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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-51122

EyePoint Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2774444**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
480 Pleasant Street **Watertown, MA** (Address of principal executive offices)	**02472** (Zip Code)

(617) 926-5000

(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	EYPT	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

There were 35,309,432 shares of the registrant's common stock, $0.001 par value, outstanding as of October 27, 2023.

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

Item 1. Unaudited Financial Statements

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 133,035	$ 95,633
Marketable securities	2,977	48,928
Accounts and other receivables, net	483	15,503
Prepaid expenses and other current assets	9,091	9,858
Inventory	4,577	2,886
Total current assets	150,163	172,808
Property and equipment, net	4,480	1,360
Operating lease right-of-use assets	5,250	6,038
Restricted cash	150	150
Total assets	$ 160,043	$ 180,356
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 9,580	$ 5,919
Accrued expenses	13,417	16,359
Deferred revenue	39,841	1,205
Short-term borrowings	—	10,475
Other current liabilities	1,058	579
Total current liabilities	63,896	34,537
Long-term debt	—	29,310
Deferred revenue – noncurrent	32,341	13,557
Operating lease liabilities – noncurrent	5,185	5,984
Other long-term liabilities	—	600
Total liabilities	101,422	83,988
Contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.001 par value, 300,000,000 shares authorized at September 30, 2023 and December 31, 2022; 35,309,432 and 34,082,934 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	35	34
Additional paid-in capital	785,792	766,899
Accumulated deficit	(728,047)	(671,351)
Accumulated other comprehensive income	841	786
Total stockholders' equity	58,621	96,368
Total liabilities and stockholders' equity	$ 160,043	$ 180,356

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenues:				
Product sales, net	$ 816	$ 9,720	$ 13,483	$ 30,048
License and collaboration agreements	14,137	52	17,768	160
Royalty income	249	240	739	663
Total revenues	15,202	10,012	31,990	30,871
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	1,202	1,405	3,634	4,916
Research and development	17,363	11,162	46,711	34,099
Sales and marketing	479	6,016	11,504	19,592
General and administrative	10,556	9,212	28,854	26,321
Amortization of acquired intangible assets	—	615	—	1,845
Total operating expenses	29,600	28,410	90,703	86,773
Loss from operations	(14,398)	(18,398)	(58,713)	(55,902)
Other income (expense):				
Interest and other income, net	1,786	640	4,611	1,067
Interest expense	—	(662)	(1,247)	(2,408)
Loss on extinguishment of debt	—	—	(1,347)	(1,559)
Total other income (expense), net	1,786	(22)	2,017	(2,900)
Net loss	$ (12,612)	$ (18,420)	$ (56,696)	$ (58,802)
Net loss per share – basic and diluted	$ (0.33)	$ (0.49)	$ (1.50)	$ (1.58)
Weighted average shares outstanding – basic and diluted	38,341	37,338	37,804	37,305
Net loss	$ (12,612)	$ (18,420)	$ (56,696)	$ (58,802)
Other comprehensive (loss) gain:				
Unrealized (loss) gain on available-for-sale securities, net of tax of $0 for periods presented	(1)	51	55	(188)
Comprehensive loss	$ (12,613)	$ (18,369)	$ (56,641)	$ (58,990)

See notes to condensed consolidated financial statements.

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

	Common Stock		Additional		Accumulated Other	Total
	Number of Shares	Par Value Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Stockholders' Equity
Balance at July 1, 2022	34,052,616	$ 34	$ 760,209	$ (609,479)	$ 602	$ 151,366
Net loss	—	—	—	(18,420)	—	(18,420)
Other comprehensive gain	—	—	—	—	51	51
Employee stock purchase plan	19,283	—	153	—	—	153
Exercise of stock options	256	—	1	—	—	1
Stock-based compensation	—	—	3,199	—	—	3,199
Balance at September 30, 2022	34,072,155	$ 34	$ 763,562	$ (627,899)	$ 653	$ 136,350
Balance at July 1, 2023	34,306,118	$ 34	$ 771,821	$ (715,435)	$ 842	$ 57,262
Net loss	—	—	—	(12,612)	—	(12,612)
Other comprehensive loss	—	—	—	—	(1)	(1)
Issuance of stock, net of issue costs	902,769	1	9,539	—	—	9,540
Employee stock purchase plan	43,335	—	174	—	—	174
Exercise of stock options	55,210	—	629	—	—	629
Vesting of stock units	2,000	—	—	—	—	—
Stock-based compensation	—	—	3,629	—	—	3,629
Balance at September 30, 2023	35,309,432	$ 35	$ 785,792	$ (728,047)	$ 841	$ 58,621

