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

FORM 8-K/A

Amendment No. 1

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): March 28, 2018

EyePoint Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**000-51122**	**26-2774444**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

480 Pleasant Street **Watertown, MA**	**02472**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (617) 926-5000

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

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

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

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

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

Emerging growth company ☐

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On March 29, 2018, EyePoint Pharmaceuticals, Inc. (the "Company"), formerly pSivida Corp., filed a Current Report on Form 8-K (the "Original Form 8-K") disclosing that the Company and its newly-created wholly-owned subsidiary, Oculus Merger Sub, Inc. ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Icon Bioscience, Inc., a Delaware corporation ("Icon") and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as representative of Icon's securityholders, pursuant to which Merger Sub was merged with and into Icon, with Icon being the surviving corporation and a wholly-owned subsidiary of the Company (the "Icon Acquisition"). This amendment to the Original Form 8-K is being filed for the purpose of satisfying the Company's undertaking to file the financial statements and pro forma financial information required by Item 9.01 of Form 8-K, and this amendment should be read in conjunction with the Original Form 8-K.

Item 8.01 Other Information.

Attached hereto as Exhibit 99.2 is a description of the Company's business following the Icon Acquisition, which description replaces the disclosures contained in the Company's prior public filings, including those appearing under the caption "Business" in its Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the Securities and Exchange Commission ("SEC") on September 13, 2017, as amended by its Annual Report on Form 10-K/A for the fiscal year ended June 30, 2017 filed with the SEC on October 30, 2017.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired

The audited balance sheets of Icon as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the two-year period ended December 31, 2017, including the report of its independent registered public accountant, Frank, Rimerman + Co. LLP, are filed as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial information related to the Icon Acquisition is filed as Exhibit 99.4 to this Form 8-K/A and incorporated herein by reference.

(d) Exhibits

Exhibit No.	Description
4.1	Warrant to Purchase Common Stock of pSivida Corp., issued March 28, 2018, to SWK Funding LLC (incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
10.1	Securities Purchase 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. (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
10.2	Second Securities Purchase 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. and each other person identified on the signature pages thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
10.3	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. (incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).

10.4	Credit Agreement, dated as of March 28, 2018, among pSivida Corp., SWK Funding LLC and the financial institutions party thereto from time to time as lenders (incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
10.5	Agreement and Plan of Merger, dated March 28, 2018, by and among pSivida Corp., Oculus Merger Sub, Inc., Icon Bioscience, Inc. and Shareholder Representative Services LLC (incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
23.1*	Consent of Frank, Rimerman + Co. LLP.
99.1	Press release dated March 28, 2018 (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on March 29, 2018 (File No. 000-51122)).
99.2*	Updated Business Section.
99.3*	Audited financial statements of Icon Bioscience, Inc.
99.4*	Unaudited pro forma condensed combined financial statements.

* Filed 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 hereunto duly authorized.

EyePoint Pharmaceuticals, Inc.

Date: June 11, 2018

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

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 333-152146, 333-163208 and 333-216166 on Form S-8 and Registration No. 333-208115 on Form S-3 of EyePoint Pharmaceuticals, Inc. of our report dated March 27, 2018 relating to our audits of the balance sheets of Icon Bioscience, Inc. as of December 31, 2016 and 2017, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended, which expresses an unmodified opinion and includes an emphasis-of-matter paragraph relating to Icon Bioscience, Inc's ability to continue as a going concern, in the current report on Form 8-K/A of EyePoint Pharmaceuticals, Inc. dated June 11, 2018.

/s/ Frank, Rimerman + Co. LLP
Palo Alto, California
June 11, 2018

Introduction

Our Business

We are a specialty biopharmaceutical company committed to developing and commercializing innovative ophthalmic products for the treatment of eye diseases. Our lead product, DEXYCU™ (dexamethasone intraocular suspension) 9%, approved by the U.S. Food and Drug Administration ("FDA") in February 2018, is administered as a single dose at the end of ocular surgery and is the first long-acting intraocular product approved by the FDA for the treatment of post-operative inflammation. DEXYCU utilizes our proprietary Verisome® drug-delivery platform, which allows for a single intraocular injection that releases over time. There are over four million cataract surgeries performed annually in the U.S., and we plan to launch DEXYCU in the U.S. in the first half of 2019 with a primary focus on its use following cataract surgery. Our lead product candidate is YUTIQ™ for the treatment of non-infectious uveitis affecting the posterior segment of the eye ("three-year uveitis"). Injected into the eye in an office visit, YUTIQ is a tiny micro-insert that delivers a micro-dose of a corticosteroid to the back of the eye on a sustained constant (zero order release) basis for approximately three years. On March 19, 2018, the FDA accepted our New Drug Application ("NDA") for YUTIQ and set an FDA Prescription Drug User Fee Act ("PDUFA") action date of November 5, 2018. YUTIQ is based on our proprietary Durasert™ sustained-release drug delivery technology platform, which can deliver drugs for predetermined periods of time ranging from months to years. Posterior segment uveitis is the third leading cause of blindness in the U.S. and affects between 55,000 to 120,000 people in the U.S. If approved in November 2018, we expect to launch YUTIQ in the U.S. in the first half of 2019.

The Unmet Need in the Treatment of Eye Disease

The human eye is an organ which reacts to light to provide sight. The eye has two principal anatomical segments: the anterior segment and the posterior segment. The anterior segment consists of the cornea, iris, pupil, lens and aqueous humor, while the posterior segment consists of the retina, choroid, vitreous humor and the optic nerve.

The tissues and structures in the anterior and posterior segment of the eye work in concert to produce sight. Light from an object or scene enters the eye through the anterior chamber, beginning with the cornea. The cornea bends the light such that it passes freely through the pupil, which is the opening in the center of the iris. The iris works like a shutter in a camera enlarging or shrinking, depending on how much light is entering the eye. After passing through the iris, the light rays pass through the eye's natural crystalline lens. This clear, flexible structure works like the lens in a camera, shortening and lengthening its width in order to focus light rays properly. Light rays then pass from the anterior segment into the posterior segment of the eye starting with a dense, transparent gel-like substance, called the vitreous. The vitreous fills the globe of the eyeball, which bathes the eye in nutrients and helps the eye hold its spherical shape. In a normal eye, the light rays come to a sharp focusing point on the retina. The retina functions much like the film in a camera, capturing the light rays, processing them into light impulses through millions of tiny nerve endings and then sending these light impulses through over a million nerve fibers to the optic nerve. Because the process of producing sight requires the precise coordination of the tissues and structures in both the anterior and posterior segment of the eye, if disease affects any one of these components, vision can be impaired or potentially blinded.

Diseases of the anterior chamber of the eye include ocular inflammation, cataracts, dry eye, infection, and refractive disorders. Glaucoma, which is a disease that damages the optic nerve, can also be caused by inflammation in the anterior chamber (inflammatory or uveitic glaucoma). Because the anterior segment is readily accessible, physicians typically treat these diseases with topically-applied eye drops. However, there are several limitations of eye drops. First, the eye often eliminates topically applied medications via tear elimination, limiting the penetration of drugs into the ocular tissue. Second, eye drops are often administered by patients themselves, which often leads to misuse or non-compliance by patients due to complicated and arduous eye drop regimens.

Diseases of the posterior segment of the eye include age-related macular degeneration (“AMD”), diabetic retinopathy, diabetic macular edema (“DME”) and posterior segment uveitis. These diseases frequently result in damage to the vasculature of the eye, leading to poor visual function, and often to proliferation of new, abnormal and leaky blood vessels in the back of the eye. These conditions can lead to retinal damage, scarring and irreversible loss of vision. Because the posterior chamber is not readily accessible, physicians typically treat these diseases with intravitreal injections. However, there are several limitations of intravitreal injections. First, these injections can be painful to the eye and often cause swelling or bleeding. Second, intravitreal injections are not an effective means of delivering a steady state dose to the site of disease.

Drug delivery for treating ophthalmic diseases in both the anterior and posterior segments of the eye is a significant challenge. Due to the effectiveness of the blood-eye barrier, it is difficult for systemically (orally or intravenously) administered drugs to reach the retina in sufficient quantities to have a beneficial effect without causing adverse side effects to other parts of the body. Injecting drugs in solution directly into the back of the eye can achieve effective, but often transient, dosage levels in the eye, requiring repeated injections. In addition to the issues of inconvenience, cost and noncompliance, repeated intravitreal injections have medical risks, including intraocular infection, perforated sclera and vitreous hemorrhage.

Ophthalmic drugs, whether drops, injections or taken orally, are often not administered on the optimal schedule or at all, because patients do not self-administer as prescribed or do not get medical professional administration as required. The risk of patient non-compliance increases when treatment involves multiple products or complex or painful dosing regimens, as patients age or suffer cognitive impairment or serious illness, or when the treatment is lengthy or expensive.

Due to the drawbacks of traditional delivery, we believe the development of methods to deliver drugs to patients in a more precise, controlled fashion over sustained periods of time satisfies an unmet medical need. Our products, DEXYCU and, if approved, YUTIQ are intended to address diseases of both the anterior and posterior segment of the eye, respectively, through long-acting and sustained delivery technology.

Our Products and Product Candidates

The following table describes the stage of each of our current development programs:

Product	Disease	Stage of Development	Partner
DEXYCU	Ocular Post-Surgical Inflammation	FDA-approved	None
ILUVIEN	DME	Approved in the U.S. and 17 EU countries; commercialized since 2013 in the U.K. and Germany, since 2015 in U.S. and Portugal and since 2017 in Ireland and Austria; commenced distribution through sublicense partners in the second quarter of 2017 in Spain, Italy and various countries in the Middle East	Alimera
RETISERT	Posterior segment uveitis	FDA-approved; commercialized in the U.S. since 2005	Bausch & Lomb
VITRASERT	CMV retinitis	FDA-approved; commercialized from 1996 through 2012 (patent expiration)	Bausch & Lomb
YUTIQ	Posterior segment uveitis	NDA accepted with PDUFA action date of November 5, 2018	For U.S.: commercialize independently pending NDA approval
		Type II variation accepted for review in 17 EU countries previously approved for ILUVIEN for DME	For EMEA: regulatory, reimbursement and distribution licensed to Alimera under ILUVIEN
YUTIQ shorter-acting uveitis	Posterior segment uveitis	Pre-clinical	None
Durasert TKI for Wet AMD	Wet AMD	Pre-clinical	None

DEXYCU

DEXYCU is the first long-acting intraocular product approved by the FDA for the treatment of post-operative inflammation. Cataract surgery is one of the most frequent surgical procedures performed in the U.S., with over four million procedures performed annually. However, patients often experience post-operative ocular inflammation. Under the current standard of care for inflammation associated with cataract surgery, patients, many of whom are elderly, must self-administer medicated eye drops several times a day over a period of several weeks. DEXYCU, administered as a single intraocular injection at the conclusion of surgery, utilizes our Verisome technology to dispense a biodegradable extended-release formulation of dexamethasone in the posterior chamber directly behind the iris. We believe that a single administration of a corticosteroid at the site of inflammation may benefit patients by eliminating non-compliance and dosing errors associated with the current practice of dispensing multiple daily self-administered eye drops following cataract surgery over a period of several weeks.

The efficacy of DEXYCU was demonstrated in a double-blinded randomized Phase 3 clinical trial of 394 patients. In the clinical trial, patients received an intraocular dose of 517 micrograms (“mcg”) of DEXYCU, 342 mcg of DEXYCU, or placebo administered by a physician at the end of cataract surgery. The primary efficacy outcome in the clinical trial was anterior chamber cell clearing in the study eye on the eighth day following surgery. The percentage of patients meeting the primary efficacy outcome was 20% in the placebo group while 57% and 60% met the primary efficacy outcome in the 342 and 517 mcg DEXYCU treatment groups, respectively. In addition, the percentage of patients receiving rescue medication of ocular steroid or a nonsteroidal anti-inflammatory drug was significantly lower at day one, three, eight, 15 and 30 in the 342 and 517 mcg treatment groups versus placebo. The most common adverse reactions (5 – 15%) reported with DEXYCU were increased intraocular pressure, corneal edema and iritis. Other adverse reactions occurring in 1 – 5% of subjects included corneal endothelial cell loss, blepharitis, eye pain, cystoid macular edema, dry eye, ocular inflammation, posterior capsule opacification, blurred vision, reduced visual acuity, vitreous floaters, foreign body sensation, photophobia and vitreous detachment. Warnings and precautions included on the label for DEXYCU include increases in intraocular pressure, delayed healing, exacerbation of infection and cataract progression and side effects generally associated with intraocular steroids.

The FDA-approved dosage of DEXYCU is 0.005 milliliters (“mL”) of dexamethasone 9% (equivalent to 517 mcg), administered as a single dose intraocularly in the posterior chamber, directly behind the iris, at the end of surgery. DEXYCU will be available as a 9% intraocular suspension equivalent to dexamethasone 103.4 mg/mL in a single-dose vial provided in a kit. The drug is encapsulated in the fully bioerodible Verisome technology, which provides a steady release of dexamethasone for up to 22 days post injection.

