and (v) single-digit percentage quarterly earn-out payments with respect to net sales and/or partnering income, if any, resulting from future clinical development, regulatory approval and commercialization of any other product candidates the Company acquired in the Icon Acquisition. Following the first commercial sale of DEXYCU, the Company paid the \$15.0 million one-time development milestone to SRS in April 2019.

The purchase price on the date of the Icon Acquisition was \$32.0 million, and was comprised of the closing consideration of \$15.0 million, including the assumption of an estimated \$127,000 of net current liabilities of Icon, the contingent development milestone payment of \$15.0 million and transaction costs of approximately \$2.0 million. Given the stage of development of DEXYCU, the Company determined these payments did not represent research and development costs. The contingent consideration in the form of sales milestones will be capitalized as additional intangible assets when any such consideration becomes probable and can be reasonably estimated. Sales-based royalty payments will be expensed as incurred.

The purchase price was allocated to a single finite-lived intangible asset with an expected amortization life of approximately 13 years. The intangible asset is being amortized on a straight-line basis over that period. The acquisition did not have a net tax impact due to a full valuation allowance against the acquired net deferred tax assets.

For the three and nine months ended September 30, 2019, the Company accrued sales-based royalty expense of \$97,000 and \$195,000 respectively, as a component of cost of sales.

4. License and Collaboration Agreements

Alimera

Under a collaboration agreement with Alimera, as amended in March 2008 (the “Prior Alimera Agreement”), the Company licensed to Alimera the rights to develop, market and sell certain product candidates, including ILUVIEN for DME, and Alimera assumed all financial responsibility for the development of the licensed products. The Company was entitled to receive a share of any net profits (as defined) on sales of each licensed product (including ILUVIEN) by Alimera, measured on a quarter-by-quarter and country-by-country basis, and Alimera was entitled to recover a share of previously incurred and unapplied net losses (as defined) for commercialization of each product in a country. The Company was also entitled to reimbursement of certain patent maintenance costs with respect to the patents licensed to Alimera.

On July 10, 2017, the Company entered into a further amended and restated collaboration agreement (the “Amended Alimera Agreement”), pursuant to which the Company (i) licensed its then Durasert three-year uveitis product candidate (currently marketed by the Company as YUTIQ in the U.S.) to Alimera for regulatory approval and distribution under its ILUVIEN trade name in EMEA and (ii) converted the net profit share arrangement for each licensed product (including ILUVIEN) under the Prior Alimera Agreement to a sales-based royalty on a calendar quarter basis commencing July 1, 2017, with payments from Alimera due 60 days following the end of each quarter.

Following the completion of the Amended Alimera Agreement, Alimera filed a Type II variation in December 2017 for ILUVIEN for the treatment of non-infectious uveitis affecting the posterior segment of the eye in all seventeen European countries in which it previously received regulatory approval for ILUVIEN for DME. In March 2019, Alimera received regulatory approval for the uveitis indication. After the label for this new indication is finalized consistent with each such country’s local requirements, Alimera has indicated that it plans to commercialize the product for this indication under its ILUVIEN trademark.

Under the Amended Alimera Agreement, sales-based royalties started at the rate of 2%. Commencing December 12, 2018, the royalty rate increased to 6% on aggregate calendar year net sales up to \$75 million and to 8% on any calendar year net sales in excess of \$75 million. Alimera’s share of contingently recoverable accumulated ILUVIEN commercialization losses under the Prior Alimera Agreement, capped at \$25 million, are being reduced as follows: (i) \$10.0 million was cancelled in lieu of an upfront license fee on the effective date of the Amended Alimera Agreement; (ii) for the period from December 12, 2018 through calendar year 2020, 50% of earned sales-based royalties in excess of 2% will be offset against quarterly royalty payments otherwise due from Alimera; (iii) in March 2019, another \$5.0 million was cancelled upon Alimera’s receipt of regulatory approval for ILUVIEN for the uveitis indication; and (iv) commencing in calendar year 2021, 20% of earned sales-based royalties in excess of 2% will be offset against quarterly royalty payments otherwise due from Alimera until such time as the balance of the original \$25 million of recoverable commercialization losses has been fully recouped. At September 30, 2019, the remaining recoverable balance of these commercialization losses was approximately \$9.2 million.

Revenue recognized under the Amended Alimera Agreement totaled \$475,000 and \$249,000 for the three months ended September 30, 2019 and 2018, respectively, and \$1.5 million and \$682,000 for the nine months ended September 30, 2019 and 2018, respectively. In addition to patent fee reimbursements in both periods, the Company recorded \$446,000 and \$215,000 of sales-based royalty income for the three months ended September 30, 2019 and 2018, respectively, and \$1.4 million and \$594,000 for the nine months ended September 30, 2019 and 2018, respectively.

Bausch & Lomb

Pursuant to a licensing and development agreement, as amended, Bausch & Lomb has a worldwide exclusive license to make and sell Retisert in return for royalties based on sales. Royalty income was \$0 and \$215,000 for the three months ended September 30, 2019 and 2018, respectively, and \$204,000 and \$737,000 for the nine months ended September 30, 2019 and 2018, respectively. Accounts receivable from Bausch & Lomb was \$0 at September 30, 2019 and \$253,000 at December 31, 2018.

OncoSil Medical

The Company entered into an exclusive, worldwide royalty-bearing license agreement in December 2012, amended and restated in March 2013, with OncoSil Medical UK Limited (f/k/a Enigma Therapeutics Limited), a wholly-owned subsidiary of OncoSil Medical Ltd (“OncoSil”) for the development of BrachySil, the Company’s previous product candidate for the treatment of pancreatic and other types of cancer. The Company received an upfront fee of \$100,000 and is entitled to 8% sales-based royalties, 20% of sublicense consideration and milestone payments based on aggregate product sales. OncoSil is obligated to pay an annual license maintenance fee of \$100,000 by the end of each calendar year, the most recent of which was received in December 2018. For each calendar year commencing with 2014, the Company is entitled to receive reimbursement of any patent maintenance costs, sales-based royalties and sub-licensee sales-based royalties earned, but only to the extent such amounts, in the aggregate, exceed the \$100,000 annual license maintenance fee. As of September 30, 2019, OncoSil has not received regulatory approval in any jurisdiction. In March 2019 the Clinical Oversight Committee of the British Standards Institute (“BSI”) advised OncoSil that insufficient clinical benefit had been demonstrated to recommend approval of its longstanding CE Mark application. In October 2019, OncoSil announced that it had completed its follow up meeting with BSI and is focused on submitting an updated Clinical Evaluation Report for CE Mark approval. The Company has no consequential performance obligations under the OncoSil license agreement. No revenue was recognized related to the OncoSil agreement for each of the three and nine months ended September 30, 2019 and 2018. As of September 30, 2019, no deferred revenue was recorded for this agreement.

Ocumention Therapeutics

In November 2018, the Company entered into an exclusive license agreement with Ocumention Therapeutics (“Ocumention”) for the development and commercialization of its three-year micro insert using the Durasert technology for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye in the greater China territory, which is comprised of China, Hong Kong, Macau and Taiwan. The Company received a one-time upfront payment of \$1.75 million from Ocumention and is eligible to receive up to (i) \$7.25 million upon the achievement by Ocumention of certain prescribed development and regulatory milestones, and (ii) \$3 million commercial sales-based milestones. In addition, the Company is entitled to receive mid-single digit sales-based royalties. In August 2019, the Company received \$1.0 million in development milestone payment from Ocumention triggered by the approval of its Investigational New Drug (“IND”) in China for Eyepoint’s three-year intravitreal micro-insert containing 0.18mg of fluocinolone acetonide using the Durasert™ technology (known as YUTIQ in the United States). The IND allows the importation of finished product into China for use in its initiated clinical trial to support regulatory approval for the treatment of chronic uveitis affecting the posterior segment of the eye, which was recognized as license and collaboration agreement revenue during the period.

Ocumention has also received a special approval by the Hainan Province People’s Government to market this product for chronic, non-infectious posterior segment uveitis in the Hainan Bo Ao Lecheng International Medical Tourism Pilot Zone (“Hainan Pilot Zone”). In March 2019, the Company entered into a Memorandum of Understanding, pursuant to which, the Company will supply product for the clinical trials and Hainan Pilot Zone use. Paralleling to Ocumention’s normal registration process of the product with the Chinese Regulatory Authorities, the Company is entitled to product supply milestones and development milestones, whichever comes first, totaling up to \$7.25 million. In August 2019, the Company began shipping this product to Ocumention.

Other than a fixed number of hours of technical assistance support to be provided at no cost by the Company, Ocumention is responsible for all development, regulatory and commercial costs, including any additional technical assistance requested. Ocumention has a first right of negotiation for an additional exclusive license to the Company’s shorter-duration line extension candidate for this indication.

During the three and nine months ended September 30, 2019, \$53,000 was recognized as revenue from product sales, respectively and \$0 and \$30,000, attributable to the Company’s technical assistance obligation was recognized as license and collaboration revenue, respectively. At September 30, 2019, no deferred revenue was recorded for this agreement.

Feasibility Study Agreements

The Company from time to time enters into funded agreements to evaluate the potential use of its technology systems for sustained release of third-party drug candidates in the treatment of various diseases. Consideration received is generally recognized as revenue over the term of the feasibility study agreement. Revenue recognition

for consideration, if any, related to a license option right is assessed based on the terms of any such future license agreement or is otherwise recognized at the completion of the feasibility study agreement. No revenue under feasibility study agreements was recognized for the three and nine months ended September 30, 2019, and revenues of \$15,000 and \$700,000 were recognized for the three and nine months ended September 30, 2018, respectively. At September 30, 2019, no deferred revenue was recorded for any such agreements.

5. Product Revenue Reserves and Allowances

The Company's product revenues have been primarily from sales of YUTIQ and DEXYCU in the U.S., which it began shipping to its 3PL in February 2019 and March 2019, respectively.

Net product revenues by product for the three and nine months ended September 30, 2019 were as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
YUTIQ	\$ 55	\$ 7,303
DEXYCU	954	1,638
Total product sales, net	\$ 1,009	\$ 8,941

During the three and nine months ended September 30, 2019, revenues from the Company's single 3PL accounted for 39.0% and 76.0% of total revenues, respectively. Accounts receivable from the 3PL accounted for 93.0% of total accounts receivable at September 30, 2019. The Company recorded no allowance for doubtful accounts as of September 30, 2019.

The following table summarizes activity in each of the product revenue allowance and reserve categories for the nine months ended September 30, 2019 (in thousands):

	Chargebacks, Discounts and Fees	Government and Other Rebates	Returns	Total
Beginning balance at January 1, 2019	\$ —	\$ —	\$ —	\$ —
Provision related to sales in the current year	833	161	367	1,361
Adjustments related to prior period sales	—	—	—	—
Deductions applied and payments made	(178)	(105)	(171)	(454)
Ending balance at September 30, 2019	\$ 655	\$ 56	\$ 196	\$ 907

Returns are recorded as a reduction of accounts receivable on the condensed consolidated balance sheets. Chargebacks, discounts and fees and rebates are recorded as a component of accrued expenses on the condensed consolidated balance sheets (See Note 7).

