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, 2022

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-51122

EyePoint Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2774444**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
480 Pleasant Street Watertown, MA	**02472**
(Address of principal executive offices)	(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

There were 34,082,934 shares of the registrant's common stock, $0.001 par value, outstanding as of November 1, 2022.

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 data)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 75,362	$ 178,593
Marketable securities	81,897	32,965
Accounts and other receivables, net	20,876	18,354
Prepaid expenses and other current assets	10,436	4,217
Inventory	3,531	3,616
Total current assets	192,102	237,745
Property and equipment, net	1,015	476
Operating lease right-of-use assets	6,319	2,252
Intangible assets, net	20,904	22,749
Restricted cash	150	150
Total assets	$ 220,490	$ 263,372
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,112	$ 7,385
Accrued expenses	16,004	14,422
Deferred revenue	1,169	1,069
Short-term borrowings	10,475	—
Other current liabilities	496	782
Total current liabilities	34,256	23,658
Long-term debt	29,251	36,562
Deferred revenue - noncurrent	13,798	14,560
Operating lease liabilities - noncurrent	6,235	1,860
Other long-term liabilities	600	2,352
Total liabilities	84,140	78,992
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, 300,000,000 shares authorized at September 30, 2022 and December 31, 2021; 34,072,155 and 33,905,826 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	34	34
Additional paid-in capital	763,562	752,602
Accumulated deficit	(627,899)	(569,097)
Accumulated other comprehensive income	653	841
Total stockholders' equity	136,350	184,380
Total liabilities and stockholders' equity	$ 220,490	$ 263,372

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenues:				
Product sales, net	$ 9,720	$ 8,587	$ 30,048	$ 24,127
License and collaboration agreements	52	159	160	594
Royalty income	240	313	663	674
Total revenues	10,012	9,059	30,871	25,395
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	1,405	1,825	4,916	5,144
Research and development	11,162	8,498	34,099	19,582
Sales and marketing	6,016	7,374	19,592	19,692
General and administrative	9,212	6,060	26,321	16,358
Amortization of acquired intangible assets	615	615	1,845	1,845
Total operating expenses	28,410	24,372	86,773	62,621
Loss from operations	(18,398)	(15,313)	(55,902)	(37,226)
Other income (expense):				
Interest and other income, net	640	6	1,067	286
Interest expense	(662)	(1,388)	(2,408)	(4,110)
Gain (loss) on extinguishment of debt	—	—	(1,559)	2,065
Total other expense, net	(22)	(1,382)	(2,900)	(1,759)
Net loss	$ (18,420)	$ (16,695)	$ (58,802)	$ (38,985)
Net loss per share - basic and diluted	$ (0.49)	$ (0.58)	$ (1.58)	$ (1.42)
Weighted average shares outstanding - basic and diluted	37,338	28,766	37,305	27,429
Net loss	$ (18,420)	$ (16,695)	$ (58,802)	$ (38,985)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale securities, net of tax of $0 for periods presented	51	—	(188)	—
Comprehensive loss	$ (18,369)	$ (16,695)	$ (58,990)	$ (38,985)

See notes to condensed consolidated financial statements.

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

	Common Stock		Additional		Accumulated Other	Total
	Number of Shares	Par Value Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Stockholders' Equity
Balance at July 1, 2021	28,754,192	$ 29	$ 638,965	$ (532,970)	$ 841	$ 106,865
Net loss	—	—	—	(16,695)	—	(16,695)
Issuance of stock, net of issue costs	—	—	10	—	—	10
Employee stock purchase plan	15,652	—	101	—	—	101
Exercise of stock options	251	—	1	—	—	1
Vesting of stock units	1,169	—	(5)	—	—	(5)
Stock-based compensation	—	—	2,471	—	—	2,471
Balance at September 30, 2021	28,771,264	$ 29	$ 641,543	$ (549,665)	$ 841	$ 92,748
Balance at July 1, 2022	34,052,616	$ 34	$ 760,209	$ (609,479)	$ 602	$ 151,366
Net loss	—	—	—	(18,420)		(18,420)
Other comprehensive loss	—	—	—	—	51	51
Issuance of stock, net of issue costs	—	—	—	—		—
Employee stock purchase plan	19,283	—	153	—		153
Exercise of stock options	256	—	1	—		1
Vesting of stock units	—	—	—	—		—
Stock-based compensation	—	—	3,199	—		3,199
Balance at September 30, 2022	34,072,155	$ 34	$ 763,562	$ (627,899)	$ 653	$ 136,350

	Common Stock		Additional		Accumulated Other	Total
	Number of Shares	Par Value Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Stockholders' Equity
Balance at January 1, 2021	18,139,981	$ 18	$ 528,362	$ (510,680)	$ 841	$ 18,541
Net loss	—	—	—	(38,985)	—	(38,985)
Issuance of stock, net of issue costs	10,513,538	11	108,403	—	—	108,414
Employee stock purchase plan	43,365	—	273	—	—	273
Exercise of stock options	1,078	—	11	—	—	11
Vesting of stock units	73,302	—	(145)	—	—	(145)
Stock-based compensation	—	—	4,639	—	—	4,639
Balance at September 30, 2021	28,771,264	$ 29	$ 641,543	$ (549,665)	$ 841	$ 92,748
Balance at January 1, 2022	33,905,826	$ 34	$ 752,602	$ (569,097)	$ 841	$ 184,380
Net loss	—	—	—	(58,802)	—	(58,802)
Other comprehensive loss	—	—	—	—	(188)	(188)
Issuance of stock, net of issue costs	—	—	20	—	—	20
Employee stock purchase plan	47,787	—	354	—	—	354
Exercise of stock options	4,479	—	41	—	—	41
Vesting of stock units	114,063	—	(271)	—	—	(271)
Stock-based compensation	—	—	10,816	—	—	10,816
Balance at September 30, 2022	34,072,155	$ 34	$ 763,562	$ (627,899)	$ 653	$ 136,350

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (58,802)	$ (38,985)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Amortization of intangible assets	1,845	1,845
Depreciation of property and equipment	266	228
Amortization of debt discount and premium and discount on available-for-sale marketable securities	(218)	462
(Gain) loss on extinguishment of debt	1,559	(2,065)
Stock-based compensation	10,816	4,639
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	(8,942)	(4,622)
Inventory	85	767
Accounts payable and accrued expenses	1,681	5,030
Right-of-use assets and operating lease liabilities	(44)	6
Deferred revenue	(663)	(734)
Net cash used in operating activities	(52,417)	(33,429)
Cash flows from investing activities:		
Purchases of marketable securities	(125,617)	—
Sales and maturities of marketable securities	77,000	—
Purchases of property and equipment	(1,565)	(156)
Net cash used in investing activities	(50,182)	(156)
Cash flows from financing activities:		
Proceeds from issuance of stock	—	108,349
Proceeds from issuance of long-term debt	30,000	—
Payment of equity and debt issue costs	(599)	—
Payment of long-term debt	(38,235)	—
Payment of extinguishment of debt costs	(2,294)	—
Borrowings under revolving facility	32,409	—
Repayment under revolving facility	(21,934)	—
Net settlement of stock units to satisfy statutory tax withholding	(271)	(145)
Proceeds from exercise of stock options	395	284
Principal payments on finance lease obligations	(103)	(102)
Net cash (used in) provided by financing activities	(632)	108,386
Net increase (decrease) in cash, cash equivalents and restricted cash	(103,231)	74,801
Cash, cash equivalents and restricted cash at beginning of period	178,743	45,059
Cash, cash equivalents and restricted cash at end of period	$ 75,512	$ 119,860
Supplemental cash flow information:		
Cash interest paid	$ 1,907	$ 3,624
Supplemental disclosure of non-cash investing and financing activities:		
Accrued term loan exit fee	$ 600	$ —
Payments forgiven under paycheck protection program loan	$ —	$ 2,041

See notes to condensed consolidated financial statements.

1. Operations

The accompanying condensed consolidated financial statements of EyePoint Pharmaceuticals, Inc., a Delaware corporation (together with its subsidiaries, the "Company"), as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 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. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. 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 year ended December 31, 2021, 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 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 months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the entire fiscal year or any future period.

The Company is a pharmaceutical company committed to developing and commercializing innovative therapeutics to help improve the lives of patients with serious eye disorders. The Company's pipeline leverages its proprietary Durasert® technology for sustained intraocular drug delivery including EYP-1901, an investigational sustained delivery anti-VEGF treatment currently in Phase 2 clinical trials for wet age-related macular degeneration ("wet AMD"), the leading cause of vision loss among people 50 years of age and older in the United States and non-proliferative diabetic retinopathy. The Company also has two commercial products: YUTIQ®, a once every three-year treatment for posterior segment uveitis of the eye, and DEXYCU®, a single-dose treatment for postoperative inflammation following ocular surgery. Both commercial products are currently being sold in the United States.

The Company plans to identify and advance additional pipeline product candidates through clinical and regulatory development. This may be accomplished through internal discovery efforts, research collaborations and/or in-licensing arrangements with partner molecules and potential acquisitions of additional ophthalmic products, product candidates or technologies that complement the Company's current product portfolio.

Effects of the COVID-19 Coronavirus Pandemic

The ongoing COVID-19 coronavirus pandemic (the "Pandemic") has had a material and adverse impact on the Company's business. The duration and full extent to which the Pandemic impacts the Company's business, revenues, financial condition and cash flows depend on future developments that are highly uncertain, subject to change and are difficult to predict, including new information that may emerge concerning the Pandemic, and may cause intermittent or prolonged periods of reduced patient services at the Company's customers' facilities, which may negatively affect customer demand. The Company's revenues, financial condition and cash flows may be adversely affected in the future as well. The Company is continuously monitoring the Pandemic and its potential effect on the Company's financial position, results of operations and cash flows. This uncertainty could have an impact in future periods on certain estimates used in the preparation of the Company's periodic financial results, including reserves for variable consideration related to product sales, realizability of certain receivables, assessment for excess or obsolete inventory and impairment of long-lived assets. Uncertainty around the extent and length of time of the Pandemic, and any future related financial impact cannot be reasonably estimated at this time.

Liquidity

The Company had cash, cash equivalents and investments in marketable securities of $157.3 million at September 30, 2022. 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 license fees, milestone payments, royalty income and other fees received from its collaboration partners. The Company anticipates that it will continue to incur losses as it continues the research and development of its product candidates, and the Company does not expect revenues from its product sales to generate sufficient funding to sustain its operations in the near-term. The Company expects to continue fulfilling its funding needs through cash inflows from revenues of its product sales, licensing and research collaboration transactions, additional equity capital raises and other arrangements. The Company believes that its cash, cash equivalents and investments in marketable securities of $157.3 million at September 30, 2022 coupled with expected net cash inflows from its product sales will enable the Company to fund its current and planned operations for at least the next twelve months from the date these consolidated financial statements were issued. Actual cash requirements could differ from management's projections due to many factors, including the continued effect of the Pandemic on the Company's business and the medical community, the timing and results

of the Company's clinical trials for EYP-1901, additional investments in research and development programs, the success of ongoing commercialization efforts for YUTIQ and DEXYCU, the actual costs of these ongoing commercialization efforts, 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 and are adopted by the Company as of the specified effective dates. The Company believes that recently issued and adopted 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.

2. Summary of Significant Accounting Policies

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 the 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 sells YUTIQ and DEXYCU to a limited number of specialty distributors and specialty pharmacies (collectively the "Distributors") in the U.S., 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 ("ASCs") for DEXYCU. The Company recognizes revenue on sales of its products when Distributors obtain control of the products, which occurs at a point in time, typically upon delivery. In addition to agreements with Distributors, the Company also enters into arrangements with healthcare providers, ASCs 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 from Distributors.

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 product revenue and 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 the Company's estimates. If actual results in the future vary from the estimates, the Company adjusts 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 the Company's Distributors. These Distributors charge the Company for the difference between what they pay for the product and the Company's 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 contracts 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.

License and collaboration agreement revenue — The Company analyzes each element of its license and collaboration arrangements to determine the appropriate revenue recognition. The terms of the license agreement may include payment to the Company of non-refundable up-front license fees, milestone payments if specified objectives are achieved, and/or royalties on product sales. The Company recognizes revenue from upfront payments at a point in time, typically upon fulfilling the delivery of the associated intellectual property to the customer.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

The Company recognizes sales-based milestone payments as revenue upon the achievement of the cumulative sales amount specified in the contract in accordance with ASC 606-10-55-65. For those milestone payments which are contingent on the occurrence of particular future events, the Company determines that these need to be considered for inclusion in the calculation of total consideration from the contract as a component of variable consideration using the most-likely amount method. As such, the Company assesses each milestone to determine the probability and substance behind achieving each milestone. Given the inherent uncertainty associated with these future events, the Company will not recognize revenue from such milestones until there is a high probability of occurrence, which typically occurs near or upon achievement of the event.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying the practical expedient in paragraph 606-10-32-18, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less. None of the Company's contracts contained a significant financing component as of September 30, 2022.