We acquired the rights to DEXYCU on March 28, 2018 through the acquisition of Icon Bioscience, Inc. (“Icon”). We paid Icon’s security holders approximately $15 million at the closing of the transaction, and are obligated to pay certain post-closing contingent cash payments upon the achievement of specified milestones based upon certain net sales and partnering revenue standards, in each case subject to the terms and conditions set forth in that certain Agreement and Plan of Merger, dated March 28, 2018, by and among us, Oculus Merger Sub, Inc., Icon and Shareholder Representative Services LLC, solely in its capacity as the representative of Icon’s securityholders (the “Merger Agreement”). These include but are not limited to (i) a one-time development milestone of $15.0 million payable in cash upon the first commercial sale of DEXYCU in the United States, (ii) sales milestone payments totaling up to $95.0 million upon the achievement of certain sales thresholds and subject to certain Centers for Medicare & Medicaid Services (“CMS”) reimbursement conditions set forth in the Merger Agreement, (iii) quarterly earn-out payments equal to 12% on net sales of DEXYCU in a given year, which earn-out payments will increase to 16% of net sales of DEXYCU in such year beginning in the calendar quarter for such year to the extent aggregate annual consideration of DEXYCU exceeds $200.0 million in such year, (iv) quarterly earn-out payments equal to 20% of partnering revenue received by us for DEXYCU sales outside of the United States, and (v) single-digit percentage quarterly earn-out payments with respect to net sales and/or partnering income, if any, resulting from future clinical development, regulatory approval and commercialization of any other product candidates we acquired in connection with the acquisition of Icon.

We plan to launch DEXYCU in the U.S. in the first half of 2019 following the successful scale up of commercial infrastructure and commercial supplies. We plan to commercialize DEXYCU ourselves in the U.S. through a contract sales organization (“CSO”) utilizing a “build and buy” strategy whereby the sales leadership (National Sales Director and District Managers) is hired by us, and the key account managers (“KAMs”) and sales representatives are hired by the CSO with the option for us to hire these reps after a period of time. We believe this flexible sales model provides less execution risk to us as CSOs can leverage costs across multiple clients, and thus are able to cost-effectively build the necessary infrastructure to support sales activities using varied, industry-wide experience to provide the most impactful solutions.

We believe that approximately four million cataract surgeries will be performed in the U.S. in 2018. The current standard of care in the U.S. for treating post-operative inflammation is primarily a combination of steroid, antibiotic and non-steroidal eye drops on a tapered treatment regimen that can last up to four weeks. This eye drop treatment regimen is complicated, and can result in up to 100 eye drops being administered over time. Steroid eye drops are the most complicated, requiring up to 70 eye drops over 3-4 weeks on a tapered dosing schedule. Further, cataract surgery patients are often elderly and can have compromised cognitive function, osteoarthritis in their hands and poor eyesight due to the cataract surgery. These complexities can lead to poor compliance due to missed eye drops, eye drops not going into the eye, and/or not finishing the treatment regimen. In addition, patients often call their physician’s office multiple times to have them re-explain the treatment regimen. As a result, physicians, their staffs, patients and their caregivers are frustrated with the current post-ocular drop intensive treatment regimen. We believe DEXYCU addresses many of these issues and potentially eliminates the need for post-surgical steroid eye drops by providing one injection immediately post-surgery into the same incision site where the new intraocular lens has been placed. We believe physicians will react positively to this single injection because the full steroid dose will be placed at the surgical site where inflammation can occur post-surgery.

The majority of patients who undergo cataract surgery are covered by Medicare Part B. New drugs approved by the FDA that are part of cataract surgery must be priced at a “not insignificant” price level relative to the overall cost of the procedure to be covered under what is called a transitional pass-through payment. This “pass through payment” consists of Medicare reimbursement for the drug paid in addition to an ambulatory surgical center’s facility fee. The pass-through payment was established by Congress to foster innovative drug development. This

Congressional provision is referred to as transitional because it is designed to be a bridge into the regular reimbursement payment scheme. The pass-through status is temporary, lasting three years and the product is reimbursed under what is called a “C” code. C codes are issued quarterly by CMS.

DEXYCU will qualify for Medicare transitional pass-through payment if we price DEXYCU at the minimum threshold required as part of the transitional pricing formula, which we intend to do. As such, we expect to file for a pass-through C code shortly before launch. Under this regulation, we will be required to price DEXYCU at a minimum of approximately $485 per dose. We have not yet determined final pricing, other than that it will be modestly higher than $485 to ensure we will continue to qualify for pass-through status after including normal industry discounts and rebates given to providers or commercial payors.

After three years, pass through status is eliminated and DEXYCU would be incorporated into the cataract bundled payment system, which will significantly reduce the pricing for DEXYCU. We are working with outside consultants to potentially gain an extension to the transitional payment system, or separate the drug payment from the bundled cataract surgery payment after the three-year transitional payment ends and continue to be reimbursed separately for a longer period of time, potentially through patent life.

Our DEXYCU U.S. patent portfolio consists of two issued patents under an exclusive license from Ramscor, Inc. for all ophthalmic conditions. These two issued patents contain composition claims for delivering biologically active substances using citric acid esters. In addition, we have received Notices of Acceptance for two U.S. patent applications. These patent applications, one with method of use claims and the other with device claims, would provide further protection for DEXYCU through May 2034.

The drug delivery technology used in DEXYCU is called Verisome. The basic technology can be formulated into numerous products, as a biodegradable solid, gel, or liquid substance that provides drug release in a controlled manner over a period of weeks to several months for ocular, systemic, or topical applications. Ophthalmic applications are focused on the ability of this system to create an injectable liquid or slightly viscous gel. Verisome-based products can be injected into the aqueous or vitreous humor as a liquid via a small gauge needle. When the drug is injected into an ocular chamber, it coalesces into a single spherule that settles in the lower portion of the chamber. The system is biodegradable and versatile for administering different drugs; furthermore, duration of use can be tailored. Shrinkage of the Verisome spherule over time reflects simultaneous degradation of the delivery system and release of the active agent. In ophthalmology, this mode of delivery offers advantages because the physician can easily assess the status of therapy by observing the drug-containing system within the eye. When the spherule is no longer visible, the entire drug has been released, and no inactive ingredient remains in the eye.

We believe our Verisome system could be used to release a broad range of pharmaceutical agents, including small molecules, peptides, proteins, and monoclonal antibodies. Potential applications could include intraocular products to treat inflammation, ocular hypertension and glaucoma.

Durasert Technology Platform

Our Durasert technology platform uses proprietary sustained polymer technology to deliver drugs to treat chronic diseases, especially those affecting the hard to access posterior segment of the eye. The Durasert technology platform utilizes a miniaturized, injectable, sustained-release insert for small molecules that can last for up to three years. The Durasert technology insert is only 3.5 mm in length with a diameter of just 0.37 mm. The insert can be administered in an office setting through a needle as small as 25-gauge. To date, three products utilizing successive generations of the Durasert technology have been approved by the FDA. These products include ILUVIEN® (fluocinolone acetonide (“FA”) intravitreal implant) 0.19 mg, licensed to Alimera Sciences, Inc. (“Alimera”) and RETISERT® (FA intravitreal implant) 0.59 mg and VITRASERT® (ganciclovir) 4.5 mg, both licensed to Bausch & Lomb.

Our Durasert technology platform is designed to address the issue of sustained delivery for ophthalmic and other product candidates. Specifically, our Durasert platform features:

- *Extended Delivery*. The delivery of drugs for predetermined periods of time ranging from months to years. We believe that uninterrupted, sustained delivery offers the opportunity to develop products that reduce the need for repeated applications, thereby reducing the risks of patient noncompliance and adverse effects from repeated administrations.
- *Controlled Release Rate*. The release of therapeutics at a controlled rate. We believe that this feature allows us to develop products that deliver optimal concentrations of therapeutics over time and eliminate excessive variability in dosing during treatment.
- *Localized Delivery*. The delivery of therapeutics directly to a target site. We believe this administration can allow the natural barriers of the body to isolate and assist in maintaining appropriate concentrations at the target site in an effort to achieve the maximum therapeutic effect while minimizing unwanted systemic effects.

Three products utilizing our Durasert technology that have been approved by the FDA, and our product candidates in development, including YUTIQ three-year uveitis and other shorter duration product candidates, use our Durasert technology platform to provide sustained, localized delivery of small molecule drugs to the posterior segment of the eye. In these products and product candidates, a drug core is surrounded with one or more polymer layers, and the permeability of those layers and other design aspects of the product or product candidate control the rate and duration of drug release. By changing elements of the design, we can alter both the rate and duration of release to meet different therapeutic needs. Although the earlier ophthalmic products that utilize the Durasert technology, RETISERT and VITRASERT, are surgically implanted, ILUVIEN, YUTIQ three-year uveitis and our other ophthalmic product candidates are designed to be injected at the target site in an office visit.

YUTIQ

YUTIQ, our lead product candidate, is based on our Durasert technology platform and consists of an injectable, sustained-release micro-insert designed to treat chronic, noninfectious posterior uveitis, intermediate uveitis and panuveitis affecting the posterior segment of the eye. YUTIQ is designed to provide sustained daily release of a total of 0.18 mg of the off-patent corticosteroid FA at a controlled rate directly to the back of the eye over approximately three years from a single administration performed in an office visit. It is injected with our proprietary inserter using a 25-gauge needle. We are developing YUTIQ independently and have licensed regulatory, reimbursement and distribution rights to Alimera for Europe, the Middle East and Africa (“EMEA”) under the ILUVIEN tradename. Subject to NDA approval by the FDA, we plan to independently commercialize YUTIQ in the U.S. Further, in conjunction with the commercialization of DEXYCU, we expect to spread our commercial, medical, legal, corporate and regulatory infrastructure over two products.

Posterior segment uveitis is a chronic, non-infectious inflammatory disease affecting the posterior segment of the eye, often involving the retina, and is a leading cause of blindness in developed countries. It afflicts people of all ages, producing swelling and destroying eye tissues, which can lead to severe vision loss and blindness. In the U.S., posterior segment uveitis is estimated to affect approximately 55,000-120,000 people, resulting in approximately 30,000 cases of blindness and making it the third leading cause of blindness in the U.S. Patients with posterior segment uveitis are typically treated with ocular injected steroids and systemic steroids, but frequently develop serious side effects from systemic steroids over time that can limit effective dosing. Patients who do not tolerate systemic steroids then are offered – as the last line of treatment - therapy with systemic immunosuppressants or biologics, which themselves can cause severe side effects including an increased risk of cancer.

On March 19, 2018, the FDA accepted our NDA for YUTIQ and it has set a PDUFA action date of November 5, 2018. If approved, we expect to launch YUTIQ in the U.S. in the first half of 2019.

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YUTIQ Phase 3 Trials

In our two Phase 3 trials to assess the safety and efficacy of YUTIQ, we achieved the primary efficacy endpoint of prevention of recurrence of uveitis through six months with statistical significance (p value of < 0.001 in each study). These studies are randomized, sham injection-controlled, double-masked trials with the primary endpoint of both trials defined as recurrence of disease at six months, with patients followed for three years. Our first Phase 3 trial enrolled 129 patients in 16 centers in the U.S. and 17 centers outside the U.S, with 87 eyes treated with YUTIQ and 42 eyes receiving sham injections. Our second Phase 3 trial enrolled 153 patients in 15 centers in India with 101 eyes treated with YUTIQ and 52 eyes receiving sham injections. The 36-month patient follow-up was recently completed in the first of the two Phase 3 trials.

Our first Phase 3 trial met its primary efficacy endpoint of prevention of recurrence of disease at 6 months with statistical significance ($p < 0.001$, intent to treat analysis; recurrence of 18.4% for YUTIQ versus 78.6% for control). The trial yielded similar efficacy through 12 months of follow up ($p < 0.0001$, intent to treat analysis; recurrence of 27.6% for YUTIQ versus 85.7% for control). YUTIQ was generally well tolerated through 12-months of follow-up. The incremental risk of elevated intraocular pressure ("IOP") for YUTIQ-treated eyes compared to control eyes was lower through 12 months than through six months for elevation over 21 mmHg (6.1% versus 10.9%) as well as for the more serious elevation over 25 mmHg (7.6% versus 11.3%). Elevated IOP was generally well treated with eye drops. Through 12 months, the percentage of eyes requiring filtration surgery was low and similar between YUTIQ-treated and control eyes (3.4% versus 2.4%). Of the 63 study eyes with a natural lens at baseline, 33.3% of YUTIQ-treated eyes compared to 4.8% of control eyes required cataract surgery through 12 months. Cataracts are both a side effect of treatment with steroids and a natural consequence of uveitis.

Our second Phase 3 trial also met its primary efficacy endpoint of prevention of recurrence of disease at 6 months with statistical significance ($p < 0.001$, intent to treat analysis; recurrence of 21.8% for YUTIQ versus 53.8% for control). As in the first Phase 3 trial, YUTIQ was generally well tolerated through 6 months, and twelve-month follow-up efficacy and safety data was consistent with the 12-month data from our first Phase 3 trial. The 36-month patient follow-up is expected to be completed in October 2019.

We also conducted a multi-center, randomized, controlled, single-masked study of the safety and utilization of two different inserters for YUTIQ. We enrolled 26 subjects (38 eyes) in this study in 6 centers in the U.S. The utilization and safety results of this study have been included in our NDA filing for YUTIQ.

YUTIQ Regulatory Strategy

On March 19, 2018, the FDA accepted our NDA for YUTIQ and it has set a PDUFA action date of November 5, 2018.

We have out-licensed YUTIQ rights to Alimera for the EMEA as an extension of our existing license agreement with Alimera pursuant to which we had granted worldwide license rights to ILUVIEN for DME and other potential back-of-the-eye diseases (other than uveitis) utilizing a corticosteroid with our Durasert technology. In the EU, Alimera has filed our three-year uveitis data as a Type II variation in each of the seventeen countries in which it previously obtained regulatory approval for ILUVIEN for DME. Alimera has reported that it expects to receive EU approval for YUTIQ (under its ILUVIEN trademark) during the first half of 2019.