6. Intangible Assets

The reconciliation of intangible assets for the nine months ended September 30, 2019 and 2018 was as follows (in thousands):

	September 30, 2019	September 30, 2018
Patented technologies		
Gross carrying cost at beginning of period	\$ 68,322	\$ 36,349
Acquisition of Icon Bioscience Inc.	—	31,973
Gross carrying cost at end of period	68,322	68,322
Accumulated amortization at beginning of period	(38,193)	(36,349)
Amortization expense	(1,845)	(1,230)
Accumulated amortization at end of period	(40,038)	(37,579)
Net book value at end of period	<u>\$ 28,284</u>	<u>\$ 30,743</u>

The Company amortizes intangible assets with finite lives on a straight-line basis over their respective estimated useful lives. Amortization of intangible assets totaled \$615,000 and \$1.8 million for the three and nine months ended September 30, 2019, respectively, and \$615,000 and \$1.2 million for the three and nine months ended September 30, 2018.

In connection with the Icon Acquisition (see Note 3), the initial purchase price was attributed to the DEXYCU product intangible asset. This finite-lived intangible asset is being amortized on a straight-line basis over its expected remaining useful life of 11.5 years at the rate of approximately \$2.5 million per year. Amortization expense was reported as a component of cost of sales for the three and nine months ended September 30, 2019 and was included in research and development for the three and nine months ended September 30, 2018 in the condensed consolidated statement of comprehensive loss.

7. Accrued Expenses

Accrued expenses consisted of the following at September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Personnel costs	\$ 2,224	\$ 1,998
Clinical trial costs	619	798
Professional fees	643	571
Sales chargebacks, rebates and other revenue reserves	711	—
Other	249	422
	<u>\$ 4,446</u>	<u>\$ 3,789</u>

8. Leases

On May 17, 2018, the Company amended the lease for its headquarters in Watertown, Massachusetts. The original five-year lease for approximately 13,650 square feet of combined office and laboratory space was set to expire in April 2019. Under the amendment, the Company leased an additional 6,590 square feet of rentable area of the building, with a commencement date of September 10, 2018. The amendment extended the term of the lease for the combined space through May 31, 2025. The landlord agreed to provide the Company a construction allowance of up to \$670,750 to be applied toward the aggregate work completed on the total space. The Company has an option to further extend the term of the lease for one additional five-year period. Per the terms of the lease agreement, the Company does not have a residual value guarantee. The Company previously provided a cash-collateralized \$150,000 irrevocable standby letter of credit as security for the Company's obligations under the lease, which was extended through the period that is four months beyond the expiration date of the amended lease. The Company will also be required to pay its proportionate share of certain operating costs and property taxes applicable to the leased premises in excess of new base year amounts.

In July 2017, the Company leased approximately 3,000 square feet of office space in Basking Ridge, New Jersey under a lease term extending through June 2022, with two five-year renewal options at 95% of the then-prevailing market rates. In addition to base rent, the Company is obligated to pay its proportionate share of building operating expenses and real estate taxes in excess of base year amounts. In June 2018, the Company subleased an additional 1,381 square feet of adjoining space from Caladrius Biosciences, Inc. ("Caladrius") through May 2022. The Chief Executive Officer of Caladrius is a director of the Company. Per the terms of the lease and sublease agreements, the Company does not have any residual value guarantees.

The Company identified and assessed the following significant assumptions in recognizing its ROU assets and corresponding lease liabilities:

- As the Company's leases do not provide an implicit rate, the Company estimated the incremental borrowing rate in calculating the present value of the lease payments. The Company utilized the borrowing rate under its existing 5-year term loan facility (see Note 9) as the discount rate.
- Since the Company elected to account for each lease component and its associated non-lease components as a single combined component, all contract consideration was allocated to the combined lease component.
- The expected lease terms include noncancelable lease periods. Renewal option periods have not been included in the determination of the lease terms as they are not deemed reasonably certain of exercise.
- Variable lease payments, such as common area maintenance, real estate taxes and property insurance are not included in the determination of the lease's ROU asset or lease liability.

As of September 30, 2019, the weighted average remaining term of the Company's operating leases was 5.4 years and the lease liabilities arising from obtaining ROU assets reflect a weighted average discount rate of 12.5%. Maturities of lease liabilities due under these operating lease agreements as of September 30, 2019 are as follows (in thousands):

Remainder of 2019	\$	215
2020		867
2021		889
2022		849
2023		815
Thereafter		1,176
Total lease payments		4,811
Less imputed interest		(1,322)
Total operating lease liabilities		3,489
Less: current portion		461
Non-current portion	\$	3,028

Operating lease expense recognized during the three and nine months ended September 30, 2019 related to ROU assets were \$213,000 and \$640,000, respectively, excluding \$9,000 and \$27,000 of variable lease costs, respectively, and were included in general and administrative expense in the Company's statement of comprehensive loss. Cash paid for amounts included in the measurement of operating lease liabilities were \$210,000 and \$593,000, respectively, for the three and nine months ended September 30, 2019.

As previously disclosed in the Company's Transition Report on Form 10-K for the six months ended December 31, 2018, and, under the previous lease accounting standard, ASC 840, *Leases*, the Company's total future minimum lease payments under non-cancellable operating leases at December 31, 2018 were as follows (in thousands):

2019	\$	826
2020		879
2021		895
2022		849
2023 and beyond		1,990
	\$	<u>5,439</u>

9. Term Loan Agreements

CRG Term Loan Agreement

On February 13, 2019 (the "CRG Closing Date"), the Company entered into the CRG Loan Agreement among the Company, as borrower, CRG Servicing LLC, as administrative agent and collateral agent (the "Agent"), and the lenders party thereto from time to time (the "Lenders"), providing for a senior secured term loan of up to \$60 million (the "CRG Loan"). On the CRG Closing Date, \$35 million of the CRG Loan was advanced (the "CRG Initial Advance"). The Company utilized the proceeds from the CRG Initial Advance for the repayment in full of all outstanding obligations under its prior credit agreement (the "SWK Credit Agreement") with SWK Funding LLC ("SWK"). In April 2019, the Company exercised its option to borrow an additional \$15 million of the CRG Loan (the "CRG Second Advance"). The Company may draw up to an additional \$10 million, subject to achievement of prescribed three-month trailing product revenues of YUTIQ and DEXYCU on or before March 31, 2020.

The CRG Loan is due and payable on December 31, 2023 (the "Maturity Date"). The CRG Loan bears interest at a fixed rate of 12.5% per annum payable in arrears on the last business day of each calendar quarter. The Company is required to make quarterly, interest only payments until the Maturity Date. So long as no default has occurred and is continuing, the Company may elect on each applicable interest payment date to pay 2.5% of the 12.5% per annum interest as Paid In-Kind ("PIK"), whereby such PIK amount would be added to the aggregate principal amount and accrue interest at 12.5% per annum. Through September 30, 2019, total PIK amounts of \$728,000 have been added to the principal balance of the CRG Loan. In addition, the Company is required to pay an upfront fee of 1.5% of amounts borrowed under the CRG Loan (excluding any paid-in-kind amounts), which is payable as amounts are advanced under the CRG Loan. The Company will also be required to pay an exit fee equal to 6% of (i) the aggregate principal amounts advanced and (ii) PIK amounts issued, under the CRG Loan Agreement. In connection with the CRG Initial Advance, a 1.5% financing fee of \$525,000 and an expense reimbursement of \$350,000 were deducted from the net borrowing proceeds. In connection with the CRG Second Advance, a 1.5% financing fee of \$225,000 was deducted from the net borrowing proceeds.

Upon the occurrence of a bankruptcy-related event of default, all amounts outstanding with respect to the CRG Loan become due and payable immediately, and upon the occurrence of any other Event of Default (as defined in the CRG Loan Agreement), all or any amounts outstanding with respect to the CRG Loan may become due and payable upon request of the Agent or majority Lenders. Subject to certain exceptions, the Company is required to make mandatory prepayments of the CRG Loan with the proceeds of assets sales and in the event of a change of control of the Company. In addition, the Company may make a voluntary prepayment of the CRG Loan, in whole or in part, at any time. All mandatory and voluntary prepayments of the CRG Loan are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to December 31, 2019, an amount equal to 10% of the aggregate outstanding principal amount of the CRG Loan being prepaid, (ii) if prepayment occurs after December 31, 2019 and on or prior to December 31, 2020, 5% of the aggregate outstanding principal amount of the CRG Loan being prepaid and (iii) if prepayment occurs after December 31, 2020 and on or prior to December 31,

2021, an amount equal to 3% of the aggregate outstanding principal amount of the Loan being prepaid. No prepayment premium is due on any principal prepaid after December 31, 2021. Certain of the Company's existing and future subsidiaries are guaranteeing the obligations of the Company under the CRG Loan Agreement. The obligations of the Company under the CRG Loan Agreement and the guarantee of such obligations are secured by a pledge of substantially all of the Company's and the guarantors' assets.

The CRG Loan Agreement contains affirmative and negative covenants customary for financings of this type, including limitations on our and our subsidiaries' abilities, among other things, to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions and enter into affiliate transactions, in each case, subject to certain exceptions. In addition, the CRG Loan Agreement contains the following financial covenants requiring the Company and the Guarantors to maintain:

- liquidity in an amount which shall exceed the greater of (i) \$5 million and (ii) to the extent the Company has incurred certain permitted debt, the minimum cash balance, if any, required of the Company by the creditors of such permitted debt; and
- annual minimum product revenue from YUTIQ and DEXYCU: (i) for the twelve-month period beginning on January 1, 2019 and ending on December 31, 2019, of at least \$15 million, (ii) for the twelve-month period beginning on January 1, 2020 and ending on December 31, 2020, of at least \$45 million, (iii) for the twelve-month period beginning on January 1, 2021 and ending on December 31, 2021, of at least \$80 million and (iv) for the twelve-month period beginning on January 1, 2022 and ending on December 31, 2022, of at least \$90 million.

The total debt discount related to the CRG Initial Advance was approximately \$3.2 million and consisted of (i) the accrual of a \$2.1 million exit fee; (ii) the \$525,000 upfront fee; and (iii) \$591,000 of legal and other transaction costs. This amount is being amortized as additional interest expense over the term of the Loan using the effective interest rate method.

The total debt discount related to the CRG Second Advance was approximately \$1.1 million and consisted of (i) the accrual of a \$900,000 exit fee; and (ii) the \$225,000 upfront fee. This amount is being amortized as additional interest expense over the term of the Loan using the effective interest rate method.

Amortization of debt discount under the CRG Loan totaled \$160,000 and \$346,000 for the three and nine months ended September 30, 2019, respectively.

SWK Credit Agreement

On March 28, 2018 (the "SWK Closing Date"), the Company entered into the SWK Credit Agreement among the Company, as borrower, SWK, as agent, and the lenders party thereto from time to time, providing for a senior secured term loan of up to \$20 million (the "SWK Loan"). On the SWK Closing Date, \$15 million of the SWK Loan was advanced (the "SWK Initial Advance"). The remaining \$5 million of the SWK Loan was advanced on June 26, 2018 (the "SWK Additional Advance").