Royalties — The Company recognizes revenue from license arrangements with its commercial partners' net sales of products. Such revenues are included as royalty income. In accordance with ASC 606-10-55-65, royalties are recognized when the subsequent sale of the commercial partner's products occurs. The Company's commercial partners are obligated to report their net product sales and the resulting royalty due to the Company typically within 60-days from the end of each quarter. Based on historical product sales, royalty receipts and other relevant information, the Company recognizes royalty income each quarter and subsequently determines a true-up when it receives royalty reports and payment from its commercial partners. Historically, these true-up adjustments have been immaterial.

Sale of Future Royalties — The Company has sold its rights to receive certain royalties on product sales. In the circumstance where the Company has sold its rights to future royalties under a royalty purchase agreement and also maintains limited continuing involvement in the arrangement (but not significant continuing involvement in the generation of the cash flows that are due to the purchaser), the Company defers recognition of the proceeds it receives for the sale of royalty streams and recognizes such unearned revenue as revenue under the units-of-revenue method over the life of the underlying license agreement. Under the units-of-revenue method, amortization for a reporting period is calculated by computing a ratio of the proceeds received from the purchaser to the total payments expected to be made to the purchaser over the term of the agreement, and then applying that ratio to the period's cash payment.

Estimating the total payments expected to be received by the purchaser over the term of such arrangements requires management to use subjective estimates and assumptions. Changes to the Company's estimate of the payments expected to be made to the purchaser over the term of such arrangements could have a material effect on the amount of revenues recognized in any particular period.

Research Collaborations — The Company recognizes revenue over the term of the statements of work under any funded research collaborations. 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 research collaborations.

Please refer to Note 3 for further details on the license and collaboration agreements into which the Company has entered and corresponding amounts of revenue recognized during the current and prior year periods.

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.

For the three months ended September 30, 2022 and 2021, the Company accrued DEXYCU product revenue-based royalty expense of $351,000 and $649,000, respectively, as a component of cost of sales. For the nine months ended September 30, 2022 and 2021, the Company accrued DEXYCU product revenue-based royalty expense of $1.5 million and $1.8 million, respectively, as a component of cost of sales.

3. Revenue

Product Revenue Reserves and Allowances

The Company's product revenues have been primarily from sales of YUTIQ and DEXYCU in the U.S.

Net product revenues by product for the three and nine months ended September 30, 2022 and 2021 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
YUTIQ [(A)]	$ 7,273	$ 3,928	$ 19,305	$ 11,124
DEXYCU [(B)]	2,447	4,659	10,743	13,003
Total product sales, net	$ 9,720	$ 8,587	$ 30,048	$ 24,127

(A) Included approximately $4 and $71 of revenue from YUTIQ product sales to Ocumension Therapeutics under a supply agreement for the three and nine months ended September 30, 2022, respectively, and approximately $0 and $19 of revenue from YUTIQ product sales to Ocumension Therapeutics under a supply agreement for the three and nine months ended September 30, 2021, respectively.

(B) Included approximately $16 of revenue from DEXYCU product sales to Ocumension Therapeutics under a supply agreement for the three and nine months ended September 30, 2022, respectively, and approximately $32 of revenue from DEXYCU product sales to Ocumension Therapeutics under a supply agreement for the three and nine months ended September 30, 2021, respectively.

The following table summarizes activity in each of the product revenue allowance and reserve categories for the nine months ended September 30, 2022 and 2021 (in thousands):

	Chargebacks, Discounts and Fees	Government and Other Rebates	Returns	Total
Beginning balance at January 1, 2022	$ 1,153	$ 1,821	$ 379	$ 3,353
Provision related to sales in the current year	8,913	5,424	464	14,801
Adjustments related to prior period sales	—	—	—	—
Deductions applied and payments made	(8,092)	(5,293)	(259)	(13,644)
Ending balance at September 30, 2022	$ 1,974	$ 1,952	$ 584	$ 4,510

	Chargebacks, Discounts and Fees	Government and Other Rebates	Returns	Total
Beginning balance at January 1, 2021	$ 574	$ 535	$ 603	$ 1,712
Provision related to sales in the current year	4,990	3,686	706	9,382
Adjustments related to prior period sales	(50)	(22)	(200)	(272)
Deductions applied and payments made	(4,631)	(2,404)	(704)	(7,739)
Ending balance at September 30, 2021	$ 883	$ 1,795	$ 405	$ 3,083

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 6).

License and Collaboration Agreements and Royalty Income

SWK Royalty Purchase Agreement

On December 17, 2020, the Company entered into a royalty purchase agreement (the "RPA") with SWK Funding LLC ("SWK"). Under the RPA, the Company sold its right to receive royalty payments on future sales of products subject to a licensing and development agreement, as amended, with Alimera Sciences, Inc. ("Alimera") (the "Amended Alimera Agreement") for an upfront cash payment of $16.5 million. Except for the rights to the royalties, the Company retains all rights and obligations under the Amended Alimera Agreement, pursuant to which, Alimera owns worldwide rights to the Company's Durasert technology in ILUVIEN for diabetic macular edema and rights for ILUVIEN (currently marketed by the Company as YUTIQ in the U.S.) for posterior segment uveitis in Europe, the Middle East, and Africa. Alimera has the sole rights to utilize the intellectual property developed under the Amended Alimera Agreement. There has been no intellectual property developed jointly by Alimera and the Company as part of the Amended Alimera Agreement. The Company cannot utilize the intellectual property for the indication licensed to Alimera in order to manufacture and sell ILUVIEN.

The Company's ongoing efforts under the Amended Alimera Agreement will consist of continuing to maintain and enforce its patents as well as providing safety data and regulatory support as necessary. None of these obligations require significant efforts on the part of the Company with respect to the generation of sales in the market. The Company will only be required to expend more extensive efforts if litigation were to arise that requires the Company to protect its patents rights pursuant to the terms of the Amended Alimera Agreement. Historically, such a defense has not been required. Similarly, regulatory support and safety data is only provided on an ad-hoc basis depending on the regulatory requests, which has been minimal historically. It remains Alimera's sole responsibility to manufacture, actively market and promote the products under the Amended Alimera Agreement to generate the sales, which ultimately generate the royalties to be paid to SWK.

The Company classified the proceeds received from SWK as deferred revenue, to be recognized as revenue under the units-of-revenue method over the life of the RPA because of the Company's limited continuing involvement in the Amended Alimera Agreement. SWK has no recourse, and the Company assumes no credit risk in event that Alimera fails to make a royalty payment. The Company must only forward all material correspondence from Alimera to SWK, including royalty reports, notices and any other correspondence with respect to royalties to SWK. SWK has the right to audit and inspect the books and records pertaining to net sales and royalties under the Amended Alimera Agreement. Neither the Company nor SWK has the unilateral ability to cancel the agreement. There is no cap or limitation on the royalties to be received by SWK in the future and its return will reflect all royalties

paid by Alimera. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to SWK and there is no limitation on the rates of return to SWK, the Company recorded the total proceeds of $16.5 million as deferred revenue under royalty sale agreement. The deferred revenue is being recognized as revenue over the life of the RPA under the "units-of-revenue" method. Under this method, amortization for a reporting period is calculated by computing a ratio of the proceeds received from SWK to the payments expected to be made by Alimera to SWK over the term of the Amended Alimera Agreement, and then applying that ratio to the period's cash payment.

The Company recognized $240,000 and $663,000 of royalty revenue related to the RPA for the three and nine months ended September 30, 2022, in connection with the royalty payment of $758,000 and $2.1 million for the three and nine months ended September 30, 2022 from Alimera to SWK, pursuant to the Amended Alimera Agreement. The Company recognized $313,000 and $674,000 of royalty revenue related to the RPA for the three and nine months ended September 30, 2021, in connection with the royalty payment of $1.0 million and $2.2 million for the three and nine months ended September 30, 2021 from Alimera to SWK, pursuant to the Amended Alimera Agreement. As of September 30, 2022, the Company had $1.2 million and $13.8 million as current and non-current deferred revenue recognized under the RPA, respectively. As of December 31, 2021, the Company classified $1.1 million and $14.6 million as current and non-current deferred revenue recognized under the RPA, respectively.

Ocumension Therapeutics

In November 2018, the Company entered into an exclusive license agreement with Ocumension Therapeutics ("Ocumension") for the development and commercialization of its three-year micro insert using the Durasert technology for the treatment of posterior segment uveitis of the eye (YUTIQ in the U.S.) in Mainland China, Hong Kong, Macau and Taiwan. The Company received a one-time upfront payment of $1.75 million from Ocumension and is eligible to receive up to (i) $7.25 million upon the achievement by Ocumension of certain prescribed development and regulatory milestones, and (ii) $3.0 million commercial sales-based milestones. In addition, the Company is entitled to receive mid-single digit sales-based royalties. Ocumension has also received a special approval by the Hainan Province People's Government to market this product for 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 ("2019 MOU"), pursuant to which, the Company will supply product for the clinical trials and Hainan Pilot Zone use. Paralleling to Ocumension's normal registration process of the product with the Chinese Regulatory Authorities, the 2019 MOU modified the Company's entitlement to the development and regulatory milestones of up to $7.25 million under the license agreement to product supply milestones or development milestones, whichever comes first, totaling up to $7.25 million. In August 2019, the Company began shipping this product to Ocumension.

The Company was required to provide a fixed number of hours of technical assistance support to Ocumension at no cost. This support has been completed and no future performance obligation exists. Ocumension is responsible for all development, regulatory and commercial costs, including any additional technical assistance requested. Ocumension has a first right of negotiation for an additional exclusive license to the Company's shorter-duration line extension candidate for this indication.

In August 2019, the Company received a $1.0 million development milestone payment from Ocumension triggered by the approval of its Investigational New Drug ("IND") in China for this program. The IND allows the importation of finished product into China for use in a clinical trial to support regulatory filing.

In January 2020, the Company entered into an exclusive license agreement with Ocumension for the development and commercialization in Mainland China, Hong Kong, Macau and Taiwan of DEXYCU for the treatment of post-operative inflammation following ocular surgery. Pursuant to the terms of the license agreement, the Company received upfront payments of $2.0 million from Ocumension in February 2020 and will be eligible to receive up to (i) $6.0 million upon the achievement by Ocumension of certain prescribed development and regulatory milestones, and (ii) $6.0 million commercial sales-based milestones. In addition, the Company is entitled to receive mid-single digit sales-based royalties. In exchange, Ocumension will receive exclusive rights to develop and commercialize DEXYCU in Mainland China, Hong Kong, Macau and Taiwan, at its own cost and expense with the Company supplying product for clinical trials and commercial sale. In addition, Ocumension will receive a fixed number of hours of technical assistance support from the Company at no cost.

In August 2020, the Company entered into a Memorandum of Understanding, pursuant to which, the Company received a one-time non-refundable payment of $9.5 million (the "Accelerated Milestone Payment") from Ocumension as a full and final payment of the combined remaining development, regulatory and sales milestone payments under the Company's license agreements with Ocumension for the treatment of posterior segment uveitis of the eye and for the treatment of post-operative inflammation following ocular surgery, respectively. Upon payment of the Accelerated Milestone Payment, the remaining $11.75 million in combined remaining development and sales milestone payments under the Company's original license agreement with Ocumension upon the achievement by Ocumension of (i) remaining development and regulatory milestones of $6.25 million and commercial sales-based milestones of $3.0 million for the development and commercialization of its three-year micro insert using the Durasert technology for

the treatment of posterior segment uveitis of the eye; and (ii) $6.0 million upon the achievement by Ocumension of certain prescribed development and regulatory milestones, and $6.0 million commercial sales-based milestones for the development and commercialization in Mainland China, Hong Kong, Macau and Taiwan of DEXYCU for the treatment of post-operative inflammation following ocular surgery, totaling up to $21.25 million, were permanently extinguished and will no longer be due and owed to the Company. In exchange, Ocumension also received exclusive rights to develop and commercialize YUTIQ and DEXYCU products under its own brand names in South Korea and other jurisdictions across Southeast Asia in Brunei, Burma (Myanmar), Cambodia, Timor-Leste, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam, at its own cost and expense with the Company supplying product for clinical trials and commercial sale. The Company continues to be entitled to royalties on future product sales by Ocumension. In April 2021, Ocumension announced its filing of a New Drug Application ("NDA") for YUTIQ under Ocumension's distinct name to Chinese regulatory authorities and it is under review. Ocumension has been granted approval to have its NDA submission reviewed based on the U.S. NDA data and the real-world data Ocumension has collected from marketing the product in Hainan Pilot Zone. In September 2021, Ocumension announced its receipt of approval from Chinese regulatory authorities for DEXYCU under Ocumension's distinct name to conduct a Phase 3 clinical trial in China. In June 2022, Ocumension announced its receipt of approval of the NDA from Chinese regulatory authorities for YUTIQ under Ocumension's distinct name.