YUTIQ Marketing Strategy

Subject to approval by the FDA, we intend to commercialize YUTIQ ourselves in the U.S. We believe that the uveitis market in the U.S. is relatively modest in size, with an estimated patient prevalence for non-infectious posterior segment uveitis of approximately 55,000 to 120,000 patients. Consequently, the number of retinal physicians who treat the majority of this patient population is estimated to be fewer than 500. As a result, we believe the commercial footprint and cost to market for YUTIQ will be less than a typical pharmaceutical product launch with a larger physician call population. Members of our leadership team have extensive commercialization experience and we believe that commercializing ourselves in the U.S. will maximize the value of YUTIQ to us. Outside of the U.S., we licensed the EMEA rights to YUTIQ to Alimera as part of the July 10, 2017 amended and restated collaboration agreement with Alimera (the "Amended Alimera Agreement"). Alimera has reported that it plans to commercialize the uveitis EMEA indication under the ILUVIEN trademark. We plan to seek out-license partner arrangements in other territories.

Development Product: Shorter Duration YUTIQ

We are developing a next-generation, shorter-duration treatment for posterior segment uveitis, using the same Durasert technology and drug (FA) as in three-year YUTIQ. This program is designed to offer a shorter delivery period, thus providing physicians with flexibility for multiple dosing intervals. Our market research has indicated a strong preference amongst those physicians surveyed for both a six to nine-month drug delivery product and a three-year drug delivery option. Although we believe many patients would likely opt for a longer-acting treatment option, some doctors may prefer to initially treat their uveitis patients over shorter time periods.

Development Product: TKI Insert for Wet AMD

We are investigating the development of an injectable, bioerodible, sustained-release Durasert insert delivering a TKI for treatment of wet AMD. AMD, the leading cause of vision loss in people over 65, is most commonly treated with intravitreal injections of biologics that block vascular endothelial growth factor ("VEGF"). FDA-approved Lucentis® and Eylea® and off-label use of anti-cancer drug Avastin® are the leading treatments for wet AMD. These biologics must be injected into the eye as frequently as monthly and typically can lose efficacy over time, resulting in vision loss and return of the disease.

In cancer therapy, TKIs are taken orally, but their toxicity prevents their systemic use to treat AMD. Using our Durasert technology, we plan to develop an implant to deliver a TKI directly to the back of the eye with a total dose that is significantly lower than what is customarily used in a course of cancer therapy.

Our development goal is to provide sustained treatment of wet AMD for six months with a single injection of a TKI-based product, targeting VEGF while avoiding or reducing the toxic systemic side effects of TKIs and the frequent injections of current wet AMD anti-VEGF biologics. Using a model TKI (that is not patentable), we have generated pre-clinical data that demonstrate that a TKI delivered by a sustained release insert was comparably efficacious to a commercially available biologic indicated for wet AMD delivered by injection, both in preventing choroidal neovascularization and in reducing vascular leakage. On the basis of these data, we are currently evaluating other, potentially patentable TKIs for sustained release over several months and with comparable therapeutic effects.

Approved Durasert Technology Product: ILUVIEN for DME

ILUVIEN is an injectable, sustained-release micro-insert based on our Durasert technology platform and delivers 0.19 mg of FA to the back of the eye for treatment of DME. The ILUVIEN micro-insert is substantially the same micro-insert used in the injection of YUTIQ. ILUVIEN is injected in an office visit using a 25-gauge inserter, and delivers approximately 36 months of continuous, low-dose corticosteroid therapy with a single injection. ILUVIEN is approved in the U.S. for the treatment of DME in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in IOP. In the 17 EU countries where ILUVIEN has been approved, it is indicated for the treatment of vision impairment associated with chronic DME considered insufficiently responsive to available therapies. DME is a disease suffered by diabetics where leaking capillaries cause swelling in the macula, the most sensitive part of the retina. DME is a leading cause of blindness in the working-age population in most developed countries.

We have licensed ILUVIEN to Alimera. Alimera has sold ILUVIEN for DME in the U.K. and Germany since 2013, in Portugal and the U.S. since 2015 and in Austria and Ireland beginning in 2017. ILUVIEN also has marketing approvals in 12 other European countries. Alimera has sublicensed distribution, regulatory and reimbursement matters for ILUVIEN in Australia and New Zealand, Canada, Italy, Spain, France and numerous countries in in the Middle East.

On July 10, 2017, we entered into the Amended Alimera Agreement, pursuant to which we (i) licensed our Durasert three-year uveitis product candidate (called YUTIQ in the U.S. and planned to be called ILUVIEN in the EMEA) to Alimera for the EMEA and (ii) converted the net profit share arrangement for each licensed product

(including ILUVIEN) under the original collaboration agreement with Alimera (the "Prior Alimera Agreement") to a sales-based royalty on a calendar quarter basis commencing July 1, 2017, with payments from Alimera due 60 days following the end of each quarter.

Sales-based royalties start at the rate of 2%. Commencing January 1, 2019 (or earlier under certain circumstances), the sales-based royalty will increase to 6% on aggregate calendar year net sales up to $75 million and 8% in excess of $75 million. Alimera's share of contingently recoverable accumulated ILUVIEN commercialization losses under the Prior Alimera Agreement, capped at $25 million, are to be reduced as follows: (i) $10.0 million was cancelled in lieu of an upfront license fee on the effective date of the Amended Alimera Agreement; (ii) for calendar years 2019 and 2020, 50% of earned sales-based royalties in excess of 2% will be offset against the quarterly royalty payments otherwise due from Alimera; (iii) on January 1, 2020, another $5 million will be cancelled, provided, however, that such date of cancellation may be extended under certain circumstances related to Alimera's regulatory approval process for ILUVIEN for three-year uveitis, with such extension, if any, subject to mutual agreement by the parties; and (iv) commencing in calendar year 2021, 20% of earned sales-based royalties in excess of 2% will be offset against the quarterly royalty payments due from Alimera until such time as the balance of the original $25 million of recoverable commercialization losses has been fully recouped.

Following the completion of the Amended Alimera Agreement, we withdrew our previously filed EU marketing approval application and our EU orphan drug designation for YUTIQ, and Alimera was responsible for filing a Type II variation for ILUVIEN for the treatment of three-year uveitis. In January 2018, Alimera received validation of a Type II variation submitted in December 2017 in all seventeen European countries in which it previously received regulatory approval for ILUVIEN for DME. If the variation is approved, Alimera has reported that it plans to commercialize the three-year uveitis indication under its ILUVIEN trademark.

Approved Durasert Technology Product: RETISERT for Posterior Segment Uveitis

RETISERT is a sustained-release implant based on our Durasert technology platform for the treatment of posterior segment uveitis. Surgically implanted, it delivers 0.59 mg of FA to the back of the eye for approximately 30 months. RETISERT is licensed to Bausch & Lomb, with which we co-developed the product. Approved in the U.S., Bausch & Lomb sells the product and pays sales-based royalties to us.

Approved Durasert Technology Product: VITRASERT for CMV Retinitis

VITRASERT is a sustained-release implant based on our Durasert technology platform for the treatment of cytomegalovirus retinitis, a blinding eye disease that occurs in individuals with advanced acquired immune deficiency syndrome. Surgically implanted, VITRASERT provided sustained delivery of the anti-viral drug ganciclovir for six to eight months. Approved in the U.S. and EU, VITRASERT was licensed to Bausch & Lomb, which discontinued sales in fiscal 2013 following patent expiration.

Development Product: Severe Knee Osteoarthritis Implant

We have developed an implant for the treatment of pain associated with severe knee osteoarthritis ("OA") in collaboration with Hospital for Special Surgery ("HSS") pursuant to an Investigatory-Initiated Research Agreement. This implant was evaluated in an investigator-sponsored pilot study of six patients, which has been completed. The implant is composed of a specially manufactured surgical screw containing a Durasert system that delivers dexamethasone directly to the joint on a sustained basis. Dexamethasone is an off-patent corticosteroid that is frequently used for the treatment of OA. Implanted in the non-articulating area of the knee in an outpatient procedure, the implant is designed to provide long-term pain relief and thereby delay the need for knee replacement surgery. This implant represents the first use of our Durasert technology outside of ophthalmology. We believe this design, if successful, could be adapted for severe OA in other large joints. We plan to outlicense our rights to this product.

Feasibility Study Agreements

From time to time we have entered into feasibility study agreements funded by third parties to evaluate our Durasert technology platform for the treatment of ophthalmic and other diseases. We presently are engaged in one such agreement for a back of the eye disease. We intend to continue to identify other companies with compounds that could be successfully delivered with our Durasert and Verisome technology platforms and, through appropriate agreements, seek to generate non-dilutive operating capital from such agreements.

We have received Notices of Allowance from the U.S. Patent and Trademark Office for trademarks DEXYCU™, YUTIQ™, DELIVERING INNOVATION TO THE EYE™ and Durasert™ in the United States. RETISERT® and VITRASERT® are Bausch & Lomb's trademarks. ILUVIEN® is Alimera's trademark. The reports we file or furnish with the Securities and Exchange Commission also contain trademarks, trade names and service marks of other companies, which are the property of their respective owners.

Information with respect to ILUVIEN, including regulatory and marketing information, and Alimera's plans and intentions, reflects information publicly disclosed by Alimera.

Fiscal 2017, fiscal 2016 and fiscal 2015 mean the twelve months ended June 30, 2017, 2016 and 2015, respectively, and fiscal 2018 means the twelve months ending June 30, 2018.

Strategy

Our strategy is to market multiple drugs for use in diseases of the eye. In addition to DEXYCU and YUTIQ, we plan to i) acquire or in-license ophthalmology approved products or product candidates developed by third parties, ii) independently develop non-proprietary drugs in combination with our Durasert or Verisome technology platforms and iii) continue to leverage our Durasert and Verisome technology platforms through collaborations and license agreements, as appropriate. We plan to execute our strategy as follows:

- **Launch and maximize the commercial potential of DEXYCU for post-operative inflammation.** In February 2018, the FDA approved DEXYCU for the treatment of postoperative inflammation following cataract surgery. DEXYCU is the first long-acting intraocular product approved by the FDA for the treatment of postoperative inflammation. We plan to launch DEXYCU in the U.S. in the first half of 2019 following the successful scale up of commercial infrastructure and supplies.
- **Obtain regulatory approval for, and maximize the commercial potential of, YUTIQ.** On March 19, 2018, the FDA accepted our NDA for YUTIQ and set a PDUFA action date of November 5, 2018. Posterior segment uveitis is a high unmet need area with limited treatment options and the third leading cause of blindness in the U.S. If approved, we expect to launch YUTIQ in the U.S. in the first half of 2019.
- **Acquire or in-license ophthalmology products or product candidates developed by third parties.** We plan to potentially expand our portfolio of treatments for eye disease by evaluating for acquisition and/or in-licensing approved products or product candidates in late stage clinical development.
- **Leverage our Durasert and Verisome technologies.** We plan to use our proprietary Durasert and Verisome drug delivery technology platforms to independently develop new drug delivery products that use already-approved drugs to treat ophthalmic and other diseases, while continuing to leverage our technology platforms through collaborations and licenses with other pharmaceutical and biopharmaceutical companies, institutions and other organizations. We believe our technologies can provide sustained, targeted delivery of therapeutic agents, resulting in improved therapeutic effectiveness, safer administration and better patient compliance and convenience, with reduced product development risk and cost. We believe that our proven track record of four approved products, all providing sustained release of previously approved drugs, reflects the benefits of this strategy.
- **Develop Sustained Delivery of Off-Patent Drugs.** Many drugs are now, or will soon be, off-patent. It is estimated that over the next several years, patent coverage will end on products with world-wide sales aggregating billions of dollars annually. We are using our technology platforms to evaluate potential product candidates that deliver off-patent and generic drugs, primarily focused on ocular diseases with significant market opportunities, where less frequent dosing through sustained delivery and/or targeted delivery at the treatment site would materially improve the effectiveness, safety or convenience of the original drug. By focusing on delivery of already-approved drugs, particularly those requiring potentially shorter clinical development programs, we believe we may be able to reduce the substantial risks and financial investment required for product approval.

- **Continue Partnering with Leading Biopharmaceutical and Pharmaceutical Companies.** We intend to continue to partner with leading biopharmaceutical and pharmaceutical companies, institutions and others, where patent protection, development and regulatory costs, expertise and/or other factors make it desirable for us to have a partner. For example, drugs that might be more effectively delivered by our technology platforms or may have extended patent protection could make collaborations with the patent holders attractive. We may also seek to partner the development of product candidates that could materially benefit from sustained delivery, but would require expensive clinical trials or are in treatment areas outside of our technical expertise. We may also seek to partner with companies with drugs coming off patent where our drug delivery technologies could offer an improved product and effectively extend patent protection.

Strategic Collaborations

We have entered into a number of collaboration/license agreements to develop and commercialize our product candidates and technologies. In all of these collaboration agreements, we have retained the right to use and develop the underlying technologies outside of the scope of the exclusive licenses granted.