In connection with the SWK Loan, the Company issued a warrant (the "SWK Warrant") to the Agent to purchase (a) 409,091 shares of Common Stock (the "Initial Advance Warrant Shares") at an exercise price of \$1.10 per share and (b) 77,721 shares of Common Stock (the "Additional Advance Warrant Shares") at an exercise price of \$1.93 per share (see Note 10). The SWK Warrant is exercisable (i) with respect to the Initial Advance Warrant Shares, any time on or after the SWK Closing Date until the close of business on the 7-year anniversary of the SWK Initial Advance and (ii) with respect to the Additional Advance Warrant Shares, any time on or after the closing of the SWK Additional Advance until the close of business on the 7-year anniversary of the SWK Additional Advance. The Agent may exercise the SWK Warrant on a cashless basis at any time. In the event the Agent exercises the SWK Warrant on a cashless basis, the Company will not receive any proceeds.

The Additional Advance Warrant Shares were recorded as a liability at the Closing Date and were remeasured at fair value at each reporting period until the date of the SWK Additional Advance. The aggregate fair value of the Additional Advance Warrant Shares at the Closing Date was \$69,000. The Initial Advance Warrant Shares were recorded as equity on the Company's balance sheet at their relative fair value of \$284,000. The remaining \$14.6 million of the proceeds received were allocated to the SWK Initial Advance term loan. Upon the closing of the SWK Additional Advance in June 2018, the Additional Advance Warrant Shares were re-valued at \$87,000 and reclassified to equity.

The total debt discount related to the SWK Initial Advance was \$2.1 million and was comprised of (1) \$1.8 million, which included a 1.5% upfront fee, a 6% exit fee (the "Exit Fee") and legal and other transaction costs, which were ratably allocated to each of the two tranches of the SWK Loan based upon the total principal amount available to the Company under each tranche and (2) \$353,000 related to the aggregate fair value of the Initial Advance Warrant Shares and the Additional Advance Warrant Shares. This amount was being amortized as additional interest expense over the term of the SWK Loan using the effective interest rate method.

The total debt issue costs related to the SWK Additional Advance was \$299,000 and was comprised of the allocated portions of the 1.5% upfront fee and the Exit Fee. This amount was recorded as a prepaid expense to be amortized ratably from the SWK Closing Date through December 31, 2018. Through the date of the SWK Additional Advance, \$97,000 was amortized and the remaining balance of \$202,000 was reclassified to debt discount in June 2018. Together with the 6% Exit Fee on the SWK Additional Advance and other transaction costs, total debt discount of \$652,000 associated with the SWK Additional Advance was to be amortized over the remaining life of the SWK Additional Advance portion of the SWK Loan using the effective interest rate method.

The SWK Loan was originally scheduled to mature on March 27, 2023 and bore interest at a per annum rate of the three-month LIBOR rate (subject to a 1.5% floor) plus 10.50%. On February 13, 2019, the Company repaid the SWK Loan in connection with the consummation of the CRG Loan Agreement. In addition to repayment of the \$20 million principal balance, the Company paid (i) a \$1.2 million prepayment penalty, (ii) the \$1.2 million Exit Fee, (iii) accrued and unpaid interest of \$664,000 through that date and (iv) an additional make-whole interest payment of \$306,000 covering the additional period through what would have been the first anniversary of the SWK Loan. In connection with the prepayment of the SWK Loan, the Company recorded a loss on extinguishment of debt of \$3.8 million in the three months ended March 31, 2019. In addition to the prepayment penalty and make-whole interest payment amounts, the loss on extinguishment of debt included the write-off of the remaining balance of unamortized debt discount of approximately \$2.3 million.

Amortization of debt discount under the SWK Loan totaled \$84,000 in the first quarter of 2019 through the SWK loan extinguishment date. The Company recorded \$153,000 and \$362,000 of amortized deferred debt issue costs and debt discount for the three and nine months ended September 30, 2018, respectively.

10. Stockholders' Equity

2019 Equity Financing

ATM Facility

In January 2019, the Company entered into an at-the-market program (the "ATM Program"). Pursuant to the ATM Program, under a Form S-3 shelf registration statement that was declared effective by the SEC in December 2018, the Company may, at its option, offer and sell shares of its Common Stock from time to time for an aggregate offering price of up to \$20.0 million. The Company will pay the sales agent a commission of up to 3.0% of the gross proceeds from any future sales of such shares.

During the three and nine months ended September 30, 2019, the Company sold 1,707,995 shares of its Common Stock at a weighted average price of \$1.50 per share for gross proceeds of approximately \$2.6 million. Share issue costs, including sales agent commissions, totaled \$151,000 during the reporting period.

Share Offering

In April 2019, the Company sold 10,526,500 shares of common stock in an underwritten public offering at a price of \$1.90 per share for gross proceeds of \$20.0 million. Underwriter discounts and commissions and other share issue costs totaled approximately \$1.7 million.

2018 Equity Financing

On the SWK Closing Date, the Company entered into a Securities Purchase Agreement (the “First Tranche Securities Purchase Agreement”) with EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P. (collectively, the “First Tranche Investors”), pursuant to which the Company offered and sold to the First Tranche Investors an aggregate of 8,606,324 shares of Common Stock at a purchase price of \$1.10 per share (the “First Tranche Purchase Price”) for aggregate gross proceeds of approximately \$9.5 million (the “First Tranche Transaction”).

On the SWK Closing Date, the Company entered into a Second Securities Purchase Agreement (the “Second Tranche Securities Purchase Agreement” and together with the First Tranche Securities Purchase Agreement, the “Securities Purchase Agreements”) with the First Tranche Investors and certain other accredited investors (collectively, the “Second Tranche Investors”), pursuant to which the Company, subject to the approval of the Company’s stockholders, would offer and sell to the Second Tranche Investors an aggregate of approximately \$25.5 million of Units, with each Unit consisting of (a) one share of Common Stock and (b) one warrant to purchase a share of Common Stock (the “Second Tranche Transaction” and together with the First Tranche Transaction, the “Equity Transactions”).

At a special meeting of stockholders held on June 22, 2018, the Company’s stockholders approved the Second Tranche Transaction, following which, on June 25, 2018, the Company sold to the Second Tranche Investors an aggregate of 20,184,224 Units at a purchase price of \$1.265 per Unit for gross proceeds of approximately \$25.5 million, not including any proceeds that would be received from an exercise of the warrants (each a “Second Tranche Warrant”, and collectively, the “Second Tranche Warrants”). In addition, the stockholders approved the adoption of an amendment to the Company’s Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 120,000,000 shares to 150,000,000 shares.

The Company determined that the shares of Common Stock issued in the First Tranche Transaction and the future obligation to issue Units in the Second Tranche Transaction were freestanding instruments. The Common Stock issued in the First Tranche Transaction was recorded as equity on the Company’s balance sheet. The future obligation to issue Units in the Second Tranche Transaction was recorded as a liability on the Company’s balance sheet, subject to remeasurement at fair value at each reporting period until settled.

The Company determined that the First Tranche Transaction and the Second Tranche Transaction should be accounted for as a single transaction. Accordingly, the total consideration received on the SWK Closing Date of \$9.5 million was first allocated to the future obligation to issue Units in the Second Tranche Transaction at fair value as of the SWK Closing Date, with the residual amount allocated to the Common Stock issued in the First Tranche Transaction. Further, issuance costs of \$343,000 were allocated to each of the freestanding instruments on the basis of relative fair value. A net amount of approximately \$4.6 million was allocated to each of the Common Stock issued in the First Tranche Transaction and the future obligation to issue Units in the Second Tranche Transaction, respectively, as of the SWK Closing Date. As of March 31, 2018, the fair value of the Second Tranche Transaction derivative liability was approximately \$6.9 million and the Company recorded the \$2.2 million change in fair value for the quarter ended March 31, 2018.

The future obligation to issue Units in the second tranche transaction was revalued immediately prior to the Second Tranche Transaction on June 25, 2018 and resulted in a change in fair value of approximately \$22.2 million. Upon consummation of the Second Tranche Transaction, the resulting derivative liability balance of approximately \$29.1 million was reclassified to equity.

The Company determined that the Second Tranche Warrants were considered puttable warrants that represented an obligation that was indexed to the repurchase of the Company's shares and could require a transfer of assets that required classification as derivative liabilities. The initial valuation of the Second Tranche Warrants on June 25, 2018 of approximately \$18.2 million was revalued at June 30, 2018 and then immediately prior to exercise and resulted in a change in fair value of \$1.6 million and \$18.9 million, respectively. The change in fair value immediately prior to exercise, in September 2018, was determined as the excess of the closing share price of the Company's Common Stock on the respective dates on which exercise notices were submitted by each of the Second Tranche Investors over the \$1.43 exercise price. Upon exercise of the Second Tranche Warrants, the resulting derivative liability balance of \$38.7 million was reclassified to equity.

Warrants to Purchase Common Shares

The following table provides a reconciliation of fixed price warrants to purchase shares of the Company's Common Stock for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,			
	2019		2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance at beginning of period	486,812	\$ 1.23	—	\$ —
Issued	—	—	486,812	1.23
Balance and exercisable at end of period	<u>486,812</u>	<u>\$ 1.23</u>	<u>486,812</u>	<u>\$ 1.23</u>

In connection with the SWK Credit Agreement (see Note 9), the Company issued the SWK Warrant to purchase (i) 409,091 Initial Advance Warrant Shares on March 28, 2018 at an exercise price of \$1.10 per share with a seven-year term and (ii) 77,721 Additional Advance Warrant Shares on June 26, 2018 at an exercise price of \$1.93 per share with a seven-year term. At September 30, 2019, the weighted average remaining life of the warrants was approximately 5.54 years.

At June 30, 2018, a total of 20,184,224 Second Tranche Warrants were outstanding with a variable exercise price and, accordingly, were excluded from the above table. These warrants were exercised in full in late September 2018 for proceeds of approximately \$28.9 million.

11. Share-Based Payment Awards

Equity Incentive Plan

The 2016 Long-Term Incentive Plan (the "2016 Plan"), approved by the Company's stockholders on December 12, 2016 (the "Adoption Date"), provides for the issuance of up to 3,000,000 shares of the Company's Common Stock reserved for issuance under the 2016 Plan plus any additional shares of the Company's Common Stock that were available for grant under the 2008 Incentive Plan (the "2008 Plan") at the Adoption Date or would otherwise become available for grant under the 2008 Plan as a result of subsequent termination or forfeiture of awards under the 2008 Plan. At the Company's Annual Meeting of Stockholders held on June 25, 2019, the Company's stockholders approved an amendment to the 2016 Plan to increase the number of shares authorized for issuance by 11,000,000 shares. At September 30, 2019, a total of 9,630,240 shares were available for new awards.

Certain inducement awards, although not awarded under the 2016 Plan or the 2008 Plan, are subject to and governed by the terms and conditions of the 2016 Plan or 2008 Plan, as applicable.