Other than a fixed number of hours of technical assistance support to be provided at no cost by the Company, Ocumension is responsible for all development, regulatory and commercial costs, including any additional technical assistance requested. All technical assistance was provided during 2020. The Chief Executive Officer of Ocumension became a director of the Company starting December 31, 2020, pursuant to a Share Purchase Agreement pursuant to which the Company sold to Ocumension 3,010,722 shares of common stock, at which time, Ocumension became a related party of the Company.

During the three and nine months ended September 30, 2022, in addition to $20,000 and $87,000 of revenue from product sales, respectively, the Company recognized approximately $50,000 and $158,000 of license and collaboration revenue, respectively, related to additional technical assistance. During the three and nine months ended September 30, 2021, the Company recognized $78,000 and $438,000, respectively, related to additional technical assistance.

Exclusive License Agreement with Betta Pharmaceuticals, Co., Ltd.

On May 2, 2022, the Company entered into an Exclusive License Agreement (the "Betta License Agreement") with Betta Pharmaceuticals Co., Ltd. ("Betta"), an affiliate of Equinox Sciences, LLC ("Equinox") (see Note 11). Under the Betta License Agreement, the Company granted to Betta an exclusive, sublicensable, royalty-bearing license under certain of the Company's intellectual property to develop, use (but not make or have made), sell, offer for sale and import the Company's product candidate, EYP-1901, an investigational sustained delivery intravitreal anti-VEGF treatment that combines a bioerodible formulation of the Company's proprietary sustained-release technology with the compound vorolanib (the "Licensed Product"), in the field of ophthalmology (the "Betta Field") in the Greater Area of China, including China, the Hong Kong Special Administrative Region, the Macau Special Administrative Region, and Taiwan (the "Betta Territory"). The Company retained rights under the Company's intellectual property to, among other things, conduct clinical trials on the Licensed Product in the Betta Field in the Betta Territory.

In consideration for the rights granted by the Company, Betta agreed to pay the Company tiered, mid-to-high single-digit royalties based upon annual net sales of Licensed Products in the Betta Territory. The royalties are payable on a Licensed Product-by-Licensed Product and region-by-region basis commencing on the first commercial sale of a Licensed Product in a region and continuing until the later of (i) the date that is twelve (12) years after first commercial sale of such Licensed Product in such region, and (ii) the first day of the month following the month in which a generic product corresponding to such Licensed Product is launched in the relevant region. The royalty rate is subject to reduction under certain circumstances, including when there is no valid claim of a licensed patent that covers a Licensed Product in a particular region.

Betta is responsible for all costs relating to development, registration, manufacturing, marketing, advertising, promotional, launch and sales activities in connection with the Licensed Products in the Betta Field in the Betta Territory. Betta is required to use commercially reasonable efforts to develop, seek regulatory approval for, and commercialize at least one Licensed Product in the Betta Field in the Betta Territory. The Betta License Agreement also requires Betta to achieve certain diligence milestones relating to regulatory filings, patient dosing and regulatory approval by certain specified deadlines set forth in the Betta License Agreement, subject to certain exceptions and extensions as set forth in the Betta License Agreement. Betta's development activities will be conducted pursuant to a development plan subject to periodic updates. In the event that the Company conducts a global registrational clinical trial for a Licensed Product in the Betta Field, Betta will have the right to participate in such clinical trial by including clinical trial sites in the Betta Territory in accordance with the terms of the Betta License Agreement. The Company has also agreed to provide certain technology transfer and other support services to Betta subject to certain conditions and limitations set forth in the Betta License Agreement.

Research Collaborations

The Company from time to time enters into agreements to evaluate the potential use of its technologies for sustained release of third-party partner drug candidates. Consideration received is generally recognized as revenue over the term of the research collaborations. 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 research collaborations. No revenues were recognized under research collaborations for the three months ended September 30, 2022 and 2021, and $0 and $60,000 for the nine months ended September 30, 2022 and 2021, respectively.

4. Inventory

Inventory consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	$ 1,696	$ 2,727
Work in process	854	405
Finished goods	981	484
Total inventory	$ 3,531	$ 3,616

5. Intangible Assets

The reconciliation of intangible assets for the nine months ended September 30, 2022 and 2021 (in thousands) was as follows:

	September 30, 2022	September 30, 2021
Patented technologies		
Gross carrying amount at beginning of period	$ 68,322	$ 68,322
Gross carrying amount at end of period	68,322	68,322
Accumulated amortization at beginning of period	(45,573)	(43,113)
Amortization expense	(1,845)	(1,845)
Accumulated amortization at end of period	(47,418)	(44,958)
Net book value at end of period	$ 20,904	$ 23,364

The Company amortizes intangible assets with finite lives on a straight-line basis over their respective estimated useful lives of 13 years. Amortization of intangible assets totaled $615,000 and $1.8 million for each of the three and nine months ended September 30, 2022 and 2021, respectively.

In connection with the Company's acquisition of Icon Bioscience, Inc., 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 8.5 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, 2022 and 2021, respectively.

DEXYCU Pass-Through Payment Status

On November 1, 2022, the Center for Medicare & Medicaid Services ("CMS") published in the Federal Register the calendar year (CY) 2023 Medicare Hospital Outpatient Prospective Payment System and ASC Payment System Final Rule ("Final Rule"). The Final Rule terminated the pass-through related separate payment for DEXYCU, which will no longer be separately reimbursed by Medicare as of January 1, 2023, when furnished in hospital outpatient departments and ASC settings. The Final Rule will reduce the amount of Medicare reimbursement provided to the Company's DEXYCU customers and may result in a significant reduction in the Company's DEXYCU product revenues (see Note 3). Furthermore, the reduction in the Company's DEXYCU product revenues is expected to result in a material impairment of the Company's net intangible asset related to DEXYCU which has a carrying value of $20.9 million at September 30, 2022.

The Company is evaluating the impact of the Final Rule on its operations, cash flows, intangible asset and its DEXYCU inventory balances. The Company expects that it will record a charge in the fourth quarter related to the impairment of the DEXYCU intangible asset and for excess inventory as a result of the Final Rule. No adjustments have been made to the Company's September 30, 2022 financial statements as a result of the Final Rule.

6. Accrued Expenses

Accrued expenses consisted of the following at September 30, 2022 and December 31, 2021 (in thousands):

	September 30, 2022	December 31, 2021
Personnel costs	$ 6,547	$ 7,321
Clinical trial costs	2,084	753
Professional fees	1,011	712
Sales chargebacks, rebates and other revenue reserves	3,927	2,974
Commissions due to DEXYCU commercial partner	1,358	1,518
Other	1,077	1,144
	$ 16,004	$ 14,422

7. 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, and the landlord provided the Company a construction allowance of up to $670,750 to be applied toward renovations and improvements within the total space. On April 5, 2021, the Company further amended the lease to include an additional 1,409 square feet of rentable area of the building, through May 31, 2025, with a commencement date of July 1, 2021.

On March 8, 2022, the Company further amended the lease (i) to extend the term to May 31, 2028 for 13,650 square feet of laboratory and manufacturing operations space, with the landlord agreeing to provide the Company a construction allowance of up to $555,960 to be applied toward upgrades and improvements within the space; (ii) to rent an additional 11,999 square feet of office space within the building through May 31, 2028 ("New Premises"); and (iii) to terminate a portion of the lease comprising 7,999 square feet of office space in the building in accordance with its existing contractual term on May 31, 2025. The amendment also reinstated the Company's right to extend the lease for the space it occupies after May 31, 2025 for one additional period of five years. Rent for the extension period would be at the fair market rent for comparable space in comparable properties in the Watertown area. During the second quarter of 2022, the Company recognized a $2.9 million increase to its lease liabilities and right-of-use ("ROU") assets resulting from the lease amendment for the term extension of the laboratory and manufacturing operations space.

The lease for the New Premises commenced during the third quarter of 2022. The Company occupied the New Premises when the landlord substantially completed its construction for the space, after which the Company's obligation to pay base rent began. The Company recognized an increase of $1.6 million to its lease liabilities and $1.7 million to its ROU assets resulting from the lease for the New Premises.

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 will remain in effect 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.

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 specify an implicit rate, the Company estimated its incremental borrowing rate to calculate the present value of the lease payments. The Company utilized the borrowing rate under its CRG term loan facility (see Note 8) as the basis for the discount rate for all leases, with the exception of the amendment dated March 8, 2022, for which the Company utilized the borrowing rate under its SVB term loan facility (see Note 8) as the basis for 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 respective lease components.
- The expected lease terms include non-cancellable 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, 2022, the weighted average remaining term of the Company's operating leases was 5.5 years and the weighted average discount rate was 5.89%.

Supplemental balance sheet information related to operating leases as of September 30, 2022 and December 31, 2021 are as follows (in thousands):

	September 30, 2022	December 31, 2021
Other current liabilities – operating lease current portion	$ 425	$ 645
Operating lease liabilities – noncurrent portion	6,235	1,860
Total operating lease liabilities	$ 6,660	$ 2,505

Operating lease expense recognized related to ROU assets was $263,000 and $229,000, excluding $2,000 and $9,000 of variable lease costs, for each of the three months ended September 30, 2022 and 2021, respectively, and $781,000 and $656,000, excluding $8,000 and $27,000 of variable lease costs, for each of the nine months ended September 30, 2022 and 2021, respectively, and was 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 was $164,000 and $236,000 for the three months ended September 30, 2022 and 2021, respectively, and $595,000 and $678,000 for the nine months ended September 30, 2022 and 2021, respectively.

The Company is a party to two finance leases for laboratory equipment. The equipment leases expire in December 2022 and June 2023, respectively.

Supplemental balance sheet information related to the finance lease as of September 30, 2022 and December 31, 2021 are as follows (in thousands):

	September 30, 2022	December 31, 2021
Property and equipment, at cost	$ 270	$ 371
Accumulated amortization	(206)	(205)
Property and equipment, net	$ 64	$ 166
Other current liabilities – finance lease current portion	$ 70	$ 137
Other long-term liabilities	—	36
Total finance lease liabilities	$ 70	$ 173

The components of finance lease expense recognized during the three and nine months ended September 30, 2022 were amortization expense of $34,000 and $101,000 and interest on lease liabilities of $2,000 and $11,000, respectively. Cash paid for amounts included in the measurement of finance lease liabilities were operating cash flows of $3,000 and $11,000 during the three and nine months ended September 30, 2022, respectively, and financing cash flows of $35,000 and $103,000 for the three and nine months ended September 30, 2022, respectively. The components of finance lease expense recognized during the three and nine months ended September 30, 2021 were amortization expense of $46,000 and $108,000 and interest on lease liabilities of $7,000 and $17,000, respectively. Cash paid for amounts included in the measurement of finance lease liabilities were operating cash flows of $7,000 and $17,000 during the three and nine months ended September 30, 2021, respectively, and financing cash flows of $45,000 and $102,000 during the three and nine months ended September 30, 2021, respectively.

As of September 30, 2022, the weighted average remaining term of the Company's finance leases was 0.6 years and the weighted average discount rate was 12.5%.

The Company's total future minimum lease payments under non-cancellable leases at September 30, 2022 were as follows (in thousands):

	Operating Leases	Finance Leases
Remainder of 2022	$ 239	$ 35
2023	910	37
2024	1,392	—
2025	1,494	—
2026	1,589	—
Thereafter	2,329	—
Total lease payments	$ 7,953	$ 72
Less imputed interest	(1,293)	(2)
Total	$ 6,660	$ 70

8. 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, and the lenders party thereto from time to time, 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 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 did not draw any additional funds under the CRG Loan by the final draw deadline of March 31, 2020.

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. The discount 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. The discount is being amortized as additional interest expense over the term of the Loan using the effective interest rate method.

The CRG Loan was originally scheduled to mature on December 31, 2023 and bore interest at a fixed rate of 12.5% per annum payable in arrears on the last business day of each calendar quarter. On December 17, 2020, the Company paid $15.0 million against the CRG Loan obligations in connection with the consummation of the RPA agreement (see Note 3). This payment included (i) a $13.8 million principal portion of the CRG Loan (ii) the $828,000 Exit Fee, and (iii) accrued and unpaid interest of $378,000 through that date. In connection with the partial prepayment of the CRG Loan, the Company recorded a loss on partial extinguishment of debt of $905,000 in the year ended December 31, 2020, associated with the write-off of the remaining balance of unamortized debt discount related to the partial prepayment of the CRG Loan.

On March 9, 2022, the Company repaid the remaining CRG Loan balance totaling $41.4 million with the proceeds from the SVB Loan Agreement (discussed below). This payment included (i) the remaining $38.2 million principal portion of the CRG Loan, (ii) a $2.3 million exit fee of 6% of the aggregate principal amount advanced under the CRG Loan, and (iii) accrued and unpaid interest of $0.9 million through the pay-off date. As a result of the early repayment of the CRG Loan, the Company recorded a loss on extinguishment of debt of $1.6 million for the quarter ended March 31, 2022 related to the write-off of the remaining balance of unamortized debt discount.