Alimera

In February 2005, as amended and restated in March 2008, we granted Alimera an exclusive worldwide license to manufacture, develop, market and sell ILUVIEN for the treatment and prevention of human eye diseases other than uveitis pursuant to the Prior Alimera Agreement. We also granted Alimera a worldwide non-exclusive license to manufacture, develop, market and sell certain additional Durasert-based products (1) to deliver a corticosteroid and no other active ingredient by a direct delivery method to the back of the eye solely for the treatment and prevention of eye diseases in humans other than uveitis and (2) to treat DME in humans by delivering a compound by a direct delivery method through an incision no smaller than that required for a 25-gauge or larger needle. The non-exclusive license is limited to those products that, among other things, (i) have a drug core within a polymer layer (with certain limitations regarding chemically bonded combinations of active agents) and (ii) are approved, or designed to be approved, to deliver a corticosteroid and no other active ingredient by a direct delivery to the posterior portion of the eye, or to treat DME by delivering a compound by a direct delivery through an incision required for a 25-gauge or larger needle. We are not permitted to use, or grant a license to any third party to use, the licensed technologies to make or sell any products that are or would be subject to the non-exclusive license granted to Alimera.

In October 2014, Alimera paid us a $25.0 million milestone upon FDA approval of ILUVIEN as provided in in the Prior Alimera Agreement.

In July 2017, we entered into the Amended Alimera Agreement to (i) license our Durasert three-year uveitis product candidate to Alimera for the EMEA under the ILUVIEN tradename and (ii) convert the previous net profit share arrangement on a country-by-country basis to sales-based royalties for DME, uveitis and any other ILUVIEN indications that obtain regulatory approval in various jurisdictions in the future, provided that certain amounts of Alimera's previous ILUVIEN net commercialization losses can be offset against earned sales-based royalties (as described below). We are entitled to receive a 2% sales-based royalty within 60 days following the end of each quarterly period from September 30, 2017 through calendar year 2018. Commencing January 1, 2019 (or earlier under certain circumstances) the sales-based royalty will increase to 6% on aggregate calendar year net sales up to $75 million and 8% on any calendar year sales in excess of $75 million. Alimera's share of accumulated ILUVIEN commercialization losses under the original net profit share arrangement (as set forth in the Prior Alimera Agreement), is capped at $25 million. Under the Amended Alimera Agreement, these recoverable losses will be reduced as follows: (i) $10 million was cancelled in lieu of any upfront license fee on the effective date of the Amended Alimera Agreement; (ii) for calendar years 2019 and 2020, 50% of earned sales-based royalties in excess of 2% of net sales will be offset against the quarterly royalty payments due from Alimera; (iii) on January 1, 2020 (or earlier under certain circumstances), another $5 million of the accumulated commercialization losses will be cancelled, provided, however, that such date of cancellation may be extended further under certain circumstances

related to Alimera's regulatory approval process for ILUVIEN for posterior uveitis, with such extension, if any, subject to mutual agreement by the parties; and (iv) commencing in calendar year 2021, 20% of earned sales-based royalties in excess of 2% of net sales will be offset against the quarterly royalty payments due from Alimera until such time as the remaining balance of the original $25 million of commercialization losses has been recouped by Alimera.

Bausch & Lomb

Under a 2003 amended license agreement, Bausch & Lomb has a worldwide exclusive license to make and sell RETISERT and other first-generation products defined in the agreement in return for royalties based on sales. This agreement also covered VITRASERT prior to patent expiration. Bausch & Lomb can terminate its agreement with us without penalty at any time upon 90 days' written notice.

Pfizer

In June 2011, we entered into an Amended and Restated Collaborative Research and License Agreement with Pfizer, Inc. ("Pfizer") (the "Restated Pfizer Agreement") to focus solely on the development of a sustained-release bioerodible micro-insert injected into the subconjunctiva designed to deliver latanoprost for human ophthalmic disease or conditions other than uveitis (the "Latanoprost Product"). Pfizer made an upfront payment of $2.3 million and we agreed to provide Pfizer options under various circumstances for an exclusive, worldwide license to develop and commercialize the Latanoprost Product. On October 25, 2016, we notified Pfizer that we had discontinued development of the Latanoprost Product, which provided Pfizer a 60-day option to acquire a worldwide license in return for a $10.0 million payment and potential sales-based royalties and development, regulatory and sales performance milestone payments. Pfizer did not exercise its option and the Restated Pfizer Agreement automatically terminated on December 26, 2016. Provided that we did not conduct any research and development of the Latanoprost Product through calendar 2017, we retained the right thereafter to develop and commercialize the Latanoprost Product on our own or with a partner. By letter agreement effective as of April 11, 2017, Pfizer officially waived that restriction.

Enigma Therapeutics

Our December 2012 license agreement, amended and restated in March 2013, with Enigma Therapeutics Limited (Enigma) provides Enigma with an exclusive, worldwide, royalty-bearing license for the development of BrachySil (now named OncoSil™), a product candidate for the treatment of pancreatic and other cancers. We received an upfront fee of $100,000 and are entitled to an 8% sales-based royalty, 20% of sublicense consideration and milestones based on aggregate product sales. To date, Enigma has not received regulatory approval for OncoSil in any jurisdiction. Enigma is obligated to pay an annual license maintenance fee of $100,000, creditable during each ensuing twelve-month period against reimbursable patent maintenance costs and sales-based royalties. Annual license maintenance fees of $100,000 were paid in respect of each calendar year from 2013 through 2017. Enigma has the right to terminate this license upon 60 days' prior written notice.

Research and Development

Our clinical and pre-clinical research programs primarily focus on ophthalmic applications of our technology platforms. Our research and development expenses totaled $14.9 million in fiscal 2017, $14.4 million in fiscal 2016 and $12.1 million in fiscal 2015. Of these amounts, $13.0 million in fiscal 2017, $12.8 million in fiscal 2016 and $10.6 million in fiscal 2015 were incurred for costs of research and development personnel, clinical and pre-clinical studies, contract services, testing and laboratory facilities. The remaining expense of $1.9 million in fiscal 2017, $1.6 million in fiscal 2016 and $1.5 million in fiscal 2015 consisted of non-cash charges for amortization of intangible assets, depreciation of property, plant and equipment and stock-based compensation expense specifically allocated to research and development personnel.

For the nine months ended March 31, 2018 and 2017, our research and development expenses totaled $11.4 million and $10.7 million, respectively. Of these amounts, $10.1 million and $9.3 million for the nine months ended March 31, 2018 and 2017, respectively, were incurred for costs of research and development personnel, clinical and pre-clinical studies, contract services, testing and laboratory facilities. The remaining expense of $1.3 million and

$1.4 million for the nine months ended March 31, 2018 and 2017, respectively, consisted of non-cash charges for amortization of intangible assets, depreciation of property, plant and equipment and stock-based compensation expense specifically allocated to research and development personnel.

During the first quarter of fiscal 2017, we consolidated all of our research and development operations in our facility in Watertown, Massachusetts. We closed our research facility in Malvern, U.K. and terminated the employment of all our employees in that location.

Intellectual Property

We own or license patents in the U.S. and other countries. Our patents generally cover the design, formulation, manufacturing methods and use of our sustained release therapeutics, devices and technologies. Patents for individual products extend for varying periods according to the date of patent filing or grant and legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country. Patent term extension may be available in various countries to compensate for a patent office delay or a regulatory delay in approval of the product.

The U.S. patent with which RETISERT is marked expires in March 2019. The last expiring patent covering RETISERT expires in April 2020. The latest expiring patent covering ILUVIEN and YUTIQ expires in August 2027 in the U.S. and in October 2024 in the EU, although extensions have been obtained or applied for through May 2027 in various EU countries. The last of the issued patents covering DEXYCU expires in July 2023, but we have received notices of allowance for two patent applications in the U.S. that, if issued, would cover DEXYCU until 2034 or later.

The following table provides general details relating to our owned and licensed patents (including both patents that have been issued and applications that have been accepted for issuance) and patent applications as of May 31, 2018:

Technology	United States Patents	United States Applications	Foreign Patents	Foreign Applications	Patent Families
Durasert	11	6	72	11	11
Verisome	7	3	27	34	9
Other	15	11	39	47	15
Total	33	20	138	92	35

Employees

We had 30 employees as of May 31, 2018. None of our employees is covered by a collective bargaining agreement.

Manufacturing

We currently plan to use a contract manufacturer for commercial supplies of our DEXYCU approved product. Subject to FDA approval, we plan to source raw materials and components necessary to manufacture YUTIQ through third-party vendors and assemble commercial supplies of finished product ourselves in our Watertown, MA facility. All of our other pre-clinical study and clinical trial supplies for product candidates that utilize our Durasert technology platform have been, and will continue to be, manufactured ourselves. Raw materials and components are available from multiple sources. The manufacture of each of RETISERT and ILUVIEN is the responsibility of our licensees.

Sales and Marketing

We currently are building out our U.S. marketing and sales staff. Members of our leadership team have extensive commercialization experience at previous companies. We plan to launch DEXYCU in the U.S. in the first half of 2019 following the successful scale up of commercial infrastructure and supplies and, if approved by FDA, we expect to also launch YUTIQ in the U.S. in the first half of 2019. We expect to invest in our sales and marketing infrastructure during calendar year 2018 in preparation for the aforementioned product launches. We intend to use an outsourced contract sales organization for the field-based sales representatives and key account managers to promote DEXYCU and YUTIQ to our defined audiences in the U.S., although to date we have not entered into any such agreements. We plan to out-license DEXYCU and YUTIQ for any territories outside the U.S.

Competition

The market for products treating eye diseases is highly competitive and is characterized by extensive research efforts and rapid technological progress. We face substantial competition for our FDA-approved product and our product candidates. Pharmaceutical, drug delivery and biotechnology companies, as well as research organizations, governmental entities, universities, hospitals, other nonprofit organizations and individual scientists, have developed and are seeking to develop drugs, therapies and novel delivery methods to treat diseases targeted by our products and product candidates. Most of our competitors and potential competitors are larger, better established, more experienced and have substantially more resources than we or our partners have. Competitors may reach the market earlier, may have obtained or could obtain patent protection that dominates or adversely affects our products and potential products, and may offer products with greater efficacy, lesser or fewer side effects and/or other competitive advantages. We believe that competition for treatments of back-of-the-eye diseases is based upon the effectiveness of the treatment, side effects, time to market, reimbursement and price, reliability, ease of administration, dosing or injection frequency, patent position and other factors.

Many companies have or are pursuing products to treat eye diseases that are or would be competitive with DEXYCU, ILUVIEN for DME, if approved, YUTIQ or our TKI insert under development for wet AMD. Some of these products and potential products include the following:

- *Inflammation following cataract surgery.* There is a high unmet medical need among patients who undergo cataract surgery as the current standard of care to treat the inflammation post-surgery includes a schedule of up to 70 eye drops over a period of 3 - 4 weeks. Ocular Therapeutix Inc. is developing DEXTENZA™, which is a corticosteroid intracanalicular insert placed through the punctum, a natural opening in the eye lid, into the canaliculus, and is designed to deliver dexamethasone to the ocular surface for up to 30 days. Following treatment, DEXTENZA is intended to resorb and exit the nasolacrimal system without the need for removal. DEXTENZA has completed a Phase 3 clinical trial in the U.S. and is currently limited by U.S. law to investigational use only because the product has not been approved by the FDA.
- *DME.* Genentech USA Inc.'s LUCENTIS® (ranibizumab) and Regeneron Pharmaceutical's EYLEA® (aflibercept) are approved in the U.S. and the EU for the treatment of DME. Roche's lower-cost AVASTIN® is approved to treat various cancers, but is used off-label for treatment of diabetic retinopathy. These products are VEGF inhibitors which are considered first line therapy for DME due to their ability to block the VEGF protein, which at high levels can cause abnormal blood vessels to grow in the eye and leak fluid. Genentech is a wholly-owned member of the Roche Group. Novartis AG has the

right to market and sell LUCENTIS outside of the U.S. Regeneron maintains exclusive rights to EYLEA in the U.S., and Bayer HealthCare owns the exclusive marketing rights outside the U.S. LUCENTIS, EYLEA and AVASTIN are all injected into the back of the eye on a monthly or bi-monthly basis. Allergan, Inc.'s OZURDEX® (dexamethasone intravitreal implant), a bioerodible intravitreal implant, has been approved for the treatment of DME, retinal vein occlusion ("RVO") and posterior segment uveitis, and has a therapeutic duration of several months. As with ILUVIEN, OZURDEX delivers a corticosteroid (dexamethasone) to the back of the eye through an intravitreal injection. However, it only lasts for up to several months, resulting in frequent injections compared to ILUVIEN lasting for up to three years. Other companies, including Genentech, are working on the development of product candidates and extended delivery systems for the potential treatment of DME, including those that act by blocking VEGF and VEGF receptors.