Stock Options

The following table provides a reconciliation of stock option activity under the Company's equity incentive plans and for inducement awards for the nine months ended September 30, 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	8,139,377	\$ 2.83		
Granted	4,474,096	2.36		
Exercised	(166,760)	1.84		
Forfeited	(1,361,109)	2.49		
Expired	(473,346)	3.77		
Outstanding at September 30, 2019	<u>10,612,258</u>	<u>\$ 2.65</u>	<u>7.69</u>	<u>\$ 289</u>
Exercisable at September 30, 2019	<u>4,957,932</u>	<u>\$ 3.07</u>	<u>6.11</u>	<u>\$ 41</u>

In January 2019, the Company expanded the terms of its annual stock option grants to include vesting ratably monthly over four years, or with 25% vesting after one year followed by ratably monthly vesting over three years. Previously, the Company's option grants generally had ratably annual vesting over three years, or 1-year cliff vesting. Nonemployee awards are granted similar to the Company's employee awards. All option grants have a 10-year term. Options to purchase a total of 1,839,397 shares of the Company's Common Stock vested during the nine months ended September 30, 2019.

In determining the grant date fair value of option awards during the nine months ended September 30, 2019, the Company applied the Black-Scholes option pricing model based on the following key assumptions:

Option life (in years)	5.50 - 6.08
Stock volatility	60% - 64%
Risk-free interest rate	1.29% - 2.63%
Expected dividends	0.0%

The following table summarizes information about employee, non-executive director and external consultant stock options for the nine months ended September 30, 2019 (in thousands, except per share amount):

	Nine Months Ended September 30, 2019	
Weighted-average grant date fair value per share	\$	0.95
Total cash received from exercise of stock options		308
Total intrinsic value of stock options exercised		63

Time-Vested Restricted Stock Units

Time-vested restricted stock unit awards ("RSUs") issued to date under the 2016 Plan generally vest on a ratably annual basis over 3 years. The related stock-based compensation expense is recorded over the requisite service period, which is the vesting period. The fair value of all time-vested RSUs is based on the closing share price of the Company's Common Stock on the date of grant.

The following table provides a reconciliation of RSU activity under the 2016 Plan for the nine months ended September 30, 2019:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	590,213	\$ 1.86
Granted	587,761	1.90
Vested	(229,294)	1.81
Forfeited	(136,333)	2.18
Nonvested at September 30, 2019	<u>812,347</u>	<u>\$ 1.85</u>

At September 30, 2019, the weighted average remaining vesting term of the RSUs was 1.29 years.

Performance-Based Stock Units

Performance Stock Units (“PSUs”) were previously awarded under the 2016 Plan to certain employees. The performance conditions associated with the PSU awards were as follows: (a) for one third of the PSUs, upon an FDA acceptance of the Company’s NDA submission of YUTIQ for review on or before March 31, 2018 and (b) for two-thirds of the PSUs, upon an FDA approval of YUTIQ on or before March 31, 2019. For each performance criteria achieved, 50% of the PSUs associated with that performance condition vest at the achievement date and 50% vest on the first anniversary of such date, in each case subject to continued employment through such date. As a result of the achievement of the first performance condition on March 19, 2018, 48,332 PSUs vested at that date and the other 48,334 PSUs became subject only to a service-based condition with a vesting date of March 19, 2019. As a result of the achievement of the second performance condition on October 12, 2018, 96,668 PSUs vested at that date and the other 96,666 PSUs became subject only to a service-based condition with a vesting date of October 12, 2019.

In addition, there were 0 and 225,000 outstanding PSUs at September 30, 2019 and December 31, 2018, respectively, which were granted as inducement awards to the Company’s former Chief Financial Officer in connection with his hire at August 1, 2018. The PSUs are subject to proportional vesting based on cumulative measurement over a 3-year period, with two-thirds of the award based upon the achievement of defined amounts of the Company’s product revenues through June 30, 2021 and one-third of the award based upon the net present value of each applicable business development transaction, as defined, through August 1, 2021 measured as of the date that each such transaction is consummated by the Company. The Company’s former Chief Financial Officer resigned from his position on July 8, 2019 and as a result, the award was cancelled and the performance metrics for vesting were not met.

The following table provides a reconciliation of PSU activity for the nine months ended September 30, 2019:

	Number of Performance Stock Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	370,000	\$ 2.01
Vested	(58,334)	1.56
Forfeited	(255,000)	2.26
Nonvested at September 30, 2019	<u>56,666</u>	<u>\$ 1.34</u>

The weighted-average remaining vesting term of the outstanding PSUs at September 30, 2019 under the 2016 Plan was approximately 0.36 months. On October 12, 2019, 56,666 PSUs vested at that date.

Deferred Stock Units

There were 0 and 35,418 non-vested deferred stock units (“DSUs”) issued and outstanding to the Company’s non-executive directors at each of September 30, 2019 and December 31, 2018, respectively. Each DSU vests one year from the date of grant. Subsequent to vesting, the DSUs will be settled in shares of the Company’s Common Stock upon the earliest to occur of (i) each director’s termination of service on the Company’s Board of Directors and (ii) the occurrence of a change of control as defined in the award agreement. At September 30, 2019, there were 71,251 vested DSUs that have not been settled in shares of the Company’s Common Stock.

	Number of Deferred Stock Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	35,418	\$ 1.95
Vested	(35,418)	1.95
Nonvested at September 30, 2019	<u>—</u>	<u>\$ —</u>

Market-Based Restricted Stock Units

At September 30, 2019 and December 31, 2018, there were 0 and 500,000 market-based RSUs (“market-based RSUs”) outstanding that were issued on September 15, 2016 as an inducement award to the Company’s President and CEO in connection with her hire. Subject to a service condition through September 15, 2019, the number of shares underlying the market-based RSUs that will vest will be based upon the determination of the relative percentile rank of the 3-year change in the closing price of the Company’s Common Stock compared to that of the companies that make up the Nasdaq Biotechnology Index over that same 3-year period. The weighted average grant date fair value of the market-based RSUs of \$1.45 per share was determined using a Monte Carlo valuation model at the date of grant. Stock-based compensation has been recorded from the grant date on a straight-line basis. The performance metrics were not met for vesting through the measurement date.

Employee Stock Purchase Plan

On June 25, 2019, the Company’s stockholders approved the adoption of the EyePoint Pharmaceuticals, Inc. 2019 Employee Stock Purchase Plan (the “ESPP”) and authorized up to 1,100,000 shares of Common Stock reserved for issuance to participating employees. The ESPP allows qualified participants to purchase the Company’s Common Stock twice a year at 85% of the lesser of the average of the high and low sales price of the Company’s Common Stock on (i) the first trading day of the relevant offering period and (ii) the last trading day of the relevant offering period. The number of shares of the Company’s Common Stock each employee may purchase under this plan, when combined with all other employee stock purchase plans, is limited to the lower of an aggregate fair market value of \$25,000 during each calendar year, or 50,000 shares of the Company’s Common Stock in any one offering period. The first six month offering period under the ESPP began on August 1, 2019 and will end on January 31, 2020. As of September 30, 2019, no shares of the Company’s Common Stock were issued pursuant to the ESPP.

The Company estimated the fair value of the option component of the ESPP shares at the date of grant using a Black-Scholes valuation model. During the third quarter of 2019, the compensation expense from ESPP shares was immaterial.

Stock-Based Compensation Expense

The Company's consolidated statements of comprehensive loss included total compensation expense from stock-based payment awards for the three and nine months ended September 30, 2019 and 2018, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Compensation expense included in:				
Research and development	\$ 210	\$ 486	\$ 874	\$ 1,145
Sales and marketing	189	263	512	314
General and administrative	578	648	2,325	1,355
	<u>\$ 977</u>	<u>\$ 1,397</u>	<u>\$ 3,711</u>	<u>\$ 2,814</u>

At September 30, 2019, there was approximately \$4.3 million of unrecognized compensation expense related to outstanding equity awards under the 2016 Plan, the 2008 Plan, the inducement awards and the ESPP that is expected to be recognized as expense over a weighted-average period of approximately 1.54 years.

12. Fair Value Measurements

The following tables summarize the Company's assets carried at fair value measured on a recurring basis at September 30, 2019 and December 31, 2018 by valuation hierarchy (in thousands):

Description	September 30, 2019			
	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	\$ 31,386	\$ 31,386	\$ —	\$ —
	<u>\$ 31,386</u>	<u>\$ 31,386</u>	<u>\$ —</u>	<u>\$ —</u>
Description	December 31, 2018			
	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	\$ 43,194	\$ 43,194	\$ —	\$ —
	<u>\$ 43,194</u>	<u>\$ 43,194</u>	<u>\$ —</u>	<u>\$ —</u>

Financial instruments that potentially subject the Company to concentrations of credit risk have historically consisted principally of cash and cash equivalents. At September 30, 2019 and December 31, 2018, substantially all of the Company's interest-bearing cash equivalent balances were concentrated in one U.S. Government institutional money market fund that has investments consisting primarily of U.S. Government Agency debt, U.S. Treasury Repurchase Agreements and U.S. Government Agency Repurchase Agreements. These deposits may be redeemed upon demand and, therefore, generally have minimal risk. The Company's cash equivalents are classified within Level 1 on the basis of valuations using quoted market prices.

As described in Note 10, the Second Tranche Transaction was determined to be liability classified, which required that the liability be measured at fair value each period with changes in fair value being recorded as a component of net income (loss) in the statement of operations. The purchase price for each share of Common Stock issuable in the Second Tranche Transaction was defined as the lower of (a) \$1.265 (which was a 15% premium to

the First Tranche Purchase Price) and (b) a 20% discount to the volume weighted average price (“VWAP”) of the shares of Common Stock on the Nasdaq Stock Market for the 20 trading days immediately prior to the closing of the Second Tranche Transaction; provided, however, that the purchase price could not be lower than \$0.88, which was a 20% discount to the First Tranche Purchase Price.

The Second Tranche Warrants were exercisable any time on or after the closing of the Second Tranche Transaction until on or prior to the close of business on the 15th business day following the date on which the holders of the Second Tranche Warrants received written notice from the Company that CMS had announced that a new C-code had been established for DEXYCU. The exercise price of each Second Tranche Warrant was an amount equal to the lower of (a) \$1.43 (a 30% premium to the First Tranche Purchase Price) and (b) a 20% discount to the VWAP of the shares of the Company’s Common Stock on Nasdaq for the 20 trading days immediately prior to the exercise of a Second Tranche Warrant; provided, however, that the exercise price could not be lower than \$0.88, which was a 20% discount to the First Tranche Purchase Price.