SVB Loan Agreement

On March 9, 2022 (the "SVB Closing Date"), the Company entered into a loan and security agreement (the "SVB Loan Agreement") with Silicon Valley Bank ("SVB") providing for (i) a senior secured term loan facility of $30.0 million (the "Term Facility") and (ii) a senior secured revolving credit facility of up to $15.0 million (the "Revolving Facility" and together with the Term Facility, the "Credit Facilities"). The maximum amount available for borrowing at any time under the Revolving Facility is limited to a borrowing base valuation of the Company's eligible accounts receivable. On the SVB Closing Date, $30.0 million of the Term Facility and $11.5 million of the Revolving Facility, were advanced, to pay off the CRG Loan, including the accrued interest through that date. The Revolving Facility is classified as short-term borrowings in the consolidated balance sheets.

The loans under the Credit Facilities are due and payable on January 1, 2027 (the "SVB Maturity Date"). The Credit Facilities bear interest that is payable monthly in arrears at a per annum rate (subject to increase during an event of default) equal to (i) with respect to the Term Facility, the greater of (x) the Wall Street Journal prime rate plus 2.25% and (y) 5.50% and (ii) with respect to the Revolving Facility, the Wall Street Journal Prime Rate. An unused commitment fee of 0.25% per annum applies to unutilized borrowing capacity under the Revolving Facility. Commencing on February 1, 2024, the Company is required to repay the principal of the Term Facility in 36 consecutive equal monthly installments. At maturity or if earlier prepaid, the Company will also be required to pay an exit fee equal to 2.00% of the aggregate principal amount of the Term Facility.

The repayment of all unpaid principal and accrued interest under the Credit Facilities may be accelerated upon consummation of a specified change of control transaction or the occurrence of certain other events of default (as specified in the SVB Loan Agreement). Subject to certain exceptions, the Company is also required to make mandatory prepayments of outstanding loans under the Credit Facilities with the proceeds of assets sales and insurance proceeds, which amounts in the case of the Revolving Facility, subject to the conditions set forth in the SVB Loan Agreement, may be re-borrowed. All voluntary and mandatory prepayments of the Term Facility are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to the first anniversary of the SVB Closing Date, an amount equal to 3.0% of the aggregate outstanding principal amount of the Term Facility being prepaid, (ii) if prepayment occurs after the first anniversary of the SVB Closing Date and on or prior to the second anniversary of the SVB Closing Date, 2.0% of the aggregate outstanding principal amount of the Term Facility being prepaid, (iii) if prepayment occurs after the second anniversary of the SVB Closing Date and on or prior to the third anniversary of the SVB Closing Date, 1.0% of the aggregate outstanding principal amount of the Term Facility being prepaid and (iv) if prepayment occurs after the third anniversary of the SVB Closing Date but prior to the SVB Maturity Date, an amount equal to 0.50% of the aggregate outstanding principal amount of the Term Facility being prepaid. The prepayment of the Term Facility in full is also subject to the payment of an exit fee of $600,000. The Company may voluntarily terminate the Revolving Facility at any time, subject to the payment of a termination fee as follows: (i) if such termination occurs on or prior to the first anniversary of the SVB Closing Date, an amount equal to 3.0% of the Revolving Facility and (ii) if such termination occurs after the first anniversary of the SVB Closing Date, 1.0% of the Revolving Facility.

The obligations of the Company under the SVB Loan Agreement are secured by a pledge of substantially all of the Company's assets, excluding intellectual property. Certain of the Company's future subsidiaries will be required to become co-borrowers under the SVB Loan Agreement or guarantee the obligations of the Company under the SVB Loan Agreement. In addition, such subsidiaries will be required to pledge substantially all of their assets, excluding intellectual property, to secure the obligations of the Company under the SVB Loan Agreement.

The SVB Loan Agreement contains affirmative and negative covenants customary for financings of this type, including limitations on the Company and its 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, enter into affiliate transactions and change its line of business, in each case, subject to certain exceptions. In addition, the SVB Loan Agreement contains the following quarterly financial covenants requiring the Company to maintain either:

- minimum product revenue from YUTIQ and DEXYCU assessed on a quarterly basis commencing from the three-month period ending on March 31, 2022 through the SVB Maturity Date, with such minimum quarterly product revenue ranging from approximately $7.8 million to approximately $11.5 million in fiscal year 2022. Such minimum quarterly product revenue will be subject to incremental increases in fiscal year 2023 and will thereafter be such amounts as agreed upon between the Company and SVB based on certain agreed-upon factors commencing for the three-month period ending on March 31, 2024 and for each three-month period thereafter through the SVB Maturity Date; or
- if the Company is unable to achieve the minimum quarterly product revenue level required as of the end of any three-month period, cash and cash equivalents in an amount equal to the greater of (i) $50,000,000 and (ii) the Company's six-month Cash Burn (as defined in the SVB Loan Agreement).

Amortization of debt discount under the SVB Loan Agreement totaled $70,000 and $161,000 for the three and nine months ended September 30, 2022. Commitment fees under the revolving facility were immaterial.

The Company's scheduled principal payments for debt at September 30, 2022 were as follows (in thousands):

Remainder of 2022		—
2023		—
2024		9,167
2025		10,000
2026		10,000
Thereafter		833
Total	$	30,000

9. Stockholders' Equity

Equity Financings

Common Stock Offering

In February 2021, the Company sold 10,465,000 shares of its common stock in an underwritten public offering at a price of $11.00 per share, including the exercise in full by the underwriters of their option to purchase up to 1,365,000 additional shares of the Company's common stock. The gross proceeds of the offering to the Company were approximately $115.1 million. Underwriter discounts and commissions and other share issue costs totaled approximately $7.2 million.

There were no equity financings during the three and nine-months ended September 30, 2022.

ATM Facility

In August 2020, the Company entered into an at-the-market facility (the "ATM Facility") with Cantor Fitzgerald & Co ("Cantor"). Pursuant to the ATM Facility, the Company may, at its option, offer and sell shares of its common stock from time to time, through or to Cantor, acting as sales agent. The Company will pay Cantor a commission of 3.0% of the gross proceeds from any future sales of such shares.

During the three and nine months ended September 30, 2022, the Company did not sell any shares of its common stock under the ATM Facility.

During the three months ended September 30, 2021, the Company did not sell any shares of its common stock under the ATM Facility. During the nine months ended September 30, 2021, the Company sold 48,538 shares of its common stock, at a weighted average price of $11.37 per share, for gross proceeds of approximately $552,000. Share issue costs, including sales agent commissions, totaled approximately $53,000 during the nine months ended September 30, 2021.

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, 2022 and 2021:

	Nine Months Ended September 30, 2022			
	2022		2021	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance at beginning of period	48,683	$ 12.33	48,683	$ 12.33
Balance and exercisable at end of period	48,683	$ 12.33	48,683	$ 12.33

Pursuant to a credit agreement, the Company issued a warrant to SWK Funding LLC to purchase (i) 40,910 shares of the Company's common stock on March 28, 2018 at an exercise price of $11.00 per share with a seven-year term and (ii) 7,773 shares of the Company's common stock on June 26, 2018 at an exercise price of $19.30 per share with a seven-year term. At September 30, 2022, the weighted average remaining life of the warrant was approximately 2.5 years.

10. 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 300,000 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 1,100,000 shares. At the Company's Annual Meeting of Stockholders held on June 22, 2021, the Company's stockholders approved an amendment to the 2016 Plan to increase the number of shares authorized for issuance by 2,500,000 shares. At September 30, 2022, a total of approximately 127,000 shares were available for new awards.

The Company also granted non-statutory stock options to new employees as inducement awards to enter into employment with the Company. The grants were approved by the Compensation Committee of the Board of Directors and awarded in accordance with Nasdaq Listing Rule 5635(c)(4). Although not awarded under the 2016 Plan or the 2008 Plan, the grants 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, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2022	2,517,680	$ 16.49		
Granted	1,783,300	10.32		
Exercised	(4,479)	9.20		
Forfeited	(254,300)	12.89		
Expired	(10,536)	21.17		
Outstanding at September 30, 2022	4,031,665	$ 13.99	8.08	$ 72,129
Exercisable at September 30, 2022	1,381,575	$ 19.32	6.17	$ 31,793

The Company has granted stock options with 25% of the option vesting after one year followed by ratable monthly vesting over the remaining three years. 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 525,000 shares of the Company's common stock vested during the nine months ended September 30, 2022. Starting February 2021, the Company (i) ceased vesting ratable monthly over four years and (ii) retained 25% vesting after one year followed by ratable monthly vesting over the remaining three years.

In determining the grant date fair value of option awards during the nine months ended September 30, 2022, the Company applied the Black-Scholes option pricing model based on the following key assumptions:

Option life (in years)	5.50 - 6.09
Stock volatility	76% - 78%
Risk-free interest rate	1.46% - 3.59%
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, 2022 (in thousands except per share amount):

	Nine Months Ended September 30, 2022
Weighted average grant date fair value per share	$ 6.96
Total cash received from exercise of stock options	41
Total intrinsic value of stock options exercised	14

Time-Vested Restricted Stock Units

Time-vested restricted stock units ("RSUs") issued to date under the 2016 Plan generally vest on a ratable 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, 2022:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2022	291,575	$ 13.19
Granted	415,500	10.06
Vested	(140,402)	13.44
Forfeited	(36,995)	11.04
Nonvested at September 30, 2022	529,678	$ 10.82

At September 30, 2022, the weighted average remaining vesting term of the RSUs was 1.47 years.

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 110,000 shares of common stock reserved for issuance to participating employees. At the Company's Annual Meeting of Stockholders held on June 22, 2021, the Company's stockholders approved an amendment to the ESPP to increase the number of shares authorized for issuance by 250,000 shares. 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 5,000 shares of the Company's common stock in any one offering period. The Company has maintained consecutive six-month offering periods since August 1, 2019. As of September 30, 2022, 48,000 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 three and nine months ended September 30, 2022, the compensation expense from ESPP shares was approximately $50,000 and $121,000. During the three and nine months ended September 30, 2021, 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, 2022 and 2021, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Compensation expense included in:				
Research and development	$ 1,277	$ 719	$ 4,762	$ 1,291
Sales and marketing	290	348	1,195	829
General and administrative	1,632	1,404	4,859	2,519
	$ 3,199	$ 2,471	$ 10,816	$ 4,639

At September 30, 2022, there was approximately $13.7 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 1.65 years.

11. License and Asset Purchase Agreements

Equinox Science, LLC

In February 2020, the Company entered into an Exclusive License Agreement (the "Equinox License Agreement") with Equinox, pursuant to which Equinox granted the Company an exclusive, sublicensable, royalty-bearing right and license to certain patents and other Equinox intellectual property to research, develop, make, have made, use, sell, offer for sale and import the compound vorolanib and any pharmaceutical products comprising the compound for local delivery to the eye for the prevention or treatment of age-related macular degeneration, diabetic retinopathy and retinal vein occlusion using the Company's proprietary localized delivery technologies (the "Original Field"), in each case, throughout the world except China, Hong Kong, Taiwan and Macau (the "Company Territory").

In consideration for the rights granted by Equinox, the Company (i) made a one time, non-refundable, non-creditable upfront cash payment of $1.0 million to Equinox in February 2020, and (ii) agreed to pay milestone payments totaling up to $50 million upon the achievement of certain development and regulatory milestones, consisting of (a) completion of a Phase II clinical trial for the compound or a licensed product, (b) the filing of a new drug application or foreign equivalent for the compound or a licensed product in the United States, European Union or United Kingdom and (c) regulatory approval of the compound or a licensed product in the United States, European Union or United Kingdom.

The Company also agreed to pay Equinox tiered royalties based upon annual net sales of licensed products in the Company Territory. The royalties are payable with respect to a licensed product in a particular country in the Company Territory on a country-by-country and licensed product-by-licensed product basis until the later of (i) twelve years after the first commercial sale of such licensed product in such country and (ii) the first day of the month following the month in which a generic product corresponding to such licensed product is launched in such country. The royalty rates range from the high-single digits to low-double digits depending on the level of annual net sales. The royalty rates are subject to reduction during certain periods when there is no valid patent claim that covers a licensed product in a particular country.

On May 2, 2022, concurrent with the Company entering into the Betta License Agreement, the Company entered into Amendment #1 to the Equinox License Agreement, pursuant to which the Original Field was expanded to cover the prevention or treatment of ophthalmology indications using the Company's proprietary localized delivery technologies and certain conforming changes were made to the Equinox License Agreement in connection therewith.

No R&D expense was recorded for the three and nine months ended September 30, 2022 for this license. No R&D expense was recorded for the three and nine months ended September 30, 2021.