- *Posterior Segment Uveitis.* Periocular steroid injections and systemic delivery of corticosteroids are routinely used to treat posterior segment uveitis, which is a chronic, inflammatory condition of the eye. It is treated both aggressively and frequently by physicians in order to minimize the disease "flares", which are the main cause of vision deterioration and potential blindness. OZURDEX is approved in the U.S. and EU for posterior segment uveitis through an intravitreal bioerodible implant that provides treatment which lasts for several months. As with DME, the several-month effectiveness of OZURDEX can result in frequent intravitreal injections of the implant. AbbVie recently obtained FDA approval for HUMIRA® (adalimumab) for the treatment of all types of non-infectious uveitis (intermediate, posterior and panuveitis) and it is administered subcutaneously every other week for systemic delivery. HUMIRA is a biologic that blocks tumor necrosis factor (TNF) alpha, a naturally occurring cytokine that is involved in normal inflammatory and immune responses. Humira's retail price in the U.S. is approximately $50,000 per year. Other companies have ongoing trials of posterior segment uveitis treatments, including Santen Pharmaceutical Co. Ltd., which recently received a Complete Response Letter ("CRL") from the FDA for their filed NDA for sirolimus, which is administered through intravitreal injection every two months. Sirolimus is a mammalian target of rapamycin (mTOR) inhibitor and modulator of the immune system, and is being developed for non-infectious uveitis of the posterior segment. Clearside's CLS-TA (triamcinolone acetonide, a steroid) for macular edema associated with non-infectious uveitis is in Phase 3 trials and it is administered through a suprachoroidal injection administered every two months. Preliminary clinical data indicate that the suprachoroidal route may reduce the risk of increased intraocular pressure that is typically associated with intraocular injection of steroids.
- *Wet Age-Related Macular Degeneration*. Wet AMD, the leading cause of vision loss in people over 65, is most commonly treated with intravitreal injections of biologics that block VEGF. FDA-approved Lucentis and Eylea and off-label use of the anti-cancer Avastin are the leading treatments for wet AMD. These biologics must be injected into the eye as frequently as monthly and typically can lose efficacy over time, resulting in vision loss and return of the disease. Novartis is currently developing an antibody fragment, brolucizumab, with high affinity to all VEGF-A isoforms. The ranibizumab port delivery system (RPDS) is a refillable reservoir system being developed by Genentech and it is designed to gradually release Lucentis (ranibizumab). The drug is released using a diffusion-control mechanism and the port is placed under the conjunctiva, fixed to the pars plana, and no sutures are needed. The port is then refilled as an in-office procedure with the help of a refill needle system that simultaneously introduces the drug into the reservoir and removes any remaining contents. Currently the drug is being investigated in a Phase 2 trial. In cancer therapy, TKIs are taken orally, but their toxicity prevents their systemic use to treat AMD. Graybug Vision's lead product, GB-102, is an intravitreal injectable depot formulation of a tyrosine kinase inhibitor, sunitinib malate, that blocks multiple angiogenesis pathways. In 2017, Graybug Vision launched the first clinical trial of GB-102 in patients with wet AMD. This Phase 1/2 study is designed to evaluate patients being treated with available intravitreal anti-VEGF agents who are later switched over to just GB-102.

Revenues

We operate in one business segment. The following table summarizes our revenues by type and by geographical location. Revenue is allocated geographically by the location of the subsidiary that earns the revenue.

	Year Ended June 30,								
	2017			2016			2015		
	U.S.	U. K.	Total	U.S.	U. K.	Total	U.S.	U. K.	Total
	(In thousands)								
Revenues:									
Collaborative research and development	$6,469	$100	$6,569	$ 298	$100	$ 398	$25,311	$100	$25,411
Royalty income	970	—	970	1,222	—	1,222	1,154	—	1,154
	$7,439	$100	$7,539	$1,520	$100	$1,620	$26,465	$100	$26,565

	Nine Months Ended March 31,					
	2018			2017		
	U.S.	U. K.	Total	U.S.	U. K.	Total
	(In thousands)					
Revenues:						
Collaborative research and development	$1,025	$100	$1,125	$6,008	$100	$6,108
Royalty income	1,121	—	1,121	730	—	730
	$2,146	$100	$2,246	$6,738	$100	$6,838

Exhibit 99.3

Icon Bioscience, Inc.

Financial Statements

December 31, 2017 and 2016

Exhibit 99.3

Board of Directors
Icon Bioscience, Inc.
Newark, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Icon Bioscience, Inc. (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Icon Bioscience, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses and negative cash flows from operations since inception and, as of December 31, 2017, has an accumulated deficit of $59,522,633. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Company entered into a letter of intent in December 2017 for the planned sale of all of its outstanding shares of capital stock, which is expected to close in March 2018.

/s/ Frank, Rimerman + Co. LLP

Palo Alto, California
March 27, 2018

Icon Bioscience, Inc.
Balance Sheets

	December 31, 2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 400,685	$ 2,337,245
Prepaid expenses and other current assets	70,049	218,937
Total current assets	470,734	2,556,182
Property and Equipment, net	2,178	108,025
Total assets	$ 472,912	$ 2,664,207
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 634,876	$ 684,391
Accrued expenses and other current liabilities	1,373,201	611,735
Convertible notes payable, net of discounts	9,194,116	4,750,625
Total current liabilities	11,202,193	6,046,751
Convertible Notes Payable, net of current portion and discounts	—	89,472
Commitments and Contingencies (Notes 1, 4, 5, 7 and 10)		
Stockholders' Deficit		
Series B redeemable convertible preferred stock, $0.00001 par value; 393,734 shares authorized; 337,779 shares issued and outstanding (aggregate liquidation preference of $22,852,960)	22,766,640	21,592,084
Series A redeemable convertible preferred stock, $0.00001 par value; 403,301 shares authorized; 401,401 shares issued and outstanding (aggregate liquidation preference of $16,043,195)	16,043,195	16,043,195
Common stock, $0.00001 par value; 2,096,699 shares authorized; 500,848 shares issued and outstanding	5	5
Additional paid-in capital	9,983,512	8,403,851
Accumulated deficit	(59,522,633)	(49,511,151)
Total stockholders' deficit	(10,729,281)	(3,472,016)
Total liabilities and stockholders' deficit	$ 472,912	$ 2,664,207

See Independent Auditors' Report and Notes to Financial Statements

Icon Bioscience, Inc.
Statements of Operations

	Years Ended December 31, 2017	2016
Operating Expenses		
General and administration	$ 1,294,931	$ 1,510,908
Research and development	2,367,556	4,720,341
Total operating expenses	3,662,487	6,231,249
Other Income (Expense), net	(34,843)	44,780
Interest Expense	(5,139,596)	(1,706,089)
Net Loss	$ 8,836,926	$ 7,892,558

See Independent Auditors' Report and Notes to Financial Statements

Icon Bioscience, Inc.
Statement of Stockholders' Equity (Deficit)
Years Ended December 31, 2017 and 2016

	Redeemable Convertible Preferred Stock Series B		Redeemable Convertible Preferred Stock Series A		Common Stock		Additional Paid-In	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	(Deficit)
Balances, December 31, 2015	337,779	$ 20,469,348	400,300	$ 15,999,190	500,848	$ 5	$ 4,959,534	$ (40,495,857)	$ 932,220
Exercise of preferred stock warrants	—	—	1,101	44,005	—	—	—	—	44,005
Accretion of Series B redeemable convertible preferred stock issuance costs	—	86,320	—	—	—	—	—	(86,320)	—
Accretion of Series B redeemable convertible preferred stock dividends	—	1,036,416	—	—	—	—	—	(1,036,416)	—
Issuance of common stock warrants in connection with convertible notes payable, including beneficial conversion feature	—	—	—	—	—	—	3,059,657	—	3,059,657
Stock-based compensation	—	—	—	—	—	—	384,660	—	384,660
Net loss	—	—	—	—	—	—	—	(7,892,558)	(7,892,558)
Balances, December 31, 2016	337,779	21,592,084	401,401	16,043,195	500,848	5	8,403,851	(49,511,151)	(3,472,016)
Accretion of Series B redeemable convertible preferred stock issuance costs	—	86,320	—	—	—	—	—	(86,320)	—
Accretion of Series B redeemable convertible preferred stock dividends	—	1,088,236	—	—	—	—	—	(1,088,236)	—
Issuance of common stock warrants in connection with convertible notes payable, including beneficial conversion feature	—	—	—	—	—	—	1,276,054	—	1,276,054
Stock-based compensation	—	—	—	—	—	—	303,607	—	303,607
Net loss	—	—	—	—	—	—	—	(8,836,926)	(8,836,926)
Balances, December 31, 2017	337,779	$ 22,766,640	401,401	$ 16,043,195	500,848	$ 5	$ 9,983,512	$ (59,522,633)	$ (10,729,281)

See Independent Auditors' Report and Notes to Financial Statements

Icon Bioscience, Inc.
Statements of Cash Flows

	Years Ended December 31, 2017	2016
Cash Flows from Operating Activities		
Net loss	$ (8,836,926)	$ (7,892,558)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,579	79,713
Stock-based compensation	303,607	384,660
Amortization of debt discounts	4,363,695	1,253,586
(Gain) loss on disposal of property and equipment	34,588	(13,324)
Change in fair value of preferred stock warrant liability	—	(32,874)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	148,888	(59,400)
Accounts payable	(49,515)	59,980
Accrued expenses and other current liabilities	761,466	444,606
Net cash used in operating activities	(3,271,618)	(5,775,611)
Cash Flows from Investing Activities		
Cash received from disposal of property and equipment	68,680	64,601
Net cash provided by investing activities	68,680	64,601
Cash Flows from Financing Activities		
Proceeds from issuance of convertible notes payable	1,276,337	3,381,978
Borrowing costs paid	(9,959)	(12,705)
Proceeds from the exercise of preferred stock warrants	—	44,005
Net cash provided by financing activities	1,266,378	3,413,278
Net Decrease in Cash and Cash Equivalents	(1,936,560)	(2,297,732)
Cash and Cash Equivalents, beginning of year	2,337,245	4,634,977
Cash and Cash Equivalents, end of year	$ 400,685	$ 2,337,245

See Independent Auditors' Report and Notes to Financial Statements

Icon Bioscience, Inc.
Statements of Cash Flows (continued)

	Years Ended December 31, 2017	2016
Supplemental Schedule of Non-Cash Financing Activities		
Accretion of Series B redeemable convertible preferred stock dividends	$ 1,088,236	$ 1,036,416
Accretion of Series B redeemable convertible preferred stock issuance costs	$ 86,320	$ 86,320
Issuance of common stock warrants in connection with convertible notes payable, including beneficial conversion feature	$ 1,276,054	$ 3,059,657

See Independent Auditors' Report and Notes to Financial Statements

1. Nature of Business and Management's Plans Regarding Financing of Future Operations

Nature of Business

Icon Bioscience, Inc. (the Company) was incorporated in the state of Delaware as a Subchapter C corporation on December 30, 2004.

Headquartered in Newark, California, the Company is a specialty biopharmaceutical company focused on the development and commercialization of unique ophthalmic pharmaceuticals based on its patented and proprietary Verisome® drug delivery technology. The technology encompasses a broad number of related, but distinct, drug delivery systems capable of incorporating an extensive range of active agents, including small molecules, proteins and monoclonal antibodies. Moreover, this drug delivery platform is a highly advanced, yet elegantly formulated system for controlling the release of medication within the eye for up to a year through the administration of a single injection. The technology's versatility can support products individually formulated to meet the particular clinical requirements of a given active agent targeting a specific ophthalmic disease. The Company is actively developing a broad portfolio of specialty pharmaceuticals targeting several ophthalmic indications, including macular edema, glaucoma, age-related macular degeneration and cataract surgery.

On June 26, 2017, the Company announced that it has received notification from the Food and Drug Administration (FDA) of the acceptance of the Company's New Drug Application (NDA) filing for DEXYCU® (IBI-10090) (Dexamethasone Intraocular Suspension), a dropless, long-acting therapeutic for treating inflammation associated with cataract surgery. On February 12, 2018, the Company announced that the FDA has approved the Company's NDA for DEXYCU®.

In December 2017, the Company entered into a letter of intent for the planned sale of all of its outstanding shares of capital stock to pSivida Corp., a publicly traded company (Note 10).

1. Nature of Business and Management's Plans Regarding Financing of Future Operations (continued)

Management's Plans Regarding the Financing of Future Operations

Since inception, the Company has relied on debt and equity financing to fund its operating activities. The Company has experienced losses since its inception and has an accumulated deficit of $59,522,633 as of December 31, 2017. The Company has not commenced planned operations and will continue to devote substantially all of its efforts to developing its technology, products and markets, and recruiting personnel. These uncertainties raise substantial doubt as to the Company's ability to continue as a going concern. During January, February and March 2018, the Company issued additional convertible notes payable for an aggregate amount of $910,911 (Note 10). The Company intends to raise additional financing to sustain its operations until it generates adequate operative cash flows, should the planned sale of its capital stock not be completed. However, there can be no assurance the Company will be successful securing additional financing or generating sufficient revenues. The financial statements do not include any adjustments that might be necessary if the Company was unable to continue as a going concern.

2. Significant Accounting Policies

Cash and Cash Equivalents:

The Company considers all highly-liquid investments purchased with maturities of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Property and Equipment:

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, generally three to five years. Repairs and maintenance are charged to operations as incurred.

Accounting for Impairment of Long-Lived Assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying cost amount or fair value less cost to sell. The Company did not record any impairment of long-lived assets through December 31, 2017.

2. Significant Accounting Policies (continued)

Research and Development Costs:

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries and benefits, consultant fees, and other direct costs associated with product development.

Concentration of Credit Risk:

Financial instruments that may subject the Company to concentration of credit risk consist of cash and cash equivalents. The Company maintains its cash and cash equivalents at one financial institution. The Company is exposed to credit risk in the event of default by a financial institution to the extent that cash deposits are in excess of the amount that is insured by the Federal Deposit Insurance Corporation (FDIC). The Company's deposits exceeded the amount insured by the FDIC. The Company has not experienced any losses on its deposits through December 31, 2017.

Stock-Based Compensation:

The Company generally grants stock options to its employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for all stock option grants using the fair value method and stock-based compensation is recognized as the underlying options vest.

Stock-based compensation for options or warrants granted to non-employees is measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Stock-based compensation for options granted to non-employees is periodically remeasured as the underlying options vest.