The valuation of the Second Tranche Transaction was determined to be a level 3 valuation because it included unobservable inputs. Changes in the valuation subsequent to the initial valuation were recorded as a component of non-operating expense in the consolidated statement of comprehensive loss. The Second Tranche Transaction liability was valued using a Monte Carlo simulation valuation model. This model incorporated several inputs, including the Common Stock price on the date of valuation, the historical volatility of the price of Common Stock, the risk-free interest rate and management’s assessment of the probability and timing of the issuance of the Units occurring. A significant fluctuation in the Company’s stock price or the Company’s estimate of the number of Units to be issued could result in a material increase or decrease in the fair value of the Second Tranche liability. The Second Tranche Transaction liability was settled upon the closing of the Second Tranche Transaction in June 2018. The Company remeasured the Second Tranche Transaction liability to fair value immediately prior to settlement. This valuation at settlement was calculated as the excess of the sum of (i) the fair value of the Second Tranche Warrants and (ii) the fair value of the shares of Common Stock issued to settle the liability over the cash proceeds received by the Company for the Units. Significant assumptions used to value this liability were as follows:

	March 28, 2018 (Date of Issuance)	June 25, 2018 (Date of Settlement)
Volatility	54.20%	N/A
Risk free interest rate	1.70%	N/A
Estimated date of stockholder approval	June 2018	N/A
Estimated number of units issuable	26,900,000	20,184,224
Valuation date stock price	\$ 1.07	\$ 1.93

Upon the closing of the Second Tranche Transaction, the Company issued the Second Tranche Warrants, which were determined to be liability classified, which required that the liability be measured at fair value each period with changes in fair value being recorded as a component of non-operating expense in the consolidated statement of comprehensive loss. This valuation was determined to be a level 3 valuation because it included unobservable inputs. The Second Tranche Warrants were valued using a Monte Carlo simulation valuation model. This model incorporated several inputs, including the Common Stock price on the date of valuation, the historical volatility of the price of the Common Stock and the risk-free interest rate. The Second Tranche Investors delivered exercise notices covering all of the Second Tranche Warrants during the period from September 25 - 28, 2018 (see Note 10). The Company revalued the Second Tranche Warrants liability immediately prior to the respective exercise notice dates of the Second Tranche Investors, measured as the excess of the closing share price on the exercise notice date over the actual warrant exercise price of \$1.43 per share times the number of shares purchased. The resulting liability balance was then reclassified to equity.

The following table sets forth a summary of changes in the fair value of the Company's derivative liability for which fair value was determined by Level 3 inputs (in thousands):

	Second Tranche Liability	Additional Advance Warrant Liability	Second Tranche Warrants	Total
Balance at January 1, 2018	\$ —	\$ —	\$ —	\$ —
Initial fair value of derivative liability	4,734	69	18,165	22,968
Change in fair value	24,319	18	20,501	44,838
Reclassification to equity	—	(87)	(38,666)	(38,753)
Settlement	(29,053)	—	—	(29,053)
Balance at September 30, 2018	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

13. Contingencies

Legal Proceedings

The Company is subject to various other routine legal proceedings and claims incidental to its business, which management believes will not have a material effect on the Company's financial position, results of operations or cash flows.

14. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by adding to the basic weighted average number of common shares outstanding the total number of dilutive common equivalent shares using the treasury stock method, unless the effect is anti-dilutive. Potentially dilutive shares were not included in the calculation of diluted net loss per share for each of the three and nine months ended September 30, 2019 and 2018, respectively, as their inclusion would be anti-dilutive.

Potential common stock equivalents excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock options	10,612,258	7,984,469	10,612,258	7,984,469
ESPP	54,895	—	54,895	—
Warrants	486,812	486,812	486,812	486,812
Restricted stock units	812,347	1,395,829	812,347	1,395,829
Performance stock units	56,666	466,668	56,666	466,668
Deferred stock units	—	35,418	—	35,418
	<u>12,022,978</u>	<u>10,369,196</u>	<u>12,022,978</u>	<u>10,369,196</u>

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

Note Regarding Forward-Looking Statements

Various statements made in this Quarterly Report on Form 10-Q are forward-looking and involve risks and uncertainties. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements give our current expectations or forecasts of future events and are not statements of historical or current facts. These statements include, among others, statements about:

- the potential advantages of DEXYCU® and YUTIQ® for the treatment of eye diseases;
- our ability to manufacture DEXYCU and YUTIQ, or any future products or product candidates in sufficient quantities and quality;
- our commercialization of DEXYCU and YUTIQ;
- our expectations regarding the timing and likelihood of approval of our line extension application for approval of our YUTIQ next-generation, shorter-duration treatment for non-infectious uveitis affecting the posterior segment of the eye;
- our ability to further develop sales and marketing capabilities, whether alone or with potential future collaborators;
- our expectation that existing cash and cash equivalents at September 30, 2019 and cash inflows from anticipated YUTIQ and DEXYCU product sales will be sufficient to fund our operating plan into 2020.
- future expenses and capital expenditures;
- our expectations regarding the timing and design of our clinical development plans;
- our ability to establish or maintain collaborations and obtain milestone, royalty and/or other payments from any such collaborators;
- the ability of Alimera Sciences, Inc., or Alimera, to commercialize ILUVIEN® for the treatment of non-infectious uveitis affecting the posterior segment of the eye in Europe, the Middle East and Africa;
- the implication of results from pre-clinical and clinical trials and our other research activities;
- our intentions regarding our research into other uses and applications of our Durasert™ and Verisom® technology platforms;
- our expectations regarding our ability to obtain and adequately maintain sufficient intellectual property protection for DEXYCU, YUTIQ and our other product candidates, and to avoid claims of infringement of third-party intellectual property rights;
- the scope and duration of intellectual property protection; and
- the effect of legal and regulatory developments.

Forward-looking statements also include statements other than statements of current or historical fact, including, without limitation, all statements related to any expectations of revenues, expenses, cash flows, earnings or losses from operations, cash required to maintain current and planned operations, capital or other financial items; any statements of the plans, strategies and objectives of management for future operations; any plans or expectations with respect to product research, development and commercialization, including regulatory approvals; any other statements of expectations, plans, intentions or beliefs; and any statements of assumptions underlying any of the foregoing. We often, although not always, identify forward-looking statements by using words or phrases such as “likely”, “expect”, “intend”, “anticipate”, “believe”, “estimate”, “plan”, “project”, “forecast” and “outlook”.

The following are some of the factors that could cause actual results to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements: uncertainties with respect to: our ability to achieve profitable operations and access to needed capital; fluctuations in our operating results; our ability to successfully produce sufficient commercial quantities of YUTIQ and DEXYCU and to successfully commercialize YUTIQ and DEXYCU in the U.S.; our ability to sustain and enhance an effective commercial infrastructure and enter into and maintain commercial agreements for the commercialization of YUTIQ and DEXYCU; the regulatory approval and successful release of our YUTIQ line extension shorter-duration treatment for non-infectious uveitis affecting the posterior segment of the eye; potential off-label sales of ILUVIEN for non-infectious uveitis affecting the posterior segment of the eye; consequences of fluocinolone acetonide side effects for YUTIQ; consequences of dexamethasone side effects for DEXYCU; successful commercialization of, and receipt of revenues from, ILUVIEN for diabetic macular edema (“DME”); Alimera’s ability to obtain additional marketing approvals and the effect of pricing and reimbursement decisions on sales of ILUVIEN for DME;

Alimera's ability to commercialize ILUVIEN for non-infectious uveitis affecting the posterior segment of the eye in its licensed territory; our ability to market and sell products; the success of current and future license agreements; termination or breach of current license agreements; our dependence on contract research organizations, contract sales organizations, vendors and investigators; effects of competition and other developments affecting sales of products; market acceptance of products; effects of guidelines, recommendations and studies; protection of intellectual property and avoiding intellectual property infringement; retention of key personnel; product liability; industry consolidation; compliance with environmental laws; manufacturing risks; risks and costs of international business operations; volatility of stock price; possible dilution; absence of dividends; and other factors described in our filings with the Securities and Exchange Commission, or the SEC. We cannot guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The risks set forth under Item 1A of our Transition Report on Form 10-K for the six months ended December 31, 2018 describe major risks to our business, and you should read and interpret any forward-looking statements together with these risks. A variety of factors, including these risks, could cause our actual results and other expectations to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements. Should known or unknown risks materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected in the forward-looking statements. You should bear this in mind as you consider any forward-looking statements.

Our forward-looking statements speak only as of the dates on which they are made. We do not undertake any obligation to publicly update or revise our forward-looking statements even if experience or future changes makes it clear that any projected results expressed or implied in such statements will not be realized.

Our Business

Overview

We are a specialty biopharmaceutical company committed to developing and commercializing innovative ophthalmic products for the treatment of eye diseases. We have two products, YUTIQ® and DEXYCU®, which were approved by the United States ("U.S.") Food and Drug Administration ("FDA") in October 2018 and February 2018, respectively. During the nine months ended September 30, 2019, we launched both products directly in the U.S.

YUTIQ (fluocinolone acetonide intravitreal implant) 0.18 mg for intravitreal injection, was launched directly in the U.S. in February 2019. YUTIQ is indicated for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye, which affects between 55,000 to 120,000 people in the U.S. each year and causes approximately 30,000 new cases of blindness every year, making it the third leading cause of blindness. Injected into the eye in an office visit, YUTIQ is a micro-insert that delivers a micro-dose of a corticosteroid to the back of the eye on a sustained constant (zero order release) basis for up to 36 months. YUTIQ is based on our proprietary Durasert™ sustained-release drug delivery technology platform, which can deliver drugs for predetermined periods of time ranging from months to years.

DEXYCU (dexamethasone intraocular suspension) 9%, for intraocular administration, was launched directly in the U.S. in March 2019. Indicated for the treatment of post-operative ocular inflammation, DEXYCU is administered as a single dose at the end of ocular surgery and is the first long-acting intraocular product approved by the FDA for this indication. DEXYCU utilizes our proprietary Verisome® drug-delivery platform, which allows for a single intraocular injection that releases dexamethasone, a corticosteroid, over time. There were approximately 4.8 million cataract surgeries performed during 2018 in the U.S., with growth projected at an estimated annual rate of 8%, and we launched DEXYCU with a primary focus on its use following cataract surgery. We acquired DEXYCU in connection with its acquisition of Icon Bioscience, Inc. ("Icon") in March 2018.

ILUVIEN® for diabetic macular edema ("DME"), our lead licensed product, is sold directly in the U.S. and several European Union ("EU") countries by Alimera Sciences, Inc. ("Alimera"). In July 2017, we expanded our license agreement with Alimera to include the uveitis indication utilizing the Durasert technology in Europe, the Middle East and Africa ("EMEA"), which received European regulatory approval in March 2019 and, subject to obtaining pricing and reimbursement in each applicable country, will be marketed as ILUVIEN. Retisert®, one of our earlier generation products, was approved in 2005 by the FDA for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye and is sold in the U.S. by Bausch & Lomb Incorporated ("Bausch & Lomb"). Our development programs are focused primarily on developing sustained release products that utilize our Durasert and Verisome technology platforms to deliver approved drugs to treat chronic diseases. Our strategy

includes developing products independently while continuing to leverage our technology platforms through collaborations and license agreements.