12. Fair Value Measurements

The following tables summarize the Company's assets by significant categories carried at fair value measured on a recurring basis at September 30, 2022 and December 31, 2021 by valuation hierarchy (in thousands):

	September 30, 2022					
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
Level 1:						
Money market funds	$ 62,431	$ —	$ —	$ 62,431	$ 62,431	$ —
Subtotal	$ 62,431	$ —	$ —	$ 62,431	$ 62,431	$ —
Level 2:						
Commercial paper	$ 28,781	$ —	$ —	$ 28,781	$ —	$ 28,781
U.S. treasury securities	53,304	—	(188)	$ 53,116	—	$ 53,116
Subtotal	$ 82,085	$ —	$ (188)	$ 81,897	$ —	$ 81,897
Total	$ 144,516	$ —	$ (188)	$ 144,328	$ 62,431	$ 81,897

	December 31, 2021					
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
Level 1:						
Money market funds	$ 155,551	$ —	$ —	$ 155,551	$ 155,551	$ —
Subtotal	$ 155,551	$ —	$ —	$ 155,551	$ 155,551	$ —
Level 2:						
Commercial paper	$ 49,514	$ —	$ —	$ 49,514	$ 16,549	$ 32,965
Subtotal	$ 49,514	$ —	$ —	$ 49,514	$ 16,549	$ 32,965
Total	$ 205,065	$ —	$ —	$ 205,065	$ 172,100	$ 32,965

At September 30, 2022, substantially all of the Company's interest-bearing cash equivalent balances, were concentrated in one U.S. Government institutional money market fund that had investments consisting primarily of U.S. Government Agency debt, U.S. Treasury Repurchase Agreements and U.S. Government Agency Repurchase Agreements. Generally, these deposits may be redeemed upon demand and, therefore, the Company believes they have minimal risk. Marketable securities consist of investments with an original or remaining maturity of greater than three months but less than one year at the date of purchase. The Company had investments of $81.9 million in marketable securities at September 30, 2022.

At December 31, 2021, a total of $155.6 million, or 90.4% of the Company's interest-bearing cash equivalent balances, were concentrated in one U.S. Government institutional money market fund that had investments consisting primarily of U.S. Government Agency debt, U.S. Treasury debt, U.S. Treasury Repurchase Agreements and U.S. Government Agency Repurchase Agreements. $16.5 million, or 9.6% of the Company's interest-bearing cash equivalent balances consisted of investment-grade commercial paper. Generally, these investments may be sold upon demand and, therefore, the Company believes they have minimal risk. The Company had investments of $33.0 million in marketable securities at December 31, 2021.

The Company's cash equivalents and marketable securities are classified within Level 1 or Level 2 on the basis of valuations using quoted market prices or alternative pricing sources and models utilizing market observable inputs, respectively. The marketable securities have been valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and ask prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security, and have been classified as Level 2.

The carrying amounts of accounts receivable, accounts payable and accrued expenses approximate fair value because of their short-term maturity.

The carrying amounts of the short-term borrowings and long-term debt under the Company's SVB Loan Agreement approximate the estimated fair value. These borrowings under the Credit Facilities have a variable interest rate structure and are classified within Level 2 of the fair value hierarchy.

13. Contingencies

Legal Proceedings

The Company is subject to various 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.

U.S. Department of Justice Subpoena

In August 2022, the Company received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU® ("DOJ Investigation"). The Company is cooperating fully with the government in connection with this matter. At this time, the Company is unable to predict the duration, scope or outcome of this matter or whether it could have a material impact on the Company's financial condition, results of operation or cash flow.

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, 2022 and 2021 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:

	Nine Months Ended September 30,	
	2022	**2021**
Stock options	4,031,665	2,116,662
ESPP	12,849	9,053
Warrants	48,683	48,683
Restricted stock units	529,678	285,782
	4,622,875	2,460,180

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 for EYP-1901, as an investigational sustained delivery intravitreal anti-VEGF treatment targeting wet age-related macular degeneration ("wet AMD"), non-proliferative diabetic retinopathy ("NPDR") and diabetic macular edema ("DME");
- our expectations regarding the timing and outcome of our planned Phase 2 clinical trials for EYP-1901, for the treatment of wet AMD, NPDR and DME;
- our expectations regarding the timing and clinical development of our product candidates, including EYP-1901;
- the extent to which our business, the medical community and the global economy will continue to be materially and adversely impacted by the effects of the COVID-19 pandemic (the "Pandemic"), or by other pandemics, epidemics or outbreaks;
- our cash flow expectations from commercial sales of YUTIQ and DEXYCU;
- our expectations regarding the market for DEXYCU following the loss of pass-through related separate payment for DEXYCU;
- our ability to manufacture YUTIQ and DEXYCU, or any future products or product candidates, in sufficient quantities and quality;
- our belief that our cash, cash equivalents, and marketable securities of $157.3 million at September 30, 2022, combined with anticipated net cash inflows from product sales, will fund our operating plans into 2H 2024, under current expectations regarding the progress of our Phase 2 clinical trials for EYP-1901;
- our ability to obtain additional capital in sufficient amounts and on terms acceptable to us, and the consequences of failing to do so;
- our future expenses and capital expenditures;
- our expectations regarding the timing and results of the subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU®;
- our expectations regarding our ability to obtain and adequately maintain sufficient intellectual property protection for EYP-1901, YUTIQ, DEXYCU and any future products or product candidates, and to avoid claims of infringement of third-party intellectual property rights;
- our expectation that we will continue to incur significant expenses and that our operating losses and our net cash outflows to fund operations will continue for the foreseeable future; 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:

- the extent to which the Pandemic impacts our business, the medical community and the global economy;
- the effectiveness and timeliness of our preclinical studies and clinical trials, and the usefulness of the data;
- our expectations regarding the timing and clinical development of our product candidates, including EYP-1901, and the potential for EYP-1901 as a sustained delivery treatment for serious eye diseases, including wet AMD, NPDR and DME;
- our ability to achieve profitable operations and access to needed capital;
- fluctuations in our operating results;

- the duration, scope and outcome of the DOJ Investigation and its impact on our financial condition;
- our ability to successfully produce sufficient commercial quantities of YUTIQ and DEXYCU and to successfully commercialize YUTIQ and DEXYCU in the U.S.;
- consequences of the loss of pass-through related separate payment for DEXYCU pursuant to the Final Rule;
- our ability to sustain and enhance an effective commercial infrastructure and enter into and maintain commercial agreements for the commercialization of YUTIQ and DEXYCU;
- consequences of fluocinolone acetonide side effects for YUTIQ;
- consequences of dexamethasone side effects for DEXYCU;
- the success of current and future license and collaboration agreements, including our agreements with Ocumension Therapeutics ("Ocumension"), Equinox Science, LLC ("Equinox") and Betta Pharmaceuticals Co., Ltd.;
- our dependence on contract research organizations, our commercial alliance partner ImprimisRx, vendors and investigators;
- effects of competition and other developments affecting sales of products;
- market acceptance of our products;
- protection of intellectual property and avoiding intellectual property infringement;
- product liability; and
- other factors described in our filings with 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2021 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 pharmaceutical company committed to developing and commercializing innovative therapeutics to help improve the lives of patients with serious eye disorders. Our pipeline leverages our proprietary Durasert® technology for sustained intraocular drug delivery including EYP-1901, an investigational sustained delivery intravitreal anti-VEGF treatment currently in Phase 2 clinical trials for wet AMD, the leading cause of vision loss among people 50 years of age and older in the United States, and NPDR. We also have two commercial products: YUTIQ®, a once every three-year treatment for posterior segment uveitis, and DEXYCU®, a single dose treatment for postoperative inflammation following ocular surgery.

Recent Developments

- In November 2022, CMS announced in the Final Rule it would not provide further extension of pass-through related separate payment for certain drugs, including DEXYCU. DEXYCU will lose eligibility for pass-through related separate payment on December 31, 2022, and payment will instead be packaged into reimbursement for the underlying procedure starting on January 1, 2023. We anticipate that the loss of pass-through status will have a material negative impact DEXYCU revenue and the value of the net intangible asset related to DEXYCU.
- In October 2022, we entered into a Mutual Termination Agreement (the "Termination Agreement") with ImprimisRx on October 7, 2022, pursuant to which we and ImprimisRx agreed (a) that ImprimisRx would continue to support the sales and marketing of DEXYCU through the fourth quarter of 2022, consistent with ImprimisRx's level of effort during the January through June 2022 period, (b) decrease the required minimum quarterly sales levels based on DEXYCU unit demand for the fourth quarter of 2022, and (c) terminate the previously entered into Commercial Alliance Agreement, made effective as of August 1, 2020, as modified by the Letter Agreement dated November 12, 2020 and the Letter Agreement dated December 6, 2021 (collectively, the "Agreements"), effective January 1, 2023 due to the loss of pass-through related separate payment of DEXYCU.

- In August 2022, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU®. We have expended and, if the DOJ Investigation continues for a significant period of time, will continue to expend significant financial and managerial resources responding to the subpoena, which could also have a material adverse effect on our business, financial condition, results of operations and cash flows.
- In July 2022, we announced the appointment of Karen Zaderej to our Board of Directors. Ms. Zaderej is currently the President, Chief Executive Officer, and Chair of the Board at AxoGen Corporation (Nasdaq: AXGN), and brings more than 35 years of biopharmaceutical and medical device experience to the role.
- In June 2022, we announced the appointment of Anthony (Tony) Adamis, M.D. to our Board of Directors. Dr. Adamis is a highly accomplished ophthalmology executive with more than 30 years or research and development experience in the biopharmaceutical industry.
- In June 2022, China's Center for Drug Evaluation (CDE) of the National Medical Products Administration (NMPA) approved YUTIQ 0.18mg for the treatment of posterior segment uveitis of the eye.
- In May 2022, we entered into an Exclusive License Agreement (the "Betta License Agreement") with Betta Pharmaceuticals Co., Ltd. ("Betta"). Under the Betta License Agreement, we granted to Betta an exclusive, sublicensable, royalty-bearing license to develop, use (but not make or have made), sell, offer for sale and import EYP-1901 in the field of ophthalmology (the "Betta Field") in the Greater Area of China, including China, the Hong Kong Special Administrative Region, the Macau Special Administrative Region, and Taiwan (the "Betta Territory"). Under the terms of the Betta License Agreement, we retained all ophthalmic rights to EYP-1901 outside of the Betta Territory and to, among other things, conduct clinical trials on EYP-1901 in the Betta Field in the Betta Territory.
- Concurrently with the execution of the Betta License Agreement, we entered into Amendment #1 (the "First Amendment") to that certain Exclusive License Agreement, dated February 3, 2020, with Equinox Sciences, LLC ("Equinox"), regarding our exclusive, sublicensable, royalty-bearing right and license to certain patents and other Equinox intellectual property to research, develop, make, have made, use, sell, offer for sale and import the compound vorolanib and any pharmaceutical products comprising the compound for local delivery to the eye for the prevention or treatment of wet AMD, DR and RVO using our proprietary localized delivery technologies (the "Original Field"), in each case, throughout the world except China, Hong Kong, Taiwan and Macau. Pursuant to the First Amendment, the Original Field was expanded to cover the prevention or treatment of all ophthalmology indications, using our proprietary localized delivery technologies.
- Customer demand for YUTIQ in Q3 2022, represented as units purchased by physicians from our distributors, was down 5% versus Q2 2022, driven by seasonality.
- Customer demand for DEXYCU in Q3 2022, represented as units purchased by ambulatory surgical centers ("ASCs"), was down 4% versus Q2 2022 due to seasonality and the impact of expected loss of pass-through related separate payment at the end of 2022.
- In March 2022, we entered into a loan agreement for senior secured credit facilities in the aggregate amount of $45 million with Silicon Valley Bank to replace our existing credit facility with CRG.