Convertible Preferred Stock Warrants:

The Company accounted for outstanding warrants exercisable into shares of the Company's redeemable convertible preferred stock in accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 480, *Distinguishing Liabilities from Equity*. Under ASC 480, the Company is required to classify certain warrants to purchase shares of stock as liabilities and adjust the warrant instruments to fair value at each reporting period. At the end of each reporting period, changes in fair value during the period were recognized as a component of other income (expense).

2. Significant Accounting Policies (continued)

Fair Value Measurements:

The Company uses a three-level hierarchy, which prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company's preferred stock warrant liability had been valued using externally developed models and was classified within Level 3 of the fair value hierarchy. The changes in fair value of the liability are summarized below:

Fair value, December 31, 2015	$ 32,874
Change in fair value recorded as other income	(32,874)
Fair value, December 31, 2016 and 2017	$ —

2. Significant Accounting Policies (continued)

Income Taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recorded based on the estimated future tax effects of differences between the financial statement and income tax basis of existing assets and liabilities. A valuation allowance is provided against the Company's deferred income tax assets when realization is not reasonably assured.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amount of expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Risks and Uncertainties:

The Company is subject to a number of risks associated with companies at a development stage, including dependence on key individuals, competition from similar products and larger companies, volatility of the industry, ability to obtain adequate financing to support growth, the ability to attract and retain additional qualified personnel to manage the anticipated growth of the Company and general economic conditions.

All of the products being developed by the Company require approval from the U.S. Food and Drug Administration, or other regulatory agencies prior to commercial sales. There can be no assurance the Company's future products will receive the necessary approvals. Should these required approvals be delayed or denied for any of the Company's products, it may have a materially adverse effect on the Company's intended operations.

Recent Accounting Pronouncements Not Yet Effective:

Revenue:

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services.

2. Significant Accounting Policies (continued)

The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. Topic 606 is effective for the Company as of January 1, 2019, and permits the use of either a retrospective or cumulative effect transition method. The Company will consider a transition method evaluate the effect Topic 606 will have on its financial statements and related disclosures upon commencement of planned operations.

Leases:

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. This standard requires all entities that lease assets with terms of more than 12 months to capitalize the assets and related liabilities on the balance sheet.

The standard is effective for the Company as of January 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. The Company is currently evaluating the effect ASU 2016-02 will have on its financial statements and related disclosures. Management expects the assets leased under operating leases with terms of more than 12 months will be capitalized together with the related lease obligations on the balance sheet upon the adoption of ASU 2016-02.

Stock-Based Compensation:

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 requires recognition of the income tax effects of vested or settled awards in operations and involves several other aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard is effective for the Company as of January 1, 2018. The Company is currently evaluating the effect ASU 2016-09 will have on its financial statements and related disclosures.

Reclassifications:

Certain prior period amounts within the financial statements have been reclassified to conform to the current year presentation.

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Machinery and lab equipment	$79,386	$643,280
Computer equipment	7,689	7,689
Leasehold improvements	—	23,350
	87,075	674,319
Less accumulated depreciation and amortization	84,897	566,294
	$ 2,178	$108,025

4. Convertible Notes Payable

In November and December 2015, the Company issued convertible notes payable for an aggregate amount of $4,833,880 (2015 Notes). In January, April, November and December 2016, the Company issued convertible notes payable for an aggregate amount of $3,381,978 (2016 Notes). In January, April, May, July and December 2017, the Company issued convertible notes payable for an aggregate amount of $1,276,337 (2017 Notes). The notes bear interest at the rate of 8% per annum, compounded monthly, and are due on March 31, 2018, or upon the consummation of an acquisition or the occurrence of default, as defined in the most recent amended agreements. The notes include a contingent beneficial conversion feature allowing the note holders to convert the notes into shares of redeemable convertible preferred stock at a discount of 20% from the issuance price in the Company's next round of qualified equity financing, as defined in the agreements. The performance contingency will be triggered by future events not controlled by the Company and will be measured when the triggering event occurs. Under the terms of the 2015 Notes, if the notes are not converted prior to the closing date of an acquisition, 200% of the principal balance, plus all accrued but unpaid interest, is payable upon the closing of the acquisition. Under the terms of the 2016 and 2017 Notes, if the notes are not converted prior to the closing date of an acquisition, 300% of the principal balance, plus all accrued but unpaid interest, is payable upon the closing of the acquisition.

4. Convertible Notes Payable (continued)

In December 2015, the Company issued warrants to purchase 57,512 shares of common stock in connection with the 2015 Notes. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire in January 2021. The relative fair value of the warrants on the date of issuance was determined to be $805,276 using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.46%, an expected life of five years, expected volatility of 99% and no dividends. The warrants were recorded as a debt discount and within additional paid-in capital on the accompanying balance sheets, which is being amortized to interest expense using the effective interest method over the term of the notes. The warrants remain outstanding as of December 31, 2017.

After allocating $805,276 to the warrants, the conversion feature under the notes was considered a beneficial conversion feature. As a result, the Company recorded an additional $805,275 discount to the notes and within additional paid-in capital. The additional discount to the debt is being amortized to interest expense over the repayment term of the notes using the effective interest method.

In January and December 2016, the Company issued warrants to purchase 156,212 shares of common stock in connection with the 2016 Notes. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire five years from issuance. The relative fair value of the warrants on the date of issuance was determined to be $1,529,829 using the Black-Scholes option pricing model, assuming a risk-free interest rate of between 1.57%—1.73%, an expected life of 5 years, an expected volatility between 99%—118% and no dividends. The warrants were recorded as a debt discount and within additional paid-in capital on the accompanying balance sheets, which is being amortized to interest expense using the effective interest method over the term of the notes. The warrants remain outstanding as of December 31, 2017.

After allocating $1,529,829 to the warrants, the conversion feature under the notes was considered a beneficial conversion feature. As a result, the Company recorded an additional $1,529,828 discount to the notes and within additional paid-in capital. The additional discount to the debt is being amortized to interest expense over the repayment term of the notes using the effective interest method.

4. Convertible Notes Payable (continued)

In January, May, and July 2017 and March 2018, the Company issued warrants to purchase 72,644 shares of common stock in connection with the 2017 Notes. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire five years from issuance. The relative fair value of the warrants on the date of issuance was determined to be $638,027 using the Black-Scholes option pricing model, assuming a risk-free interest rate of between 1.76%—2.22%, an expected life of 5 years, expected volatility of 118% and no dividends. The warrants were recorded as a debt discount and within additional paid-in capital on the accompanying balance sheets, which is being amortized to interest expense using the effective interest method over the term of the notes. The warrants remain outstanding as of December 31, 2017.

After allocating $638,027 to the warrants, the conversion feature under the notes was considered a beneficial conversion feature. As a result, the Company recorded an additional $638,027 discount to the notes and within additional paid-in capital. The additional discount to the debt is being amortized to interest expense over the repayment term of the notes using the effective interest method.

In 2017, the Company amortized $4,338,822 of interest expense on the accompanying statement of operations relating to the discounts ($1,235,483 in 2016). The unamortized debt discount was $288,120 as of December 31, 2017 ($3,350,888 as of December 31, 2016).

In addition, the Company paid legal costs associated with the convertible notes payable totaling $9,960 in 2017 ($12,705 in 2016). The legal fees were recorded as debt discounts. The discounts are being amortized to interest expense using the effective interest method over the terms of the notes. In 2017, the Company amortized $24,873 of interest expense on the accompanying statement of operations relating to the discounts ($18,103 in 2016). The unamortized debt discount was $9,960 as of December 31, 2017 ($24,873as of December 31, 2016).

5. Commitments and Contingencies

Indemnification Agreements:

The Company enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to its technology. The term of these indemnification agreements is generally perpetual.

The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. The Company has also entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. The Company currently has directors and officers insurance.

The Company believes the estimated fair value of any obligation from these indemnification agreements is minimal; therefore, these financial statements do not include a liability for any potential obligations as of December 31, 2017 or 2016.

Legal:

In the normal course of business, the Company may receive inquiries or become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material adverse effect on the Company’s financial position or results of operations.

Operating Leases:

The Company’s lease for its office facility in Sunnyvale expired in June 2017. The Company began leasing office space at an office facility in Newark, California under a non-cancelable operating lease agreement that expires in May 2018. Rent expense was $80,664 in 2017 ($94,552 in 2016). Under the terms of the lease agreements, the Company was also responsible for certain insurance, property tax and maintenance expenses. Future minimum rental payments under the non-cancelable operating lease are $24,000 in 2018.

6. Income Taxes

The Company applies the provisions set forth in FASB ASC Topic 740 to account for uncertainty in income taxes. In the preparation of income tax returns in federal and state jurisdictions, the Company asserts certain income tax positions based on its understanding and interpretation of income tax laws. The taxing authorities may challenge such positions, and the resolution of such matters could result in recognition of income tax expense in the Company's financial statements. Management believes it has used reasonable judgments and conclusions in the preparation of its income tax returns.

The Company uses the "more likely than not" criterion for recognizing the income tax benefit of uncertain income tax positions, and establishing measurement criteria for income tax benefits. The Company has evaluated the impact of these positions and believes that its income tax filing positions and deductions will be sustained upon examination. Accordingly, no reserve for uncertain income tax positions or related accruals for interest and penalties have been recorded as of December 31, 2017 and 2016. In the event the Company should need to recognize interest and penalties related to unrecognized income tax liabilities, this amount will be recorded as an accrued liability and an increase to income tax expense.

Deferred income taxes result from the tax effect of transactions that are recognized in different periods for financial statement and income tax reporting purposes. The Company's net deferred income tax assets as of December 31, 2017 were approximately $24,993,000 ($18,310,000 as of December 31, 2016), and have been fully offset by a valuation allowance, as their realization is not reasonably assured. These deferred income tax assets consist primarily of net operating losses which may be carried forward to offset future income tax liabilities.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, commonly known as the Tax Cuts and Jobs Act (Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the corporate tax rate from 35% to 21%. The federal deferred income tax assets at December 31, 2017 are tax-effected at 21% whereas the deferred income tax assets at December 31, 2016 were tax-effected at 35%. At December 31, 2017, the Company has federal and state net operating loss carryforwards of $43,980,000 and $34,221,000, respectively ($40,657,000 and $34,221,000, respectively, as of December 31, 2016). These federal and state operating loss carryforwards begin to expire in 2025. Additionally, the Company has federal and state research and development and other income tax credits totaling $1,396,000 and $1,305,000, respectively, as of December 31, 2017 ($1,256,000 and $1,143,000, respectively, as of December 31, 2016). The federal income tax credits begin to expire in 2025. The state income tax credits may be carried forward indefinitely.

6. Income Taxes (continued)

Section 382 of the Internal Revenue Code limits the use of net operating losses in certain situations where changes occur in stock ownership of a company. If the Company should have an ownership change of more than 50% of the value of the Company's capital stock, utilization of the carryforwards could be restricted.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company believes all tax years remain open to examinations by the appropriate government agencies in the federal and state jurisdictions.

7. Capital Stock

Redeemable Convertible Preferred Stock:

As of December 31, 2017, the Company is authorized to issue 903,301 shares of redeemable convertible preferred stock with a par value of $0.00001 per share. The Board of Directors has designated 403,301 shares as Series A redeemable convertible preferred stock (Series A) and 393,734 shares as Series B redeemable convertible preferred stock (Series B) (collectively, Preferred Stock). The remaining 106,266 shares relate to non-designated redeemable convertible preferred stock.

The rights, preferences, privileges and restrictions for the holders of Preferred Stock are as follows:

Dividends:

The holders of Series B are entitled to receive a cumulative annual dividend at the rate of 5% per annum of the original issuance share price of $54.86 per share, until the occurrence of a liquidating event, dissolution or winding up of the Company or a qualified initial public offering. As of December 31, 2017, the Company has recorded cumulative dividends in the amount of $4,322,404 ($3,234,168 as of December 31, 2016) as an increase to Series B and a corresponding increase to accumulated deficit.

The holders of Series A are entitled to receive non-cumulative dividends prior and in preference to common stock, at the rate of 5% per annum of the original issuance share price of $39.968 per share, when and if declared by the Board of Directors, before any dividend is declared or paid on any shares of common stock.

The Board of Directors has not declared any dividends on the outstanding Preferred Stock or common stock since inception.

7. Capital Stock (continued)

Redeemable Convertible Preferred Stock: (continued)

Voting:

The holders of Preferred Stock have voting rights equal to the number of shares of common stock into which each share is converted. Each holder of common stock is entitled to one vote per share of common stock held by such holder.

The Board of Directors consist of five members. The holders of Series A, voting together as a separate class, on an as-converted basis, are entitled to elect one member to the Board of Directors. The holders of Series B, voting together as a separate class, on an as-converted basis, are entitled to elect one member to the Board of Directors. The holders of common stock, voting as a separate class, are entitled to elect two members to the Board of Directors. The holders of Preferred Stock and common stock, voting together as a single class on an as-converted basis, are entitled to elect one member to the Board of Directors.

Liquidation:

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series B will be entitled to receive, prior and in preference to any distributions to the holders of Series A and common stock, $54.86 per share, as adjusted for any recapitalizations, stock combinations, stock dividends, stock splits and the like, plus all cumulative but unpaid dividends. If the assets legally available for distribution to the holders of Series B are insufficient to satisfy the full liquidation preference of Series B, the funds will be distributed ratably to the holders of Series B.