DEXYCU®, YUTIQ® and Durasert™ are our trademarks. Retiser® is Bausch & Lomb's trademark. ILUVIEN® is Alimera's trademark. Verisome® is Ramscor, Inc.'s trademark. Information with respect to ILUVIEN, including regulatory and marketing information, and Alimera's plans and intentions, reflects information publicly disclosed by Alimera.

Recent Developments

Recent developments and ongoing activities regarding the commercialization of YUTIQ include:

- The permanent and specific J-Code for YUTIQ, J7314, was issued by the Centers for Medicare and Medicaid Services (CMS) one quarter earlier than under prior CMS policy and is in effect as of October 1, 2019.
- Customer orders up 17% over Q2, prior to the effective date of the permanent J-code.
- Repeat customers represented 85% of order volume, and importantly, 40% of our target account list has ordered, representing solid adoption with continued growth opportunity.
- Medicare fee for service claims consistently and Medicare Advantage and Commercial payors are beginning to cover YUTIQ.

Recent developments and ongoing activities regarding the commercialization of DEXYCU include:

- Customer orders up 207% over Q2 with September representing the highest volume month to date, and with repeat customers representing 74% of Q3 order volume.
- Since launch, over 5,400 patients have been injected with DEXYCU. In that time, over 500 physicians have been trained to use the product.
- Medicare fee for service claims continue to be paid consistently, and Medicare Advantage and Commercial insurance claims increased quarter over quarter.
- The average time to payment in all payor sectors continues to improve post launch. We expect the time to payment to decrease as payor systems incorporate DEXYCU's J code.
- In November 2019, EyePoint announced two new agreements to expand the reach of DEXYCU and YUTIQ within large integrated healthcare networks. An interim agreement with the U.S. Department of Veterans Affairs (VA) became effective on November 2, 2019, adding DEXYCU and YUTIQ to the Federal Supply Schedule. The VA serves approximately nine million beneficiaries. A final VA contract is anticipated within several months and is expected to have a five-year term. In addition, a three-year contract was signed with Vizient Inc., effective November 1, 2019, offering DEXYCU to its diverse membership network. Vizient provides solutions and services to over 50% of the nation's acute care providers, including 95% of the nation's academic medical centers, and more than 20% of ambulatory care providers.
- In August 2019, EyePoint received a \$1 million milestone payment from Ocumension Therapeutics triggered by the approval of its Investigational New Drug (IND) in China for EyePoint's three-year intravitreal micro-insert containing 0.18mg of fluocinolone acetonide using the Durasert™ technology (known as YUTIQ in the United States). The IND allows the importation of finished product into China for use in its initiated clinical trial to support regulatory approval for the treatment of chronic uveitis affecting the posterior segment of the eye. Ocumension has also received a special approval by the Hainan Province People's Government to market this product for chronic, non-infectious posterior segment uveitis in the Hainan Bo Ao Lecheng International Medical Tourism Pilot Zone.

R&D Highlights

Two presentations took place at the Annual Retina Society meeting held in London, United Kingdom, on September 11-15, 2019 highlighting 36-month data supporting YUTIQ for the treatment of non-infectious posterior segment uveitis. Highlights from each of the presentations include:

- Uveitis recurrence rate was significantly reduced in the YUTIQ versus sham injected eyes (56% vs 93%, $p < 0.001$). A total of 103 recurrences were reported in 49/87 YUTIQ treated eyes ($1.2 \pm 2.0/\text{eye}$) versus

166 recurrences in 39/42 sham treated eyes ($4.0 \pm 3.3/\text{eye}$). Multiple (>1) recurrences were observed in 21.8% (19/87) of the YUTIQ treated eyes and 73.8% (31/42) of the sham treated eyes.

- Intra/peri-ocular steroid treatments were used 23 times to treat inflammation in 17/87 (19.5%) YUTIQ-treated eyes and 99 times to treat 29/42 (69.0%) sham eyes during the 3-year study. Those treatment rates represented an increase from 6.9% and 16.1% (YUTIQ) and 61.9% and 66.7% (sham) at years 1 and 2. In the first year, 17/87 (19.5%) of the YUTIQ patients received a total of 34 systemic treatments while 17/42 (40.5%) of the sham patients received 30 treatments. Systemic treatment rates increased to 34.5% and 50% respectively by 3 years.

Two presentations took place at the annual American Academy of Ophthalmology meeting held in San Francisco on October 12-15, 2019 highlighting 36-month data supporting YUTIQ for the treatment of non-infectious posterior segment uveitis. Highlights from each of the presentations include:

- Eighty-seven patients were treated with YUTIQ. Mean IOP was 13.9 ± 3.1 mmHg at baseline, peaked at 16.5 ± 5.1 mmHg at 2 months, and returned to near-baseline for the rest of the trial. IOP of ≥ 30 mmHg occurred in 15 YUTIQ-treated eyes (17.2%); mean time to IOP ≥ 30 mmHg was 241.1 days (median 153 days, range 8 to 1108 days). IOP ≥ 30 mmHg occurred for 5 eyes (33.3%) in 7-30 days; 5 eyes (33.3%) in 3-6 mos.; 4 eyes (26.7%) in 6-18 mos., and 1 eye (6.7%) at 3 yrs. Overall, YUTIQ had no significant impact on the progression of visual field loss in this subset of study patients through 36 months when compared to the fellow eye.
- Resolution of macular edema was reported in 85% (34/40) of YUTIQ treated eyes versus 70% (16/23) of sham eyes with edema at baseline. Central foveal thickness was reduced in both groups. More rapid reduction was observed in YUTIQ treated eyes. A visual acuity improvement of three or more ETDRS lines was recorded for 33% of the YUTIQ treated eyes and 14.7% of eyes in the sham group. Mean IOP was similar in the 2 treatment groups. Medication to lower IOP was used by 42% of subjects in the YUTIQ group and 33% of the sham treated eyes. Cataract extractions were more frequent in YUTIQ treated eyes (74% vs 24%).

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with GAAP requires that we make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates, judgments and assumptions on historical experience, anticipated results and trends, and on various other factors that we believe are reasonable under the circumstances at the time. By their nature, these estimates, judgments and assumptions are subject to an inherent degree of uncertainty. Actual results may differ from our estimates under different assumptions or conditions. In our Transition Report on Form 10-K for the six months ended December 31, 2018, we set forth our critical accounting policies and estimates, which included revenue recognition and recognition of expense in outsourced clinical trial agreements. In the first quarter of 2019, we began selling commercial products and consider reserves for variable consideration related to product sales to be a critical accounting estimate. See Note 2 of the notes to our unaudited condensed consolidated financial statements contained in this quarterly report on Form 10-Q for a description of our accounting policies and estimates for reserves for variable consideration related to product sales.

Results of Operations

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018:

	Three Months Ended		Change	
	2019	2018	Amounts	%
(In thousands except percentages)				
Revenues:				
Product sales, net	\$ 1,009	\$ —	\$ 1,009	na
License and collaboration agreement	1,054	56	998	1782%
Royalty income	446	430	16	4%
Total revenues	2,509	486	2,023	416%
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	327	—	327	na
Research and development	3,484	6,233	(2,749)	(44)%
Sales and marketing	7,778	3,646	4,132	113%
General and administrative	4,365	4,161	204	5%
Amortization of acquired intangible assets	615	—	615	na
Total operating expenses	16,569	14,040	2,529	18%
Loss from operations	(14,060)	(13,554)	(506)	(4)%
Other income (expense):				
Interest and other income	183	129	54	42%
Interest expense	(1,770)	(815)	(955)	(117)%
Change in fair value of derivative liability	—	(18,886)	18,886	na
Other expense, net	(1,587)	(19,572)	17,985	92%
Net loss	\$ (15,647)	\$ (33,126)	\$ 17,479	53%

Product Sales, net

Product sales, net represents the gross sales of DEXYCU and YUTIQ less provisions for product sales allowances and accruals. We commenced U.S. commercial sales of YUTIQ in February 2019 and net sales totaled \$55,000 for the quarter ended September 30, 2019. During this quarter, our 3PL utilized existing inventory to meet demand and the revenue recognized is from initial orders to Ocumension, our partner in China (see Note 4). We commenced commercial sales of DEXYCU in March 2019 and net sales totaled \$954,000 for the quarter ended September 30, 2019. We had no product revenue during the three months ended September 30, 2018.

License and collaboration agreement

License and collaboration agreement revenues increased by \$998,000, or 1,782% to \$1.1 million for the three months ended September 30, 2019 compared to \$56,000 for the three months ended September 30, 2018. This increase was attributable primarily to the \$1.0 million payment we received from Ocumension upon achieving its first development milestone for YUTIQ in China.

Royalty Income

Royalty income increased by \$16,000, or 4%, to \$446,000 for the three months ended September 30, 2019 compared to \$430,000 for the three months ended September 30, 2018. The increase was attributable primarily to a combination of an increase in the net sales-based royalty rate from 2% to 4% and higher ILUVIEN net sales under the Amended Alimera Agreement. This increase in ILUVIEN royalties was offset by recognizing no revenue during this quarter for Retisert royalty as the licensee, Bausch and Lomb informed us that they consider this agreement to have ended due to the expiration of certain patents.

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, of approximately \$327,000 for the three months ended September 30, 2019 consisted of costs associated with the manufacturing of YUTIQ and DEXYCU, certain period costs and product shipping costs. We expensed manufacturing costs as research and development expenses in the periods prior to FDA approval of the products. In the fourth quarter of 2018, we began capitalizing inventory costs for YUTIQ and DEXYCU manufactured in preparation for our launch in the United States. We had no cost of sales for the three months ended September 30, 2018.

Research and Development

Research and development expenses decreased by \$2.7 million, or 44%, to \$3.5 million for the three months ended September 30, 2019 from \$6.2 million for the same period in the prior year. This decrease was attributable primarily to (i) approximately \$970,000 in the prior year quarter, related to pre-launch DEXYCU batches for stability and manufacturing testing (ii) \$820,000 of contract research organization costs for our YUTIQ Phase 3 clinical development program included in the three months ended September 30, 2018 amount that was not incurred in the corresponding period in 2019 and (iii) \$615,000 of amortization of the March 2018 acquired Intangible asset from the Icon Acquisition (classified as a separate line item in cost of sales post product launches), partially offset by increases of (i) \$294,000 of personnel and related expenses for the build-out of our medical affairs group and expansion of regulatory and quality staffing including offsets for manufacturing related expenses absorbed into our cost of sales and (ii) \$127,000 for medical affairs related program expenses.

Sales and Marketing

With the commercial launch of DEXYCU and YUTIQ, we continued the build-out of our commercial infrastructure and marketing activities during the third quarter of fiscal 2019. Sales and marketing expenses increased by \$4.1 million, or 113%, to \$7.8 million for the three months ended September 30, 2019 from \$3.6 million for the same period in the prior year. This increase was primarily attributable to (i) \$2.5 million related to our contract sales organization which includes our YUTIQ and DEXYCU key account managers and (ii) \$1.5 million of marketing programs and agency costs.