R&D Highlights

- In September 2022, we announced that the first patient was dosed in the Phase 2 PAVIA clinical trial of EYP-1901 for the potential treatment of NPDR. The twelve-month, randomized, controlled PAVIA trial is expected to enroll approximately 105 patients randomly assigned to one of two doses of EYP-1901 (approximately 2 mg or 3 mg), or to the control group receiving a sham injection.
- In July 2022, we announced that the first patient was dosed in the Phase 2 DAVIO2 clinical trial of EYP-1901 for the potential treatment of wet AMD. The twelve-month, randomized, controlled DAVIO2 trial is expected to enroll approximately 150 patients previously treated with a standard-of-care anti-VEGF therapy, and topline data is expected in the second half of 2023. More information about the study is available at clinicaltrials.gov (identifier: NCT05381948).
- In July 2022, we announced positive 12-month safety and efficacy data from the DAVIO Phase 1 clinical trial evaluating EYP-1901 for the treatment of wet AMD. The final twelve-month data presented from the Phase 1 DAVIO clinical trial showed no reports of ocular serious adverse events ("SAEs") or drug-related systemic SAEs. There were no reported events of vitreous floaters, endophthalmitis, retinal detachment, implant migration in the anterior chamber, retinal vasculitis, posterior segment inflammation, or retinal vascular occlusive events. Additionally, updated data from the twelve-month follow-up confirm stable best corrected visual acuity (BCVA) (-4.12 ETDRS letters), stable central subfield thickness (CST) on optical coherence tomography (OCT) (-2.76 μm), and an expected late increase in supplemental anti-VEGF therapy given the insert's expected drug depletion, with 53% supplement free up to six months and 35% of eyes supplement free up to twelve months. Additionally, there was positive treatment burden reduction of 75% at six months and 73% at twelve months.
- The FDA has recently updated the regulatory requirements for combination drug/device products such as YUTIQ 50. Based on updated guidance from the FDA, these regulatory changes will require us to conduct additional clinical trials for YUTIQ 50 beyond what was originally contemplated for the efficacy supplement of our NDA, resulting in a significant increase in

the program's anticipated cost. Accordingly, we have decided to pause enrollment for the YUTIQ 50 clinical trial and evaluate if there is a viable path for resumption of the program.

- In February 2022, we announced updated positive interim safety and efficacy data from the ongoing Phase 1 DAVIO clinical trial evaluating EYP-1901 for the treatment of wet AMD. We presented eight-month data from the DAVIO Phase 1 clinical trial of EYP-1901 for wet AMD at the Angiogenesis, Exudation, and Degeneration 2022 virtual meeting. The data showed no dose limiting toxicities, no reports of ocular SAEs and no drug-related systemic SAEs, consistent with the six-month data presented in November 2021. The DAVIO data has also shown that following a single dose of EYP-1901, 53% and 41% of patients did not require a supplemental anti-VEGF treatment up to six and nine months, respectively. The treatment burden was reduced by 79% and 75% at six months and eight months respectively compared to prior to dosing with EYP-1901. Additionally, the eight-month data confirmed continued stable and sustained BCVA (-3.0 ETDRS letters) and CST/OCT (+13 μm).
- In January 2022, we announced that we completed a positive Type C meeting with the U.S. Food and Drug Administration (FDA) and expect to initiate a Phase 2 trial of EYP-1901 for wet AMD in Q3 2022 and in NPDR in the second half of 2022 with initial top-line data for the wet AMD trial anticipated in the second half of 2023.

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2021, we set forth our critical accounting policies and estimates, which included revenue recognition, reserves for variable consideration associated with our commercial revenue and recognition of expense in outsourced clinical trial agreements. 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, 2022 Compared to Three Months Ended September 30, 2021:

	Three Months Ended September 30,		Change	
	2022	2021	Amounts	%
Revenues:				
Product sales, net	$ 9,720	$ 8,587	$ 1,133	13%
License and collaboration agreements	52	159	(107)	-67%
Royalty income	240	313	(73)	-23%
Total revenues	10,012	9,059	953	11%
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	1,405	1,825	(420)	-23%
Research and development	11,162	8,498	2,664	31%
Sales and marketing	6,016	7,374	(1,358)	-18%
General and administrative	9,212	6,060	3,152	52%
Amortization of acquired intangible assets	615	615	—	0%
Total operating expenses	28,410	24,372	4,038	17%
Loss from operations	(18,398)	(15,313)	(3,085)	20%
Other income (expense):				
Interest and other income, net	640	6	634	10567%
Interest expense	(662)	(1,388)	726	-52%
Gain (loss) on extinguishment of debt	—	—	—	0%
Total other income (expense), net	(22)	(1,382)	1,360	-98%
Net loss	$ (18,420)	$ (16,695)	$ (1,725)	10%
Net loss per share - basic and diluted	$ (0.49)	$ (0.58)	$ 0.09	-16%
Weighted average shares outstanding - basic and diluted	37,338	28,766	8,572	30%
Net loss	$ (18,420)	$ (16,695)	$ (1,725)	10%

Product Sales, Net

Product sales, net represents the gross sales of YUTIQ and DEXYCU less provisions for product sales allowances. Product sales, net increased by $1.1 million, or 13%, to $9.7 million for the three months ended September 30, 2022 compared to $8.6 million for the three months ended September 30, 2021. Customer demand has a direct impact on product orders from our specialty distributors that we record as net product sales. Net product revenue represents product purchased by our distributors whereas customer demand represents purchases of product by physician practices and ASCs from our specialty distributors. The progression of the Pandemic and its effects on our business and operations remain uncertain at this time. Depending on future developments that are uncertain and difficult to predict, including new information that may emerge concerning the Pandemic, our customer demand may be adversely affected in the future.

License and Collaboration Agreement

License and collaboration agreement revenues decreased by $107,000, or 67%, to $52,000 for the three months ended September 30, 2022 compared to $159,000 for the three months ended September 30, 2021. The decrease was primarily due to the reduction of revenue from Ocumension by $69,000 for the three months ended September 30, 2022.

Royalty Income

Royalty income decreased by $73,000, or 23%, to $240,000 for the three months ended September 30, 2022 compared to $313,000 for the three months ended September 30, 2021. The decrease was attributable to higher non-cash Alimera royalties payable to SWK.

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, decreased by $420,000, or 23%, to $1.4 million for the three months ended September 30, 2022 from $1.8 million for the three months ended September 30, 2021. This decrease was primarily attributable to decreased costs associated with lower costs of goods, royalties, and distribution fees due to product mix.

Research and Development

Research and development expenses increased by $2.7 million, or 31%, to $11.2 million for the three months ended September 30, 2022 from $8.5 million for the same period in the prior year. This increase was attributable primarily to (i) $1.9 million of personnel related costs for investment in new employees across the research and clinical organizations, including $558,000 of stock based compensation, and (ii) $1.0 million in increased clinical trial costs, primarily related to the completion of our EYP-1901 Phase 1 DAVIO clinical trial and initiation costs for Phase 2 DAVIO2 and PAVIA clinical trials. These increases were partially offset by $203,000 in lower early stage research and development expense.

Sales and Marketing

Sales and marketing expenses decreased by $1.4 million, or 18%, to $6.0 million for the three months ended September 30, 2022 from $7.4 million for the same period in the prior year. This decrease was primarily attributable to lower DEXYCU promotional activities related to the transition to our commercial partner, ImprimisRx, including (i) a $637,000 decrease in DEXYCU marketing and promotional expense, (ii) a $415,000 decrease in DEXYCU personnel expense, (iii) a $179,000 decrease of commission due to our commercial partner for DEXYCU, and (iv) a $129,000 decrease in other marketing and related expenses not specific to DEXYCU.

General and Administrative

General and administrative expenses increased by $3.2 million, or 52%, to $9.2 million for the three months ended September 30, 2022 from $6.1 million for the same period in the prior year. This increase was attributable primarily to (i) $1.6 million in personnel expense, including $228,000 of stock-based compensation, for organizational expansion across executive, Finance, HR, and IT functions, (ii) $876,000 in legal, consulting, insurance, and other professional services, (iii) $328,000 of IT and systems related expense, and (iv) $378,000 of other expense.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled $615,000 for both the three months ended September 30, 2022 as well as the same period in the prior year. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon Acquisition (see Note 5).

Interest (Expense) Income

Interest expense totaled $662,000 for the three months ended September 30, 2022. We incurred lower interest expense due to the conversion of debt from the CRG Loan to the SVB Loan, which carries a lower interest rate. Interest expense in the three months ended September 30, 2021 was $1.4 million.

Interest income from amounts invested in marketable securities and institutional money market funds increased to $640,000 for the three months ended September 30, 2022 compared to $6,000 in the prior year quarter, due primarily to an increase in cash invested in marketable securities in the current year.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021:

	Nine Months Ended September 30,		Change	
	2022	2021	Amounts	%
Revenues:				
Product sales, net	$ 30,048	$ 24,127	$ 5,921	25%
License and collaboration agreements	160	594	(434)	-73%
Royalty income	663	674	(11)	-2%
Total revenues	30,871	25,395	5,476	22%
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	4,916	5,144	(228)	-4%
Research and development	34,099	19,582	14,517	74%
Sales and marketing	19,592	19,692	(100)	-1%
General and administrative	26,321	16,358	9,963	61%
Amortization of acquired intangible assets	1,845	1,845	—	0%
Total operating expenses	86,773	62,621	24,152	39%
Loss from operations	(55,902)	(37,226)	(18,676)	50%
Other income (expense):				
Interest and other income, net	1,067	286	781	273%
Interest expense	(2,408)	(4,110)	1,702	-41%
Gain (loss) on extinguishment of debt	(1,559)	2,065	(3,624)	-175%
Total other income (expense), net	(2,900)	(1,759)	(1,141)	65%
Net loss	$ (58,802)	$ (38,985)	$ (19,817)	51%

Product Sales, Net

Product sales, net represents the gross sales of YUTIQ and DEXYCU less provisions for product sales allowances. Product sales, net increased by $5.9 million, or 25%, to $30.0 million for the nine months ended September 30, 2022 compared to $24.1 million for the nine months ended September 30, 2021. The increase was driven by increases in cataract surgeries, re-opening of ASCs, and ongoing sales efforts. Customer demand has a direct impact on product orders from our specialty distributors that we record as net product sales. Net product revenue represents product purchased by our distributors whereas customer demand represents purchases of product by physician practices and ASCs from our distributors. The progression of the Pandemic and its effects on our business and operations remain uncertain at this time. Depending on future developments that are uncertain and difficult to predict, including new information that may emerge concerning the Pandemic, our customer demand may be adversely affected in the future. The impact of the termination of pass-through related separate payment status for DEXYCU will materially decrease our revenues from sales of DEXYCU.

License and Collaboration Agreement

License and collaboration agreement revenues decreased by $434,000, or 73%, to $160,000 for the nine months ended September 30, 2022 compared to $594,000 for the nine months ended September 30, 2021. The decrease was primarily due to the reduction of revenue from Ocumension by $322,000 for the nine months ended September 30, 2022.

Royalty Income

Royalty income decreased by $11,000, or 2%, to $663,000 for the nine months ended September 30, 2022 compared to $674,000 for the nine months ended September 30, 2021. The decrease was attributable to lower non-cash Alimera royalties payable to SWK.

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, decreased by $228,000, or 4%, to $4.9 million for the nine months ended September 30, 2022 from $5.1 million for the nine months ended September 30, 2021. This decrease was primarily attributable to decreased costs associated with lower costs of goods, royalties, and distribution fees due to product mix.

Research and Development

Research and development expenses increased by $14.5 million, or 74%, to $34.1 million for the nine months ended September 30, 2022 from $19.6 million for the same period in the prior year. This increase was attributable primarily to (i) $8.8 million of personnel related costs for investment in new employees across the research and clinical organizations, including $3.5 million of stock-based compensation, and (ii) $4.7 million in increased clinical costs, primarily related to the completion of our EYP-1901 Phase 1 DAVIO clinical trial and initiation of Phase 2 DAVIO2 and PAVIA clinical trials, and $1.1 million of other research and development activities.

Sales and Marketing

Sales and marketing expenses decreased by $100,000, or 1%, to $19.6 million for the nine months ended September 30, 2022 from $19.7 million for the same period in the prior year. This decrease was primarily attributable to lower DEXYCU promotional activities related to the transition to our commercial partner, ImprimisRx, including (i) a $683,000 decrease in DEXYCU personnel expense, and (ii) a $589,000 decrease in DEXYCU marketing expense. These decreases were partially offset by (i) a $1.0 million increase in commission due to our commercial partner for DEXYCU, and (ii) a $204,000 increase in other promotional and related expenses.

General and Administrative

General and administrative expenses increased by $10.0 million, or 61%, to $26.3 million for the nine months ended September 30, 2022 from $16.4 million for the same period in the prior year. This increase was attributable primarily to (i) $6.4 million in personnel expense, including $2.3 million of stock-based compensation, for organizational expansion across executive, Finance, HR, and IT functions, (ii) $2.0 million in consulting, legal, and other professional services, (iii) $867,000 in facilities and IT expenses, and (iv) $683,000 in other miscellaneous administrative expenses.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled $1.8 million for both the nine months ended September 30, 2022 as well as the same period in the prior year. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon Acquisition (see Note 5).

Extinguishment of Debt (Expense) Income

Loss on extinguishment of debt for the nine months ended September 30, 2022 was for the early repayment of the CRG Loan resulting in a $1.6 million write-off of the remaining balance of unamortized debt discount.

Gain on extinguishment of debt for the nine months ended September 30, 2021 was for forgiveness by the SBA of our PPP Loan, which consisted of approximately (i) $2.0 million of principal and (ii) $24,000 of interest in 2021.

Interest (Expense) Income

Interest expense totaled $2.4 million for the nine months ended September 30, 2022. We incurred lower interest expense due to the conversion of debt from the CRG Loan to the SVB Loan, which carries a lower interest rate. Interest expense in the nine months ended September 30, 2021 was $4.1 million.