After payment of the full liquidation preference of Series B, the holders of the Series A will be entitled to receive, prior and in preference to any distributions to the holders of common stock, $39.968 per share, as adjusted for any recapitalizations, stock combinations, stock dividends, stock splits and the like, plus all declared but unpaid dividends. If the assets legally available for distribution to the holders of Series A are insufficient to satisfy the full liquidation preference of Series A, the funds will be distributed ratably to the holders of Series A.

After payment of the full liquidation preference of Preferred Stock, the remaining assets of the Company, if any, will be distributed ratably among the holders of Preferred Stock and common stock, on an as-converted basis.

7. Capital Stock (continued)

Redeemable Convertible Preferred Stock: (continued)

Conversion:

At the option of the holder, each share of Preferred Stock is convertible into shares of common stock at any time, according to a conversion ratio, subject to adjustment for any recapitalizations, stock combinations, stock dividends, stock splits and the like.

Each share of Preferred Stock automatically converts into the number of shares of common stock upon the completion of a qualifying initial public offering with aggregate gross cash proceeds to the Company exceeding $35,000,000 and the price of common stock is at least $164.58 per share, or upon the receipt by the Company of the vote or written consent of the holders of at least 50% and 66.7% of the outstanding shares of Series A and Series B, respectively, each voting as a separate series, and on an as-converted basis. As of December 31, 2017, the conversion price is $39.968 and $54.86 for Series A and Series B, respectively.

Redemption:

At any time after December 31, 2018 and after the receipt by the Company of a written request from the holders of at least two-thirds of the then outstanding shares of Series B, all of the then outstanding shares of Series B will be redeemed within six months from the filing of the redemption notice. The Company will pay cash in exchange for such shares an amount equal to the greater of the fair value of Series B, as defined in the Certificate of Incorporation, or the Series B liquidation preference. If the funds legally available for redemption of the Preferred Stock are insufficient to permit the payment to such holders, the unpaid balance on each share will accrue interest at the rate of the lower of 10% per annum and the maximum interest rate permitted by law, payable monthly in arrears or upon the earlier of the unpaid balance.

7. Capital Stock (continued)

Redeemable Convertible Preferred Stock: (continued)

Protective Provisions:

The holders of Preferred Stock have certain protective provisions. As long as shares of Preferred Stock are issued and outstanding, the Company cannot, without the approval of at least the requisite majority (as defined in the Certificate of Incorporation) of the holders of Preferred Stock, voting together as a single class, take any action that: (i) amends the Certificate of Incorporation or Bylaws of the Company that would materially and adversely alter the rights, preferences, privileges or powers of, or restrictions provided for the benefit of the holders of Preferred Stock, which includes the creation of any new class or series of stock that is senior to or pari passu with Preferred Stock; (ii) declares or pays any dividend or distribution of any shares of capital stock; (iii) redeems or repurchases shares of Preferred Stock or common stock, other than share of common stock issued to employees, officers directors and other service providers upon termination of their employment or service; (iv) incurs, creates, guarantees or assumes indebtedness in excess of $1,000,000; or (v) consummates any sale, exclusive license, lease or other transfer or disposal of assets individually or in aggregate in excess of $1,000,000.

Common Stock:

The Company is authorized to issue 2,096,699 shares of common stock with a par value of $0.00001 per share.

Common Stock Warrants:

In August 2013, the Company issued warrants to purchase in aggregate 2,461 shares of common stock in connection with the Series B financing. The warrants were immediately exercisable, have an exercise price of $54.86 per share, and expire in August 2023. The warrants were recorded as equity issuance costs and within additional paid-in capital on the accompanying balance sheets. The warrants remain outstanding as of December 31, 2017.

In December 2015, the Company issued warrants to purchase in aggregate 57,512 shares of common stock in connection with the convertible notes payable. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire in January 2021. The warrants remain outstanding as of December 31, 2017.

7. Capital Stock (continued)

Common Stock Warrants: (continued)

In January and December 2016, the Company issued warrants to purchase in aggregate 156,212 shares of common stock in connection with the convertible notes payable. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire between January 2021 and December 2021. The warrants remain outstanding as of December 31, 2017.

In January, May, and July 2017 and March 2018 (in connection with the convertible notes payable issued in December 2017), the Company issued warrants to purchase in aggregate 72,644 shares of common stock in connection with the convertible notes payable. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire between January 2022 and January 2023. The warrants remain outstanding as of December 31, 2017.

Preferred Stock Warrants:

In September 2011, in connection with the Series A financing, the Company issued warrants to purchase 3,001 shares of Series A at $39.968 per share. Warrants totaling 1,101 shares of Series A were exercised in August 2016. The remaining warrants expired in August 2016. As a result, the Company recognized $32,874 as other income in the 2016 statement of operations.

8. Stock Incentive Plan

In October 2007, the Company adopted the 2007 Stock Incentive Plan (the Plan). Under the terms of the Plan, the Company may issue stock options to purchase shares of common stock, restricted stock, restricted stock units and stock appreciation rights of common stock to directors, employees and consultants. The Company has reserved 170,291 shares of common stock for issuance under the Plan as of December 31, 2017.

8. Stock Incentive Plan (continued)

Under the Plan, the Board of Directors may grant incentive stock options or non-statutory stock options. Incentive stock options may only be granted to Company employees. The exercise price of incentive stock options and non-statutory stock options cannot be less than 100% of the fair value per share of the Company's common stock on the grant date. If an individual owns more than 10% of the Company's outstanding capital stock, the price of each share will be at least 110% of the fair value. Fair value is determined by the Board of Directors. Options generally vest 25% with a one-year cliff and then vest ratably on a monthly basis over three years from the vesting commencement date. The option term is no longer than five years for incentive stock options for which the grantee owns greater than 10% of the Company's capital stock and no longer than 10 years for all other options. The Company has a repurchase option on unvested restricted stock exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason. The Company's repurchase right lapses in accordance with the vesting terms.

Stock-based compensation is allocated on a departmental basis, based on the classification of the option holder. No income tax benefits have been recognized in the statements of operations for stock-based compensation arrangements and no stock-based compensation costs are capitalized as of December 31, 2017 and 2016. In 2017, the Company recognized $221,111 of stock-based compensation related to options granted to employees ($268,500 in 2016).

The fair value of each award to employees is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions in 2016: expected life of 6.08 years, risk-free interest rate of 1.47%; expected volatility of 118%; and no dividends during the expected life. There were no options granted to employees in 2017. The expected life of the options represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

8. Stock Incentive Plan (continued)

Stock option activity under the Plan is as follows:

		Options Outstanding	
	Options Available	Number of Shares	Weighted-Average Exercise Price
Balances, December 31, 2015	40,067	129,776	$ 15.52
Granted	(32,375)	32,375	16.81
Canceled	7,900	(7,900)	10.21
Balances, December 31, 2016	15,592	154,251	16.07
Canceled	8,504	(8,504)	16.81
Balances, December 31, 2017	24,096	145,747	$ 16.02

Weighted-average remaining contractual life of outstanding options: 4.88 years

Future stock-based compensation for unvested employee options granted and outstanding as of December 31, 2017 is $21,000, to be recognized over a remaining requisite service period of 0.16 years.

As of December 31, 2017, there were 128,669 shares vested with a weighted-average exercise price of $15.79 per share and a weighted-average remaining contractual life of 4.51 years.

The Company also uses the fair value method to value options granted to non-employees. In connection with its grant of options to non-employees, the Company recognized stock-based compensation of $82,496 in 2017 ($116,160 in 2016). The fair value of each award to employees was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for options granted in 2016: contractual life of 10 years; risk-free interest rate of 1.13%; expected volatility of 118%; and no dividends during the expected life. Expected volatility is based on historical volatilities of public companies operating in the Company's industry. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted to non-employees in 2017.

The weighted-average grant date fair value of options granted was $14.72 in 2016.

9. Employee Benefit Plan

The Company has a 401(k) plan. All employees are eligible to participate in the 401(k) plan after meeting certain eligibility requirements. Participants may elect to have a portion of their salary deferred and contributed to the 401(k) plan up to the limit allowed under the Internal Revenue Code. The Company has made no discretionary contributions to the 401(k) plan through December 31, 2017.

10. Subsequent Events

Merger Agreement:

In December 2017, the Company entered into a letter of intent for the planned sale of all of its outstanding shares of capital stock to pSivida Corp. Upon closing, the Company will become a wholly-owned subsidiary of pSivida Corp. The transaction is scheduled to close on March 28, 2018.

Convertible Notes Payable:

In January, February and March 2018, the Company issued convertible notes payable for an aggregate amount of $910,911 (the 2018 Notes). The notes bear interest at the rate of 8% per annum, compounded monthly and are due at the earliest of: (a) March 31, 2018; (b) the consummation of an acquisition; or (c) the occurrence of an event of default, as defined in the agreements.

The notes include a contingent beneficial conversion feature allowing the note holders to convert the notes into shares of redeemable convertible preferred stock at a discount of 20% from the issuance price in the Company's next round of qualified equity financing, as defined in the agreements. Under the terms of the notes, if the notes are not converted prior to the closing date of an acquisition, 300% of the principal balance, plus all accrued but unpaid interest, is payable upon the closing of the acquisition.

In March 2018, the Company issued warrants to purchase an aggregate of 72,583 shares of common stock in connection with the 2018 Notes. The warrants were immediately exercisable, have an exercise price of $0.01 per share, and expire in March 2023.

Employee Benefit Plan:

In March 2018, the Company terminated the 401(k) plan in connection with the planned sale of its capital stock.

10. Subsequent Events (continued)

Subsequent events have been evaluated through the date of the independent auditors' report which is the date the financial statements were approved by the Company and available to be issued.

See Independent Auditors' Report

EYEPOINT PHARMACEUTICALS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On March 28, 2018 (the "Closing Date"), EyePoint Pharmaceuticals, Inc. (the "Company" or "EyePoint"), formerly known as pSivida Corp., and its newly-created wholly-owned subsidiary, Oculus Merger Sub, Inc. ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Icon Bioscience, Inc., a Delaware corporation ("Icon") and Shareholder Representative Services LLC, a Colorado limited liability company ("SRS"), solely in its capacity as representative of Icon's securityholders, pursuant to which Merger Sub was merged with and into Icon, with Icon being the surviving corporation and a wholly-owned subsidiary of the Company (the "Icon Acquisition"). The Icon Acquisition was consummated on the Closing Date.

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

Also, on the Closing Date, in connection with the Icon Acquisition, SWK Funding LLC ("SWK Funding"), a wholly-owned subsidiary of SWK Holdings Corporation, entered into a credit agreement with the Company (the "Credit Agreement"), pursuant to which the lenders party thereto provided to the Company a non-dilutive term loan in the principal amount of $15 million (the "Loan"), which may be increased by (i) an additional $5 million at the Company's request on or before December 31, 2018 (the "Additional Advance") or (ii) an additional $10 million at the Company's request and subject to obtaining additional loan commitments and, in each case subject to the satisfaction of certain conditions (the "Debt Financing"). In connection with the Debt Financing, the Company issued a warrant (the "SWK Warrant") to SWK Funding to purchase (i) 409,091 shares of its common stock (the "Initial Advance Warrant Shares") at an exercise price of $1.10 per share and (ii) an aggregate number of shares of the Company's common stock determined by multiplying the Additional Advance by 3% and then dividing such number by the consolidated closing bid price of a share of the Company's common stock on Nasdaq immediately preceding the closing of the Additional Advance (the "Additional Advance Warrant Shares"). The exercise price for the Additional Advance Warrant Shares shall be equal to the consolidated closing bid price of the Company's common stock on Nasdaq immediately preceding the closing of the Additional Advance. The SWK Warrant is exercisable (x) with respect to the Initial Advance Warrant Shares, any time on or after the closing of the Debt Financing until the close of business on the 7-year anniversary of the Initial Advance and (y) with respect to the Additional Advance Warrant Shares, any time on or after the closing of the Additional Advance until the close of business on the 7-year anniversary of the Additional Advance.

Also, on the Closing Date, in connection with the Icon Acquisition, the Company entered into a securities purchase agreement (the "First Tranche Securities Purchase Agreement") with EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P (collectively, the "First Tranche Investors") pursuant to which the Company sold an aggregate of 8,606,324 shares of its common stock for gross proceeds of $9.5 million (the "First Tranche Transaction"). The Company also entered into a securities purchase agreement (the "Second Tranche Securities

Purchase Agreement") with the First Tranche Investors and certain other accredited investors (collectively, the "Second Tranche Investors"), pursuant to which the Company will sell, subject to the approval of its stockholders, an aggregate of approximately $25.5 million of units (each, a "Unit"), with each Unit consisting of (i) one share of its common stock and (ii) one warrant to purchase a share of its common stock (the "Second Tranche Transaction" and together with the First Tranche Transaction, the "Equity Transactions," and together with the Icon Acquisition and the Debt Financing, the "Transactions").

The following supplemental unaudited pro forma information is presented for informational purposes only, to provide an understanding of the Company's historical financial results as adjusted for the Transactions. The unaudited pro forma condensed combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the Transactions. These unaudited pro forma condensed combined consolidated financial statements should not be considered a substitute for the actual historical financial information prepared in accordance with generally accepted accounting principles, as presented in the Company's filings on Form 10-Q and 10-K. The unaudited pro forma condensed combined financial information disclosed in this report is for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the pro forma events taken place on the dates indicated, or our future results of operations.