General and Administrative

General and administrative expenses increased by \$204,000, or 5%, to \$4.4 million for the three months ended September 30, 2019 from \$4.2 million for the same period in the prior year. This increase was attributable primarily to (i) a \$230,000 increase in personnel and related expenses related to additions in finance, legal, human resources and business development and (ii) \$266,000 in contracted services, primarily in outsourced IT for the build-out of commercial systems, partially offset by a \$358,000 decrease in legal, audit and other professional fees.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled \$615,000 for the three months ended September 30, 2019. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon Acquisition (see Note 3). Prior to our product launches, the amortization was classified in Research and development.

Interest (Expense) Income

Interest expense totaled \$1.8 million for the three months ended September 30, 2019, which included \$160,000 of amortization of debt discount and \$322,000 of non-cash payment-in-kind interest expense all related to the CRG Debt. Interest expense in the three months ended September 30, 2018 was \$815,000 and related to the SWK Loan.

Interest income from amounts invested in an institutional money market fund increased to \$83,000 for the three months ended September 30, 2019 compared to \$129,000 in the prior year quarter, due primarily to higher interest-bearing assets and higher money market interest rates.

Change in Fair Value of Derivative Liability

The future obligation to issue Units in the Second Tranche Transaction was measured at fair value and recorded as a derivative liability on our balance sheet upon consummation of the First Tranche Transaction on March 28, 2018, subject to remeasurement at each balance sheet date. At September 30, 2018, the fair value re-measurement resulted in a \$18.9 million change in fair value of derivative liability that was recorded as a component of non-operating expense for the three months ended September 30, 2018.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018:

	Nine Months Ended		Change	
	September 30,		Amounts	%
	2019	2018		
(In thousands except percentages)				
Revenues:				
Product sales, net	\$ 8,941	\$ —	\$ 8,941	na
License and collaboration agreement	1,125	798	327	41%
Royalty income	1,666	1,331	335	25%
Total revenues	<u>11,732</u>	<u>2,129</u>	<u>9,603</u>	<u>451%</u>
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	1,363	—	1,363	na
Research and development	11,237	14,323	(3,086)	(22)%
Sales and marketing	22,373	5,158	17,215	334%
General and administrative	13,790	10,662	3,128	29%
Amortization of acquired intangible assets	1,845	—	1,845	na
Total operating expenses	<u>50,608</u>	<u>30,143</u>	<u>20,465</u>	<u>68%</u>
Loss from operations	<u>(38,876)</u>	<u>(28,014)</u>	<u>(10,862)</u>	<u>(39)%</u>
Other income (expense):				
Interest and other income	692	181	511	282%
Interest expense	(4,389)	(1,535)	(2,854)	(186)%
Loss on extinguishment of debt	(3,810)	—	(3,810)	na
Change in fair value of derivative liability	—	(45,164)	45,164	na
Other expense, net	<u>(7,507)</u>	<u>(46,518)</u>	<u>39,011</u>	<u>84%</u>
Net loss	<u>\$ (46,383)</u>	<u>\$ (74,532)</u>	<u>\$ 28,149</u>	<u>38%</u>

Product Sales, net

Product sales, net represents the gross sales of DEXYCU and YUTIQ less provisions for product sales allowances and accruals. We commenced U.S. commercial sales of YUTIQ in February 2019 and net sales totaled \$7.3 million for the nine months ended September 30, 2019. We commenced commercial sales of DEXYCU in March 2019 and net sales totaled \$1.6 million for the nine months ended September 30, 2019.

License and collaboration agreement

License and collaboration agreement revenues increased by 41%, or \$327,000 to \$1.1 million for the nine months ended September 30, 2019 compared to \$798,000 for the nine months ended September 30, 2018. This increase was attributable primarily to the \$1.0 million payment we received from Ocumension upon achieving their first development milestone for YUTIQ, partially offset by the absence in the current period of \$700,000 in revenues recognized from feasibility study agreements.

Royalty Income

Royalty income increased by \$335,000, or 25%, to \$1.7 million for the nine months ended September 30, 2019 compared to \$1.3 million for the nine months ended September 30, 2018. The increase was attributable primarily to a combination of an increase in the net sales-based royalty rate from 2% to 4% and higher ILUVIEN net sales under the Amended Alimera Agreement. This increase in ILUVIEN royalties was partially offset by recognizing less revenue from the Retisert royalty as the licensee, Bausch and Lomb, informed us during the second quarter that they consider this agreement to have ended due to the expiration of certain patents.

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, of approximately \$1.4 million for the nine months ended September 30, 2019 consisted of costs associated with the manufacturing of YUTIQ and DEXYCU, certain period costs, accrued royalty expense on DEXYCU net sales payable to the former Icon security holders and product shipping costs. We expensed manufacturing costs as research and development expenses in the periods prior to FDA approval of the products. In the fourth quarter of 2018, we began capitalizing inventory costs for YUTIQ and DEXYCU manufactured in preparation for our launch in the United States. We had no cost of sales for the nine months ended September 30, 2018.

Research and Development

Research and development expenses decreased by \$3.1 million, or 22%, to \$11.2 million for the nine months ended September 30, 2019 from \$14.3 million for the same period in the prior year. This decrease was attributable primarily to (i) \$2.3 million of contract research organization costs for our YUTIQ Phase 3 clinical development program, (ii) \$1.3 million related to pre-launch DEXYCU batches for stability and manufacturing testing and (iii) \$1.2 million of amortization of the acquired Intangible asset from the Icon Acquisition (classified as a separate line item post product launches), partially offset by increases of (i) \$1.6 million of net personnel and related expenses for the build-out of our medical affairs group and expansion of regulatory and quality staffs and (ii) \$839,000 for medical affairs related program expenses.

Sales and Marketing

With the commercial launch of DEXYCU and YUTIQ, we continued the build-out of our commercial infrastructure and marketing activities during the nine months ended September 30, 2019. Sales and marketing expenses increased by \$17.2 million, or 334%, to \$22.4 million for the nine months ended September 30, 2019 from \$5.2 million for the same period in the prior year. This increase was attributable primarily to (i) \$8.6 million related to our contract sales organization which includes our YUTIQ and DEXYCU key account managers, (ii) \$5.7 million of marketing program and agency costs and (iii) \$3.0 million of personnel and related costs

General and Administrative

General and administrative expenses increased by \$3.1 million, or 29%, to \$13.8 million for the nine months ended September 30, 2019 from \$10.7 million for the same period in the prior year. This increase was attributable primarily to (i) a \$2.7 million increase in personnel and related expenses related to senior management additions in finance, legal, human resources, information technology and business development, including \$971,000 of stock-based compensation and (ii) \$286,000 in contracted services, primarily in outsourced IT for the build-out of commercial systems, partially offset by a \$359,000 decrease in legal, audit and other professional fees.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled \$1.8 million for the nine months ended September 30, 2019. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon Acquisition (see Note 3). Prior to our product launches, the amortization was classified in Research and development.

Interest (Expense) Income

Interest expense totaled \$4.4 million for the nine months ended September 30, 2019, which included \$430,000 of amortization of debt discount and \$728,000 of non-cash payment-in-kind interest expense related to the CRG Debt. Interest expense in the nine months ended September 30, 2018 was \$1.5 million related to the SWK Loan.

Interest income from amounts invested in an institutional money market fund increased to \$92,000 for the nine months ended September 30, 2019 compared to \$181,000 in the prior year quarter, due primarily to significantly higher interest-bearing assets and higher money market interest rates.

Loss on Extinguishment of Debt

Repayment of the SWK Loan in February 2019 resulted in a \$3.8 million loss on extinguishment of debt, which consisted of (i) a \$2.3 million write-off of the remaining balance of unamortized debt discount; (ii) a \$1.2 million prepayment penalty; and (iii) a \$306,000 make-whole interest payment covering the period from the date of the loan repayment to what would have been the first anniversary of the original loan closing date, or March 28, 2019.

Change in Fair Value of Derivative Liability

The future obligation to issue Units in the Second Tranche Transaction was measured at fair value and recorded as a derivative liability on our balance sheet upon consummation of the First Tranche Transaction on March 28, 2018, subject to remeasurement at each balance sheet date. At September 30, 2018, the fair value re-measurement resulted in a \$45.2 million change in fair value of derivative liability that was recorded as a component of non-operating expense for the nine months ended September 30, 2018.

Liquidity and Capital Resources

We have had a history of operating losses and an absence of significant recurring cash inflows from revenue, and at September 30, 2019 we had a total accumulated deficit of \$454.9 million. Our operations have been financed primarily from sales of our equity securities, issuance of debt and a combination of royalty income and other fees received from collaboration partners. Accordingly, the foregoing conditions, taken together, continue to raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of these financial statements.

Financing Activities

Our total cash and cash equivalents were \$31.8 million at September 30, 2019. During the nine months ended September 30, 2019 we refinanced our then existing \$20.0 million term loan with SWK Funding LLC ("SWK Loan") and made an initial draw of \$35.0 million from a new term loan agreement (the "CRG Loan Agreement") with CRG Servicing LLC ("CRG") (see Note 9), resulting in incremental net proceeds of approximately \$11.4 million. In addition, we received net proceeds of \$18.3 million from the issuance of 10,526,500 shares of our common stock ("Common Stock") (see Note 10). We also exercised an option to draw an additional \$15.0 million under the CRG Loan Agreement and paid a \$15.0 million development milestone that was due to the former Icon security holders following the first commercial sale of DEXYCU. During the three months ended September 30, 2019, we sold 1,707,995 shares of our common stock ("Common Stock") utilizing our at-the-market facility ("ATM") at a weighted average price of \$1.50 per share for net proceeds of approximately \$2.4 million (See Note 10).

Pursuant to the terms of the CRG Loan Agreement, subject to achieving product net revenue from YUTIQ and DEXYCU of at least \$25.0 million during any three-month period ending on or before March 31, 2020, we are entitled to borrow up to an additional \$10.0 million.

The CRG Loan is due and payable on December 31, 2023 (the "Maturity Date"). The CRG Loan bears interest at a per annum rate (subject to increase during an event of default) equal to 12.5%, of which 2.5% may be paid in-kind at the election of the Company, so long as no default or event of default under the CRG Loan Agreement has occurred and is continuing. The Company is required to make interest only payments on a quarterly basis until the Maturity Date. The Company will also be required to pay an exit fee equal to 6% of the aggregate principal amounts advanced (including any paid-in-kind amounts) under the CRG Loan Agreement.

Subject to certain exceptions, we are required to make mandatory prepayments of the CRG Loan with the proceeds of assets sales and in the event of a change of control of our Company. In addition, we may make a voluntary prepayment of the CRG Loan, in whole or in part, at any time. All mandatory and voluntary prepayments of the CRG Loan are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to December 31, 2019, an amount equal to 10% of the aggregate outstanding principal amount of the CRG Loan being prepaid, (ii) if prepayment occurs after December 31, 2019 and on or prior to December 31, 2020, 5% of the aggregate outstanding principal amount of the CRG Loan being prepaid and (iii) if prepayment occurs after

December 31, 2020 and on or prior to December 31, 2021, an amount equal to 3% of the aggregate outstanding principal amount of the CRG Loan being prepaid. No prepayment premium is due on any principal prepaid after December 31, 2021.