Interest income from investments in marketable securities and institutional money market funds increased to $1.1 million for the nine months ended September 30, 2022 compared to $286,000 in the prior year quarter, due primarily to higher cash balances invested in marketable securities in the current year.

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, 2022 we had a total accumulated deficit of $627.9 million. Our operations have been financed primarily from sales of our equity securities, issuance of debt and a combination of license fees, milestone payments, royalty income and other fees received from collaboration partners. In the first quarter of 2019, we commenced the U.S. launch of our first two commercial products, YUTIQ and DEXYCU. However, we have not received sufficient revenues from our product sales to fund operations and we do not expect revenues from our product sales to generate sufficient funding to sustain our operations in the near-term.

Financing Activities

During the nine months ended September 30, 2021, we recorded net proceeds of $107.9 million from the issuance of shares of our common stock ("Common Stock") in an underwritten public offering (see Note 9). We also sold shares of our Common Stock under our at-the-market facility during the nine months ended September 30, 2021 and recorded net proceeds of approximately $499,000. During the nine months ended September 30, 2022, we did not sell any shares of our common stock under the at-the-market facility but the program remains available for use.

On March 9, 2022 (the "SVB Closing Date"), we entered into a loan and security agreement (the "SVB Loan Agreement") with Silicon Valley Bank ("SVB") providing for (i) a senior secured term loan facility of $30.0 million (the "Term Facility") and (ii) a senior secured revolving credit facility of up to $15.0 million (the "Revolving Facility" and together with the Term Facility, the "Credit Facilities"). The maximum amount available for borrowing at any time under the Revolving Facility is limited to a borrowing base valuation of our eligible accounts receivable. On the SVB Closing Date, $30.0 million of the Term Facility and $11.5 million of the Revolving Facility, were advanced, to pay off the CRG Loan, including the accrued interest through that date.

The loans under the Credit Facilities are due and payable on January 1, 2027 (the "SVB Maturity Date"). The Credit Facilities bear interest that is payable monthly in arrears at a per annum rate (subject to increase during an event of default) equal to (i) with respect to the Term Facility, the greater of (x) the Wall Street Journal prime rate plus 2.25% and (y) 5.50% and (ii) with respect to the Revolving Facility, the Wall Street Journal Prime Rate. An unused commitment fee of 0.25% per annum applies to unutilized borrowing capacity under the Revolving Facility. Commencing on February 1, 2024, we are required to repay the principal of the Term Facility in 36 consecutive equal monthly installments. At maturity or if earlier prepaid, we will also be required to pay an exit fee equal to 2.00% of the aggregate principal amount of the Term Facility.

The repayment of all unpaid principal and accrued interest under the Credit Facilities may be accelerated upon consummation of a specified change of control transaction or the occurrence of certain other events of default (as specified in the SVB Loan Agreement). Subject to certain exceptions, we are also required to make mandatory prepayments of outstanding loans under the Credit Facilities with the proceeds of asset sales and insurance proceeds, which amounts in the case of the Revolving Facility, subject to the conditions set forth in the SVB Loan Agreement, may be re-borrowed. In addition, we may make a voluntary prepayment of the SVB Loan, in whole but not in part, at any time. All mandatory and voluntary prepayments of the Term Facility are subject to the payment of prepayment premiums as follows: (i) if prepayment occurs on or prior to March 9, 2023, 3% of the aggregate outstanding principal amount of the Term Facility being prepaid, (ii) if prepayment occurs after March 9, 2023 but on or prior to March 9, 2024, an amount equal to 2% of the aggregate outstanding principal amount of the Term Facility being prepaid, (iii) if prepayment occurs after March 9, 2024 but on or prior to March 9, 2025, an amount equal to 1% of the aggregate outstanding principal amount of the Term Facility being prepaid, and (iv) if prepayment occurs after March 9, 2025 but prior to January 1, 2027, an amount equal to 0.5% of the aggregate outstanding principal amount of the Term Facility being prepaid. We may voluntarily terminate the Revolving Facility at any time, subject to the payment of a termination fee as follows: (i) if such termination occurs on or prior to March 9, 2023, an amount equal to 3.0% of the Revolving Facility and (ii) if such termination occurs after March 9, 2023, 1.0% of the Revolving Facility.

Certain of our future subsidiaries will be required to become co-borrowers under the SVB Loan Agreement or guarantee the obligations of ours under the SVB Loan Agreement. Our obligations under the SVB Loan Agreement and the guarantee of such obligations are secured by a pledge of substantially all of our and such subsidiaries' assets, excluding intellectual property.

The SVB 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, enter into affiliate transactions and change its line of business, in each case, subject to certain exceptions. In addition, the SVB Loan Agreement contains the following quarterly financial covenants requiring the Company to maintain either:

- minimum product revenue from YUTIQ® and DEXYCU® assessed on a quarterly basis commencing from the three-month period ending on March 31, 2022 through the SVB Maturity Date, with such minimum quarterly product revenue ranging from approximately $7.8 million to approximately $11.5 million in fiscal year 2022. Such minimum quarterly product revenue will be subject to incremental increases in fiscal year 2023 and will thereafter be such amounts as agreed upon between us and SVB based on certain agreed-upon factors commencing for the three-month period ending on March 31, 2024 and for each three-month period thereafter through the SVB Maturity Date; or
- if we are unable to achieve the minimum quarterly product revenue level required as of the end of any three-month period, cash and cash equivalents in an amount equal to the greater of (i) $50,000,000 and (ii) our six-month Cash Burn (as defined in the SVB Loan Agreement).

Future Funding Requirements

At September 30, 2022, we had cash, cash equivalents, and marketable securities of $157.3 million. We expect that our cash and cash equivalents combined with anticipated net cash inflows from net product sales will fund our operating plan into the second half of 2024, under current expectations regarding the timing and outcomes of our Phase 2 clinical trials for EYP-1901 for the treatment of wet AMD, NPDR, and DME. Due to the difficulty and uncertainty associated with the design and implementation of clinical trials, we will continue to assess our cash and cash equivalents and future funding requirements. However, there is no assurance that additional funding will be achieved and that we will succeed in our future operations.

Actual cash requirements could differ from management's projections due to many factors, including cash generation from sales of YUTIQ and DEXYCU, additional investments in research and development programs, clinical trial expenses for EYP-1901, competing technological and market developments and the costs of any strategic acquisitions and/or development of complementary business opportunities. In addition, the Pandemic has had, and may continue to have, a material and adverse impact on our business, including as a result of preventive and precautionary measures that we, other businesses, and governments are taking. Due to these impacts and measures, we have experienced and may continue to experience significant and unpredictable reductions in the demand for our commercial products as customers have shut down their facilities and non-essential surgical procedures have been postponed in an effort to promote social distancing and to redirect medical resources and priorities towards the treatment of COVID-19.

The amount of additional capital we will require will be influenced by many factors, including, but not limited to:

1. the potential for EYP-1901, as a sustained delivery intravitreal anti-VEGF treatment for wet AMD, NPDR, and DME;
2. our expectations regarding the timing and clinical development of our product candidates, including EYP-1901;
3. the duration, scope and outcome of the DOJ Investigation and its impact on our financial condition, results of operations or cash flows;
4. the success of our U.S. direct commercialization of YUTIQ and DEXYCU;
5. the cost of commercialization activities for YUTIQ and DEXYCU, including product manufacturing, marketing, sales and distribution;
6. the December 31, 2022 expiration of pass-through related separate payment under which DEXYCU is reimbursed for Medicare Part B patients treated in hospital outpatient department and ASC settings of care;
7. whether and to what extent we internally fund, whether and when we initiate, and how we conduct additional pipeline product development programs;
8. payments we receive under any new collaboration agreements;
9. whether and when we are able to enter into strategic arrangements for our products or product candidates and the nature of those arrangements;
10. the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing any patent claims;
11. changes in our operating plan, resulting in increases or decreases in our need for capital;
12. our views on the availability, timing and desirability of raising capital; and
13. the extent to which our business could be adversely impacted by the effects of the Pandemic or by other pandemics, epidemics or outbreaks.

We do not know if additional capital will be available 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, 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, or otherwise significantly curtail our operations to reduce our cash requirements and extend our capital.

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

	Nine Months Ended September 30,		
	2022	2021	Change
Cash flows from operating activities:			
Net loss	$ (58,802)	$ (38,985)	$ (19,817)
Changes in operating assets and liabilities	(7,883)	$ 447	$ (8,330)
Other adjustments to reconcile net loss to cash flows from operating activities:	$ 14,268	5,109	9,159
Net cash used in operating activities	$ (52,417)	$ (33,429)	$ (18,988)
Net cash used in investing activities	(50,182)	(156)	(50,026)
Net cash (used in) provided by financing activities	(632)	108,386	(109,018)

Operating cash outflows for the nine months ended September 30, 2022 totaled $52.4 million, primarily due to our net loss of $58.8 million, reduced by $14.3 million of non-cash expenses, which included $10.8 million of stock-based compensation, $1.6 million of loss on extinguishment of debt, and $1.8 million of amortization of the DEXYCU finite-lived intangible asset. This was partially offset by increases of $7.9 million in changes in operating assets and liabilities, primarily in accounts receivable and other current assets.

Operating cash outflows for the nine months ended September 30, 2021 totaled $33.4 million, primarily due to our net loss of $39.0 million, reduced by $5.1 million of non-cash expenses, which included $4.6 million of stock-based compensation, $1.8 million of amortization of the DEXYCU finite-lived intangible asset, $462,000 of amortization of debt discount and a $2.1 million gain on extinguishment of debt from the forgiveness of our Paycheck Protection Program Loan.

For the nine months ended September 30, 2022, $48.6 million of net cash was used to purchase marketable securities, as well as $1.6 million for the purchase of property and equipment.

Net cash used in investing activities for the nine months ended September 30, 2021 consisted of $156,000 of purchases of property and equipment.

Net cash used in financing activities for the nine months ended September 30, 2022 totaled $632,000 and consisted of the following:

(i) $38.2 million used to pay off the CRG loan;
(ii) $2.3 million used to extinguish debt costs related to the CRG loan;
(iii) $30.0 million of proceeds from the issuance for long-term debt related to the SVB loan;
(iv) $10.5 million of net proceeds from the revolving facility.

Net cash provided by financing activities for the nine months ended September 30, 2021 totaled $108.4 million and consisted of the following:

(i) $107.9 million of net proceeds from the issuance of 10,465,000 shares of our Common Stock;
(ii) $499,000 of net proceeds from the issuance of 48,538 shares of our Common Stock sold utilizing our ATM; and
(iii) $273,000 of proceeds from stock issued under our employee stock purchase plan.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2022. 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 our 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, 2022, our principal executive officer and our 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, 2022, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various routine legal proceedings and claims incidental to our business, which management believes will not have a material effect on our financial position, results of operations or cash flows.

In August 2022, the Company received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU®. We are cooperating fully with the government in connection with this matter. At this time, the Company is unable to predict the duration, scope or outcome of this matter or whether it could have a material impact on the Company's financial condition, results of operation or cash flow.

Item 1A. Risk Factors

This section augments and updates certain risk factors disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"). The following risk factor supersedes the corresponding risks described in the Annual Report and should be read together with the other risk factors disclosed in the Annual Report. In addition to the other information in this Quarterly Report on Form 10-Q, all of the risk factors should be carefully considered in evaluating us and our common stock. Any of these risks, many of which are beyond our control, could materially and adversely affect our financial condition, results of operations or cash flows, or cause our actual results to differ materially from those projected in any forward-looking statements. We may also face other risks and uncertainties that are not presently known, are not currently believed to be material, or are not identified below because they are common to all businesses. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. For more information, see "Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q.

We received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU®. If the DOJ commences an action against us, the action could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we have expended and expect to continue to expend significant financial and managerial resources responding to the DOJ subpoena, which could also have a material adverse effect on our business, financial condition, results of operations and cash flows.

In August 2022, the Company received a subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices, including as pertain to DEXYCU®. We are cooperating fully with the government in connection with this matter. We cannot predict the outcome of the DOJ Investigation, and there can be no assurance that the DOJ will not commence an action against us, or as to what the ultimate outcome of any such DOJ Investigation might be. Under applicable law, the DOJ has the ability to impose sanctions on companies which are found to have violated the provisions of applicable laws, including, civil monetary penalties and other remedies. The resolution of any such enforcement action, should there be one, could have a material adverse effect on our business, financial condition, results of operations and cash flows. We have expended and expect to continue to expend significant financial and managerial resources responding to the DOJ subpoena, which could also have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our products may continue to be impacted by additional unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, including DEXYCU pass-through status, which could harm our business.

The statutes and regulations that govern marketing approvals, pricing and reimbursement for new drug products vary widely from country to country. Some countries require approval of the sale price of a product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, which could negatively impact the revenues we are able to generate from the sale of the product in that particular country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more of our products.