The effects of the Transactions are fully reflected in the consolidated balance sheet of EyePoint as of March 31, 2018, filed with its Quarterly Report on Form 10-Q on May 10, 2018. Accordingly, a pro forma balance sheet is not presented. The unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 and the nine months ended March 31, 2018 present the Company's condensed results of operations first giving pro forma effect to the Icon Acquisition as if it had occurred on July 1, 2016 and then giving effect to the Icon Acquisition, the Debt Financing and the Equity Transactions as if all of these transactions occurred on July 1, 2016. These unaudited pro forma condensed combined financial statements should be read in conjunction with the Company's historical condensed consolidated financial statements for the period ended March 31, 2018, which were included in the Form 10-Q filed with the Securities and Exchange Commission ("SEC") on May 10, 2018, and the Company's historical audited consolidated financial statements for the year ended June 30, 2017, which were included in the Form 10-K filed with the SEC on September 13, 2017 and amended on October 30, 2017, and the audited financial statements of Icon Bioscience, Inc. for the years ended December 31, 2017 and 2016, as filed as Exhibit 99.3 to Amendment No. 1 to the Current Report on Form 8-K/A, after giving effect to the Company's acquisition of Icon and includes the assumptions and adjustments as described in the accompanying notes hereto. The historical statements of operations of Icon have been adjusted to give pro forma effect to events that are (i) directly attributable to the Icon Acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results.

The pro forma adjustments are based on currently available information, estimates and assumptions that the Company believes are reasonable in order to reflect, on a pro forma basis, the impact of the Transactions on its historical financial information.

EYEPOINT PHARMACEUTICALS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2017
(in thousands, except share and per share amounts)

	Historical							
	EyePoint Pharmaceuticals, Inc.	Icon Bioscience, Inc.	Pro Forma Acquisition Adjustments	Notes	Pro Forma Combined	Pro Forma Financing Adjustments	Notes	Pro Forma Combined Including Financings
Revenues:								
Collaborative research and development	$ 6,569	$ —	$ —		$ 6,569	$ —		$ 6,569
Royalty income	970	—	—		970	—		970
Total revenues	7,539	—	—		7,539	—		7,539
Operating expenses:								
Research and development	14,156	3,300	—	F	17,456	—		17,456
Amortization of intangibles	724	—	—	A	724	—		724
General and administrative	11,235	1,564	(41)	F	12,759	—		12,759
Total operating expenses	26,115	4,864	(41)		30,938	—		30,938
Operating loss	(18,576)	(4,864)	40.54		(23,399)	—		(23,399)
Change in fair value of derivative liability	—	—	—		—	(93)	C, D	(93)
Interest and other income (expense), net	91	(3,396)	3,396	B	91	(2,393)	E	(2,302)
Loss before income taxes	(18,485)	(8,260)	—		(23,308)	(2,486)		(25,794)
Income tax benefit (expense)	—	—	—		—	—		—
Net loss	$ (18,485)	$ (8,260)	$ —		$ (23,308)	$ (2,486)		$ (25,794)
Net loss per share—basic and diluted	$ (0.52)							$ (0.59)
Weighted average common shares outstanding—basic and diluted	35,343,765					8,606,324	G	43,950,089

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

EYEPOINT PHARMACEUTICALS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED MARCH 31, 2018
(in thousands, except share and per share amounts)

	Historical							
	EyePoint Pharmaceuticals, Inc.	Icon Bioscience, Inc.	Pro Forma Acquisition Adjustments	Notes	Pro Forma Combined	Pro Forma Financing Adjustments	Notes	Pro Forma Combined Including Financings
Revenues:								
Collaborative research and development	$ 1,125	$ —	$ —		$ 1,125	$ —		$ 1,125
Royalty income	1,121	—	—		1,121	—		1,121
Total revenues	2,246	—	—		2,246	—		2,246
Operating expenses:		—						
Research and development	11,047	1,523	74	F	12,644	—		12,644
Amortization of intangibles	366	—	—	A	366	—		366
General and administrative	7,325	944	(1)	F	8,268	—		8,268
Total operating expenses	18,738	2,468	73		21,279	—		21,279
Operating loss	(16,492)	(2,468)	(73)		(19,033)	—		(19,033)
Change in fair value of derivative liability	(2,325)	—	—		(2,325)	93	C, D	(2,232)
Interest and other income (expense), net	74	(4,070)	4,070	B	74	(1,863)	E	(1,789)
Loss before income taxes	(18,743)	(6,537)	3,997		(21,284)	(1,770)		(23,054)
Income tax benefit (expense)	—	—	—		—	—		—
Net loss	$ (18,743)	$ (6,537)	$ 3,997		$ (21,284)	$ (1,770)		$ (23,054)
Net loss per share —basic and diluted	$ (0.43)							$ (0.45)
Weighted average common shares outstanding—basic and diluted	43,183,578					8,606,324	G	51,789,902

The accompanying notes are an integral part of the unaudited pro forma condensed combined financial statements.

EYEPOINT PHARMACEUTICALS, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of Transactions

Acquisition of Icon Bioscience, Inc.

On March 28, 2018, an Agreement and Plan of Merger ("Merger Agreement") was consummated by and among EyePoint Pharmaceuticals, Inc. (the "Company" or "EyePoint"), Oculus Merger Sub, Inc. ("Merger Sub") and Icon Bioscience, Inc. ("Icon"), pursuant to which Merger Sub was merged with and into Icon, with Icon surviving as a wholly-owned subsidiary of EyePoint (the "Icon Acquisition"). All of Icon's security holders (consisting of holders of multiple series of preferred stock, common stock, outstanding warrants and options to purchase common stock) exchanged their security holdings for the right to receive merger consideration. The Icon Acquisition was accounted for as an asset purchase under U.S. generally accepted accounting principles ("GAAP") because substantially all of the fair value of the gross assets acquired were deemed to be concentrated in a group of similar identifiable assets related to Icon's lead product, DEXYCU™. Merger consideration consisted of (i) a one-time payment of $15 million at closing (net of an estimated working capital adjustment of $127,000), (ii) a development milestone payment of $15 million due within 30 days following the first commercial sale of DEXYCU in the U.S. and (iii) transaction costs totaling $2.0 million, for total purchase consideration of $32.0 million that was recorded as a finite-lived intangible asset to be amortized based on the pattern in which the economic benefits of the intangible asset is expected to be consumed. Additional contingent cash consideration will be made under the terms and conditions set forth in the Merger Agreement, including (i) sales milestone payments totaling up to $95.0 million upon the achievement of certain sales thresholds and subject to certain Centers for Medicare & Medicaid Services reimbursement conditions set forth in the Merger Agreement, (ii) quarterly earn-out payments equal to 12% on net sales of DEXYCU in a given year, which earn-out payments will increase to 16% of net sales of DEXYCU in such year beginning in the calendar quarter for such year to the extent aggregate annual consideration of DEXYCU exceeds $200.0 million in such year, (iii) quarterly earn-out payments equal to 20% of partnering revenue received by the Company for DEXYCU outside of the United States, and (iv) single-digit percentage quarterly earn-out payments with respect to net sales and/or partnering income, if any, resulting from future clinical development, regulatory approval and commercialization of any other product candidates the Company acquired in the Icon Acquisition.

The Financing Transactions

On March 28, 2018, EyePoint entered into a securities purchase agreement with EW Healthcare Partners, L.P., and EW Healthcare Partners-A, L.P., pursuant to which EyePoint offered and sold an aggregate of 8,606,324 shares of common stock, par value $0.001 per share, at a purchase price of $1.10 per share for aggregate gross proceeds of approximately $9.5 million (the "First Tranche Transaction").

On March 28, 2018, EyePoint entered into a second securities purchase agreement with EW Healthcare Partners, L.P., EW Healthcare Partners-A, L.P., and certain other accredited investors, pursuant to which EyePoint agreed, subject to stockholder approval, to issue and sell units for an aggregate purchase price of approximately $25.5 million. Each unit consists of (a) one share of common stock and (b) a warrant to purchase one share of common stock (the "Second Tranche Transaction" and collectively with the First Tranche Transaction, the "Equity Transactions"). On May 11, 2018, EyePoint filed a definitive proxy statement for a special meeting of stockholders to be held on June 22, 2018 for the purpose of, among other things, obtaining stockholder approval for the Second Tranche Transaction.

On March 28, 2018, EyePoint entered into a credit agreement with SWK Holdings ("SWK"), pursuant to which the lenders party thereto provided to the Company a non-dilutive term loan in the principal amount of $15 million (the "Loan"), which may be increased by (i) an additional $5 million at the Company's request on or before December 31, 2018 (the "Additional Advance") or (ii) an additional $10 million at the Company's request and subject to obtaining additional loan commitments and, in each case subject to the satisfaction of certain conditions (the "Debt Financing," and together with the Icon Acquisition and the Equity Transactions, the "Transactions").

In connection with the Loan, EyePoint issued to SWK Holdings a warrant to purchase (a) 409,091 shares of common stock at an exercise price of $1.10 per share and (b) an aggregate number of shares of the Company's common stock determined by multiplying the Additional Advance by 3% and then dividing such number by the consolidated closing bid price of a share of the Company's common stock on Nasdaq immediately preceding the closing of the Additional Advance. The exercise price for the Additional Advance Warrant Shares shall be equal to the consolidated closing bid price of the Company's common stock on Nasdaq immediately preceding the closing of the Additional Advance.

The unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 and the nine months ended March 31, 2018 first give pro forma effect to the Icon Acquisition as if it had occurred on July 1, 2016 and then give effect to the Icon Acquisition, the Debt Financing and the Equity Transactions as if all of these transactions occurred on July 1, 2016.

2. Basis of Presentation

The unaudited pro forma condensed combined statements of operations were prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"), and are intended to show how the Icon Acquisition, the Debt Financing and the Equity Transactions might have affected the historical financial statements had they been completed on July 1, 2016. Based on the terms of the Merger Agreement, EyePoint is deemed to be the acquiring company for accounting purposes and the transaction was accounted for as an asset purchase under the acquisition method of accounting in accordance with GAAP. Accordingly, the acquired assets of Icon will be recorded as of the closing date of the Icon Acquisition at their estimated fair values.

EyePoint and Icon did not record an income tax provision during the year ended June 30, 2017 and the nine months ended March 31, 2018 because each company incurred net losses during those periods. Accordingly, no tax effects have been provided for the pro forma adjustments described in Note 3, "Pro Forma Adjustments."

3. Pro Forma Adjustments

The unaudited pro forma condensed combined financial statements include pro forma adjustments to give effect to the Transactions. The pro forma adjustments reflecting the completion of the Transactions are based upon the accounting analysis conclusion that the Icon Acquisition should be accounted for as an asset purchase and upon the assumptions set forth below:

A. The Company recorded an intangible asset of $32.0 million related to DEXYCU. This asset was determined to have an estimate useful life of approximately 13 years. The amortization expense will be based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. No amortization expense has been recorded in this pro forma financial information as the Company does not expect to begin receiving the economic benefits of DEXYCU until the first half of calendar year 2019.

B. To reverse interest expense and amounts arising from the change in the fair value of derivative liability reflected in the historical financial statements of Icon, as EyePoint did not assume the related debt or warrants of Icon in the Icon Acquisition.

C. To adjust for costs associated with the second tranche financing liability as if the financing had occurred on July 1, 2016.

D. The Company determined that the obligations under the Second Securities Purchase Agreement and the warrant issued to SWK were both liability classified. Accordingly, the liabilities are required to be measured at fair value each period with changes in fair value being reported as a component of net loss in the Statement of Operations. No pro forma adjustments were recorded for the change in fair value of the warrants due to the complexity of the valuation model.

E. To reflect interest expense incurred in connection with the Loan, as if it had commenced on July 1, 2016.

F. To reverse depreciation expense reflected in the historical financial statements of Icon, as EyePoint did not acquire any tangible assets in connection with the Icon Acquisition.

G. The pro forma condensed combined basic and diluted net loss per share has been adjusted to reflect the pro forma combined net loss for the year ended June 30, 2017 and the nine months ended March 31, 2018. In addition, the numbers of shares used in calculating the pro forma combined basic and diluted net loss per share have been adjusted to reflect the 8,606,324 shares of EyePoint common stock issued in the First Tranche Transaction as if the shares had been issued on July 1, 2016. The following table sets forth the calculation of the basic and diluted shares used to compute pro forma net loss per common share:

	Year Ended June 30, 2017	Nine Months Ended March 31, 2018
Numerator:		
Pro forma net loss	$ (25,794)	$ (23,054)
Denominator:		
Weighted-average number of common shares used in net loss per share—basic and diluted	35,343,765	43,183,578
Common shares issued in First Tranche Transaction	8,606,324	8,606,324
Pro forma weighted-average number of common shares used in pro forma net loss per share—basic and diluted	43,950,089	51,789,902
Pro forma net loss per share—basic and diluted	$ (0.59)	$ (0.45)

4. Accounting Policies

As of the date of this document, EyePoint has not identified all adjustments necessary to conform Icon's accounting policies to EyePoint's accounting policies. EyePoint will conduct a final review of Icon's accounting policies as of the date of the completion of the transactions in an effort to determine if differences in accounting policies require adjustment or reclassification of Icon's results of operations or reclassification of assets or liabilities to conform to EyePoint's accounting policies and classifications. The unaudited pro forma condensed combined financial statements do not give effect to any cost savings, operating synergies or revenue synergies that may result from the transactions or the costs to achieve any such cost savings, operating synergies and revenue synergies. There were no material transactions between EyePoint and Icon during the period presented in the unaudited pro forma condensed combined financial statements that would need to be eliminated.