Certain of the Company's existing and future subsidiaries, including the Guarantors, are guaranteeing the obligations of us under the CRG Loan Agreement. Our obligations under the CRG Loan Agreement and the guarantee of such obligations are secured by a pledge of substantially all of our and the Guarantors' assets.

The CRG Loan Agreement contains affirmative and negative covenants customary for financings of this type, including limitations on our and our subsidiaries' abilities, among other things, to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions and enter into affiliate transactions, in each case, subject to certain exceptions. In addition, the CRG Loan Agreement contains the following financial covenants requiring us and the Guarantors to maintain:

- liquidity in an amount which shall exceed the greater of (i) \$5 million and (ii) to the extent we have incurred certain permitted debt, the minimum cash balance, if any, required of the Company by the creditors of such permitted debt; and
- annual minimum product revenue from YUTIQ and DEXYCU: (i) for the twelve-month period beginning on January 1, 2019 and ending on December 31, 2019, of at least \$15 million, (ii) for the twelve-month period beginning on January 1, 2020 and ending on December 31, 2020, of at least \$45 million, (iii) for the twelve-month period beginning on January 1, 2021 and ending on December 31, 2021, of at least \$80 million and (iv) for the twelve-month period beginning on January 1, 2022 and ending on December 31, 2022, of at least \$90 million.

Future Funding Requirements

In the first quarter of 2019, the Company commenced the U.S. launch of its first two commercial products, YUTIQ and DEXYCU. During the ensuing months, the commercial progress of YUTIQ and DEXYCU has been positive, with demand for YUTIQ meeting the Company's expectations. However, the Company, has no history of direct commercialization of its products and management does not yet have sufficient historical evidence to assert that it is probable that the Company will receive sufficient revenues from its sales of YUTIQ and DEXYCU to fund operations. As of September 30, 2019, the Company has had recurring operating losses since its inception and has an accumulated deficit of approximately \$454.9 million and working capital of \$36.7 million. The Company expects that its existing cash and cash equivalents at September 30, 2019, and cash inflows from anticipated YUTIQ and DEXYCU product sales will be sufficient to fund the Company's operating plan into 2020.

The Company anticipates that it will need to raise additional capital to fund its operations until its cash flows reach a level sufficient to fund the Company's operating plan through 2020. Actual cash requirements could differ from management's projections due to many factors, including the success of commercialization for YUTIQ and DEXYCU, the actual costs of these commercialization efforts, additional investments in research and development programs, competing technological and market developments and the costs of any strategic acquisitions and/or development of complementary business opportunities.

Actual cash requirements may differ from projections and will depend on many factors, including, but not limited to:

- the success of our U.S. direct commercialization of DEXYCU for the treatment of postoperative ocular inflammation including, among other things, patient and physician acceptance of DEXYCU and our ability to obtain adequate coverage and reimbursement for DEXYCU;
- the success of our U.S. direct commercialization of YUTIQ for the treatment of non-infectious uveitis affecting the posterior segment of the eye including, among other things, patient and physician acceptance of YUTIQ and our ability to obtain adequate coverage and reimbursement for YUTIQ;
- the cost of commercialization activities for DEXYCU and YUTIQ, including product manufacturing, marketing, sales and distribution;
- whether and to what extent we internally fund, whether and when we initiate, and how we conduct other product development programs;
- payments we receive under any new collaboration agreements;
- whether and when we are able to enter into strategic arrangements for our products or product candidates and the nature of those arrangements;
- whether and when we acquire new technologies, products or businesses;

- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing any patent claims; and
- continued real world efficacy and safety results in line with or better than our products labels.
- changes in our operating plan, resulting in increases or decreases in our need for capital.

We do not know whether additional capital will be available if and when needed or on terms favorable to us or our stockholders. Collaboration, licensing or other agreements may not be available on favorable terms, or at all. We do not know the extent to which we will receive funds from the commercialization of YUTIQ or DEXYCU. If we seek to sell our equity securities under our ATM program or in another offering, we do not know whether and to what extent we will be able to do so, or on what terms. If available, additional equity financing may be dilutive to stockholders, debt financing may involve restrictive covenants or other unfavorable terms and dilute our existing stockholders' equity, and funding through collaboration, licensing or other commercial agreements may be on unfavorable terms, including requiring us to relinquish rights to certain of our technologies or products. If adequate financing is not available if and when needed, we may delay, reduce the scope of, or eliminate research or development programs, independent commercialization of YUTIQ and DEXYCU, or other new products, if any, postpone or cancel the pursuit of product candidates, including pre-clinical and clinical trials and new business opportunities, reduce staff and operating costs, or otherwise significantly curtail our operations to reduce our cash requirements and extend our capital. Additionally, we may never become profitable, or if we do, we may not be able to sustain profitability on a recurring basis.

Our consolidated statements of historical cash flows are summarized as follows (in thousands):

	Nine Months Ended		Change
	September 30,		
	2019	2018	
Net loss:			
Changes in operating assets and liabilities	(9,463)	2,167	(11,630)
Other adjustments to reconcile net loss to cash flows from operating activities	(35,750)	(24,834)	(10,916)
Net cash used in operating activities	<u>(45,213)</u>	<u>(22,667)</u>	<u>(22,546)</u>
Net cash used in investing activities	<u>(207)</u>	<u>(16,933)</u>	<u>16,726</u>
Net cash provided by financing activities	<u>31,919</u>	<u>82,490</u>	<u>(50,571)</u>

Operating cash outflows for the nine months ended September 30, 2019 totaled \$45.2 million, primarily due to our net loss of \$46.4 million, reduced by \$10.6 million of non-cash expenses, which included a \$3.8 million loss on extinguishment of our SWK Loan, \$3.7 million of stock-based compensation, \$1.8 million of amortization of the DEXYCU finite-lived intangible asset, and \$1.2 million of non-cash interest and amortization of debt discount.

Operating cash outflows for the nine months ended September 30, 2018 totaled \$22.7 million, primarily due to our net loss of \$74.5 million, reduced by \$49.7 million of non-cash expenses, which included a \$45.2 million change in fair value of derivative liability and \$2.8 million of stock-based compensation.

Net cash used in investing activities for the nine months ended September 30, 2019 consisted of \$207,000 of purchases of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2018 consisted of a \$14.9 million closing payment for the Icon Acquisition plus \$1.9 million of transaction costs paid, net of \$38,000 of cash acquired and \$153,000 of purchases of property and equipment.

Net cash provided by financing activities for the nine months ended September 30, 2019 totaled \$31.9 million and consisted of the following:

- (i) \$33.8 million of net proceeds from the initial drawdown under the CRG Loan Agreement, net of debt issue costs; and
- (ii) \$18.3 million of net proceeds from the issuance of 10,526,500 shares of our Common Stock; and
- (iii) \$14.8 million of net proceeds from our second drawdown under the CRG Loan Agreement offset by payment of a \$15.0 million development milestone that was due to the former Icon security holders following the first commercial sale of DEXYCU.
- (iv) \$308,000 of proceeds from the exercise of stock options; and

- (v) \$2.4 million of net proceeds from the issuance of 1,707,995 shares of our Common Stock sold utilizing our ATM; partially offset by
- (vi) \$22.7 million repayment of the SWK Loan, which included principal of \$20.0 million, a \$1.2 million prepayment penalty, a \$1.2 million exit fee and \$306,000 of make whole interest.

Net cash provided by financing activities for the nine months ended September 30, 2018 totaled \$82.5 million and consisted of the following:

- (i) \$34.5 million of net proceeds received from the sale of 8,606,324 shares of common stock in the First Tranche Transaction and the sale of 20,184,224 Units in the Second Tranche Transaction, in connection with the Icon Acquisition; and
- (ii) \$18.7 million of net proceeds from the initial and second drawdowns under SWK Loan, net of issue costs
- (iii) \$503,000 of proceeds from the exercise of stock options; and
- (iv) \$28.9 million of proceeds from the exercise of the 20,184,224 Second Tranche Warrants

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2019 that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, which may result in potential losses arising from adverse changes in market rates, such as interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes and do not believe we are exposed to material market risk with respect to our cash and cash equivalents.

As of September 30, 2019, we had cash and cash equivalents of \$31.8 million. We do not engage in any hedging activities against changes in interest rates. Because of the short-term maturities of our cash and cash equivalents, we do not believe that an immediate 10% increase in interest rates would have a significant impact on the realized value of our investments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. The term “disclosure controls and procedures”, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their desired objectives, and our 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 September 30, 2019, our principal executive officer and principal 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

During the quarter ended September 30, 2019, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, “Item 1A, Risk Factors” of our Transition Report on Form 10-K for the six months ended December 31, 2018, which was filed with the SEC on March 18, 2019.

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

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference to SEC Filing		
		Form	SEC Filing Date	Exhibit No.
3.1	Certificate of Incorporation of pSivida Corp.	8-K12G3	06/19/08	3.1
3.2	Certificate of Amendment of the Certificate of Incorporation of pSivida Corp.	10-K	09/13/17	3.2
3.3	Certificate of Amendment of the Certificate of Incorporation of pSivida Corp.	8-K	04/02/18	3.1
3.4	Certificate of Amendment of Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	06/27/18	3.1
3.5	By-Laws of EyePoint Pharmaceuticals, Inc.	10-K	09/18/18	3.5
3.6	Amendment No. 1 to the By-Laws of EyePoint Pharmaceuticals, Inc.	8-K	11/06/18	3.1
4.1	Form of Specimen Stock Certificate for Common Stock	8-K12G3	06/19/08	4.1
4.2	Warrant to Purchase Common Stock of pSivida Corp., issued March 28, 2018, to SWK Funding, LLC	8-K	3/29/18	4.1
4.3	Registration Rights Agreement, dated as of March 28, 2018, by and among pSivida Corp. and EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P.	8-K	3/29/18	10.3
4.4	Second Registration Rights Agreement, dated as of June 25, 2018, by and among EyePoint Pharmaceuticals, Inc. and EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P. and each other person identified on the signature pages thereto	8-K	06/27/18	10.1
31*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32**	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101	The following materials from EyePoint Pharmaceuticals' Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Comprehensive Loss; (iii) Condensed Consolidated Statements of Stockholders' Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements.			

* Filed herewith

** Furnished herewith

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.

Date: November 7, 2019

EyePoint Pharmaceuticals, Inc.

By: /s/ Nancy Lurker

Name: Nancy Lurker

Title: President and Chief Executive Officer

(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.**CERTIFICATIONS**

I, Nancy Lurker, certify that:

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

Date: November 7, 2019

/s/ Nancy Lurker

Name: Nancy Lurker

Title: President and Chief Executive Officer

(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

In connection with the Quarterly Report of EyePoint Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy Lurker, President and Chief Executive Officer of the Company, certify that to the best of my knowledge:

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

Date: November 7, 2019

/s/ Nancy Lurker

Name: Nancy Lurker

Title: President and Chief Executive Officer
(Principal Executive Officer, Principal Financial
Officer & Principal Accounting Officer)