Our success also depends in part on the extent to which coverage and reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, determine which medications they will cover and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Third-party payors also may seek additional clinical evidence, beyond the data required to obtain marketing approval, demonstrating clinical benefits and value in specific patient populations, before covering our products for those patients. We cannot be sure that coverage and reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Coverage and reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval. For example, under current Medicare Part B policy, payment to hospital outpatient departments and ASCs for drug and biological products furnished to patients as part of a surgical procedure is typically packaged into the payment for the associated procedure and thus not paid separately. Products granted pass-through status are excluded from this payment packaging policy and receive separate payment from the associated procedure for a period of three years. While DEXYCU had been granted pass-through status and has been receiving separate payment in these settings from Medicare, the CY 2023 Medicare Hospital OPPS and ASC Payment System Final Rule, which was issued November 1, 2022, terminated pass-through related separate payment for certain drugs, including DEXYCU, beyond its current expiration date of December 31, 2022. As of January 1, 2023, payment for DEXYCU will be packaged into the payment for the underlying procedure and no longer be reimbursed separately, which will materially decrease our revenues from sales of DEXYCU and correspondingly have a material adverse effect on our results of operations and financial condition.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, eligibility for coverage and reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacturing, selling and distribution costs. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of products from countries where they may be sold at lower prices than in the U.S. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies. Our inability to promptly obtain coverage and profitable reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products, and our overall financial condition.

We participate in, and have certain price reporting obligations to, the Medicaid Drug Rebate Program. This program requires us to pay a rebate for each unit of drug reimbursed by Medicaid. The amount of the "basic" portion of the rebate for each product is set by law as the larger of: (i) 23.1% of quarterly average manufacturer price, or AMP, or (ii) the difference between quarterly AMP and the quarterly best price available from us to any commercial or non-governmental customer, or Best Price. AMP must be reported on a monthly and quarterly basis and Best Price is reported on a quarterly basis only. In addition, the rebate also includes the "additional" portion, which adjusts the overall rebate amount upward as an "inflation penalty" when the drug's latest quarter's AMP exceeds the drug's AMP from the first full quarter of sales after launch, adjusted for increases in the Consumer Price Index-Urban. The upward adjustment in the rebate amount per unit is equal to the excess amount of the current AMP over the inflation-adjusted AMP from the first full quarter of sales. The rebate amount is computed each quarter based on our report to CMS of current quarterly AMP and Best Price for our drug. Rebates under the Medicaid Drug Rebate Program are currently capped at 100 percent of AMP, but that cap is set to be removed, effective January 1, 2024, which could increase our rebate liability. We are required to report revisions to AMP or Best Price within a period not to exceed 12 quarters from the quarter in which the data was originally due. Any such revisions could have the impact of increasing or decreasing our rebate liability for prior quarters, depending on the direction of the revision. The Affordable Care Act made significant changes to the Medicaid Drug Rebate Program, and CMS issued a final regulation, which became effective on April 1, 2016, to implement the changes to the Medicaid Drug Rebate program under the Affordable Care Act. On December 21, 2020, CMS issued a final regulation that modified existing Medicaid Drug Rebate Program regulations to permit reporting multiple Best Price figures with regard to value based purchasing arrangements (beginning in 2022) and provided definitions for "line extension," "new formulation," and related terms with the practical effect of expanding the scope of drugs considered to be line extensions (beginning in 2022). While the regulatory provisions that purported to affect the applicability of the AMP and Best Price exclusions of manufacturer-sponsored patient benefit programs in the context of pharmacy benefit manager "accumulator" programs were invalidated by a court, accumulator and other such programs may continue to negatively affect us in other ways.

Federal law also requires that any manufacturer that participates in the Medicaid Drug Rebate Program also participate in the Public Health Service's 340B drug pricing program in order for federal funds to be available for the manufacturer's drugs under Medicaid and Medicare Part B. The 340B drug pricing program, which is administered by the Health Resources and Services Administration, or HRSA, requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B "ceiling price" for the manufacturer's covered outpatient drugs. These 340B covered entities include, but are not limited to, a variety of community health clinics and other entities that receive health services grants from the Public Health Service, as well as hospitals that serve a disproportionate share of low-income patients. The 340B ceiling price is calculated using a statutory formula, which is based on the AMP and rebate amount for the covered outpatient drug as calculated under the Medicaid Drug Rebate Program. Any changes to the definition of AMP and the Medicaid rebate amount under the Affordable Care Act or other legislation could affect our 340B ceiling price calculations and negatively impact our results of operations.

HRSA issued a final regulation regarding the calculation of the 340B ceiling price and the imposition of civil monetary penalties on manufacturers that knowingly and intentionally overcharge covered entities, which became effective on January 1, 2019. It is currently unclear how HRSA will apply its enforcement authority under this regulation. HRSA has also implemented a ceiling price reporting requirement related to the 340B program under which we are required to report 340B ceiling prices to HRSA on a quarterly basis, and HRSA then publishes that information to covered entities. Moreover, under a final regulation effective January 13, 2021, HRSA newly established an administrative dispute resolution ("ADR") process for claims by covered entities that a manufacturer has engaged in overcharging, and by manufacturers that a covered entity violated the prohibitions against diversion or duplicate discounts. Such claims are to be resolved through an ADR panel of government officials rendering a decision that could be appealed only in federal court. An ADR proceeding could subject us to onerous procedural requirements and could result in additional liability. In addition, legislation may be introduced that, if passed, would further expand the 340B program to additional covered entities or would require participating manufacturers to agree to provide 340B discounted pricing on drugs used in an inpatient setting.

Federal law also requires that a company that participates in the Medicaid Drug Rebate program report average sales price, or ASP, information each quarter to CMS for certain categories of drugs that are paid under the Medicare Part B program. For calendar quarters beginning January 1, 2022, manufacturers are required to report the average sales price for certain drugs under the Medicare program regardless of whether they participate in the Medicaid Drug Rebate Program. Manufacturers calculate the ASP based on a statutorily defined formula as well as regulations and interpretations of the statute by CMS. CMS uses these submissions to determine payment rates for drugs under Medicare Part B. Starting in 2023, manufacturers must pay refunds to Medicare for single source drugs or biologicals, or biosimilar biological products, reimbursed under Medicare Part B and packaged in single-dose containers or single-use packages, for units of discarded drug reimbursed by Medicare Part B in excess of 10 percent of total allowed charges under Medicare Part B for that drug. Manufacturers that fail to pay refunds could be subject to civil monetary penalties of 125 percent of the refund amount.

Statutory or regulatory changes or CMS guidance could affect the pricing of our approved products, and could negatively affect our results of operations. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, or IRA, which, among other things, requires the U.S. Department of Health and Human Services Secretary to negotiate, with respect to Medicare units and subject to a specified cap, the price of a set number of certain high Medicare spend drugs and biologicals per year starting in 2026. Starting January 2023, the IRA establishes a Medicare Part B inflation rebate scheme, under which, generally speaking, manufacturers will owe rebates if the average sales price of a Part B drug increases faster than the pace of inflation. Failure to timely pay a Part B inflation rebate is subject to a civil monetary penalty. Further, starting October 2022, the IRA establishes a Medicare Part D inflation rebate scheme, under which, generally speaking, manufacturers will owe additional rebates if the AMP of a Part D drug increases faster than the pace of inflation. Failure to timely pay a Part D inflation rebate is subject to a civil monetary penalty. In addition, manufacturers are currently required to provide a 70% discount on brand name prescription drugs utilized by Medicare Part D beneficiaries when those beneficiaries are in the coverage gap phase of the Part D benefit design. The IRA sunsets the coverage gap discount program starting in 2025 and replaces it with a new manufacturer discount program and makes other reforms to the Part D benefit, which could increase our liability under Part D. These or any other public policy change could impact the market conditions for our products. We further expect continued scrutiny on government price reporting and pricing more generally from Congress, agencies, and other bodies.

In order to be eligible to have our products paid for with federal funds under the Medicaid and Medicare Part B programs and purchased by certain federal agencies and grantees, we must participate in the VA FSS pricing program. Under this program, we would be obligated to make our "innovator" drugs available for procurement on an FSS contract and charge a price to four federal agencies—VA, DoD, Public Health Service and U.S. Coast Guard—that is no higher than the statutory FCP. The FCP is based on the Non-FAMP, which we calculate and report to the VA on a quarterly and annual basis. We do not currently participate in the Tricare Retail Pharmacy program, under which we would need to pay quarterly rebates on utilization of innovator products that are dispensed through the Tricare Retail Pharmacy network to TRICARE beneficiaries. The rebates are calculated as the difference between the annual Non-FAMP and FCP. The requirements under the 340B, FSS, and TRICARE programs will impact gross-to-net revenue for

our current products and any product candidates that are commercialized in the future and could adversely affect our business and operating results.

We are shipping YUTIQ directly to physician offices or clinics to be administered to patients. YUTIQ is being shipped to physician offices or clinics primarily through specialty pharmacies and distributors. Most prefer to buy the product directly through our select distributors under a “buy and bill” model. Physicians who may not be willing to purchase our products through a specialty distributor because they do not prefer the buy and bill method may prefer to have another entity called a specialty pharmacy ship them the product at no cost to the physician. The specialty pharmacy bills the health plan for our product directly and then ships the product to the physician such that no costs are incurred by the physician. We have obtained a permanent “J” code for YUTIQ which assists physicians and hospitals in their ability to bill all payer types for the product.

We are shipping DEXYCU to ASCs, or to hospital outpatient surgical centers through specialty pharmacies and distributors. DEXYCU is being reimbursed for Medicare Part B patients in these settings through a transitional pass-through related separate payment when billed under the drug’s “J” code. The Final Rule does not extend pass-through related separate payment for expiring drugs, and therefore, DEXYCU will no longer qualify for separate payment effective January 1, 2023, and will be subject to packaged payment rates, which will significantly limit our ability to gain utilization and subsequent revenues. In addition, in anticipation of the Final Rule, as a result of CY 2023 OPPS/ASC Proposed Rule, the Company entered into the Termination Agreement with ImprimisRx on October 7, 2022, pursuant to which ImprimisRx and the Company agreed to (a) continue to support the sales and marketing of DEXYCU through the fourth quarter of 2022, consistent with the ImprimisRx’s level of effort during the January through June 2022 period, (b) decrease the required minimum quarterly sales levels based on DEXYCU unit demand for the fourth quarter of 2022, and (c) terminate the Agreements effective January 1, 2023.

Our business may be negatively impacted by macroeconomic conditions.

Various Macroeconomic Factors could adversely affect our business and the results of our operations and financial condition, including changes in inflation, interest rates and overall economic conditions and uncertainties ("Macroeconomic Factors"). These Macroeconomic Factors have the potential to adversely affect our liquidity, business, financial condition and results of operations by increasing our overall cost structure. The existence of Macroeconomic Factors in the economy has resulted in, and may continue to result in, higher interest rates and capital costs, supply shortages, increased costs of labor, increased manufacturing costs and clinical trial costs, weakening exchange rates and other similar effects. As a result of these Macroeconomic Factors, we have experienced the increased costs of clinical trials and may continue to experience other cost increases. Although we may take measures to mitigate the impact of Macroeconomic Factors, if these measures are not effective, our business, financial condition, results of operations and liquidity could be materially adversely affected. Even if such measures are effective, there could be a difference between the timing of when these mitigating actions impact our results of operations and when the impact of these Macroeconomic Factors are incurred. If this happens, we may need to raise additional capital to fund our operations, which may not be available in sufficient amounts or on reasonable terms, if at all, sooner than expected.

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 Correction to 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
3.7	Certificate of Amendment of the Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	06/23/20	3.1
3.8	Certificate of Amendment of the Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	12/08/20	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	03/29/18	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	03/29/18	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
4.5	Form of Pre-Funded Warrant to Purchase Common Stock	8-K	11/19/21	4.1
31.1*	Certification of Principal Executive 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			
31.2*	Certification of 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			
32.1**	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			
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			

101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the inline XBRL document and included in Exhibit 101)

Portions of this exhibit have been omitted in compliance with Item 601(b)(10) of Regulation S-K. The Company agrees to furnish a supplemental copy of the exhibit or any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

* 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.

EyePoint Pharmaceuticals, Inc.

Date: November 4, 2022

By: /s/ Nancy Lurker
Name: Nancy Lurker
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2022

By: /s/ George O. Elston
Name: George O. Elston
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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 4, 2022

/s/ Nancy Lurker
Name: Nancy Lurker
Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

CERTIFICATIONS

I, George O. Elston, 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 4, 2022

/s/ George O. Elston
Name: George O. Elston
Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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, 2022, 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 4, 2022

/s/ Nancy Lurker
Name: Nancy Lurker
Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of EyePoint Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George O. Elston, Chief Financial 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 4, 2022

/s/ George O. Elston
Name: George O. Elston
Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)