	Common Stock		Additional		Accumulated Other	Total
	Number of Shares	Par Value Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Stockholders' Equity
Balance at January 1, 2022	33,905,826	$ 34	$ 752,602	$ (569,097)	$ 841	$ 184,380
Net loss	—	—	—	(58,802)	—	(58,802)
Other comprehensive loss	—	—	—	—	(188)	(188)
Issuance of stock, net of issue costs	—	—	20	—	—	20
Employee stock purchase plan	47,787	—	354	—	—	354
Exercise of stock options	4,479	—	41	—	—	41
Vesting of stock units	114,063	—	(271)	—	—	(271)
Stock-based compensation	—	—	10,816	—	—	10,816
Balance at September 30, 2022	34,072,155	$ 34	$ 763,562	$ (627,899)	$ 653	$ 136,350
Balance at January 1, 2023	34,082,934	$ 34	$ 766,899	$ (671,351)	$ 786	$ 96,368
Net loss	—	—	—	(56,696)	—	(56,696)
Other comprehensive gain	—	—	—	—	55	55
Issuance of stock, net of issue costs	902,769	1	9,539	—	—	9,540
Employee stock purchase plan	107,056	—	422	—	—	422
Exercise of stock options	56,090	—	634	—	—	634
Vesting of stock units	160,583	—	(169)	—	—	(169)
Stock-based compensation	—	—	8,467	—	—	8,467
Balance at September 30, 2023	35,309,432	$ 35	$ 785,792	$ (728,047)	$ 841	$ 58,621

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (56,696)	$ (58,802)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Amortization of intangible assets	—	1,845
Depreciation of property and equipment	352	266
Amortization of debt discount and premium and discount on available-for-sale marketable securities	(334)	(218)
Provision for excess and obsolete inventory	693	—
Loss on extinguishment of debt	1,347	1,559
Stock-based compensation	8,467	10,816
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	14,701	(8,942)
Inventory	(2,224)	85
Accounts payable and accrued expenses	791	1,681
Right-of-use assets and operating lease liabilities	467	(44)
Deferred revenue	57,420	(663)
Net cash provided by (used in) operating activities	24,984	(52,417)
Cash flows from investing activities:		
Purchases of marketable securities	(5,851)	(125,617)
Sales and maturities of marketable securities	52,284	77,000
Purchases of property and equipment	(2,600)	(1,565)
Net cash provided by (used in) investing activities	43,833	(50,182)
Cash flows from financing activities:		
Proceeds from issuance of stock	9,974	—
Proceeds from issuance of long-term debt	—	30,000
Payment of equity and debt issue costs	(415)	(599)
Payment of long-term debt	(30,000)	(38,235)
Payment of extinguishment of debt costs	(1,350)	(2,294)
Borrowings under revolving facility	5,300	32,409
Repayment under revolving facility	(15,775)	(21,934)
Net settlement of stock units to satisfy statutory tax withholding	(169)	(271)
Proceeds from exercise of stock options and employee stock purchase plan	1,056	395
Principal payments on finance lease obligations	(36)	(103)
Net cash used in financing activities	(31,415)	(632)
Net increase (decrease) in cash, cash equivalents and restricted cash	37,402	(103,231)
Cash, cash equivalents and restricted cash at beginning of period	95,783	178,743
Cash, cash equivalents and restricted cash at end of period	$ 133,185	$ 75,512
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets:		
Cash and cash equivalents	$ 133,035	$ 75,362
Restricted cash	150	150
Total cash, cash equivalents and restricted cash at end of period	$ 133,185	$ 75,512
Supplemental cash flow information:		
Cash interest paid	$ 1,405	$ 1,907
Supplemental disclosure of non-cash investing and financing activities:		
Accrued term loan exit fee	$ —	$ 600
Stock issuance costs	$ 19	$ —

See notes to condensed consolidated financial statements.

1. Operations

The accompanying condensed consolidated financial statements of EyePoint Pharmaceuticals, Inc., a Delaware corporation (together with its subsidiaries, the Company), as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 are unaudited. Certain information in the footnote disclosures of these financial statements has been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements as of and for the year ended December 31, 2022, and include all adjustments, consisting only of normal recurring adjustments, that are necessary for the fair presentation of the Company's financial position, results of operations, comprehensive loss and cash flows for the periods indicated. The preparation of financial statements in accordance with United States (U.S.) generally accepted accounting principles requires management to make assumptions and estimates that affect, among other things, (i) reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and (iii) reported amounts of revenues and expenses during the reporting period. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the entire 2023 fiscal year or any future period.

The Company is committed to developing and commercializing therapeutics to help improve the lives of patients with serious eye disorders. The Company's pipeline leverages its proprietary erodible DURASERT E™ technology (Durasert E) for sustained intraocular drug delivery including EYP-1901, an investigational intravitreal treatment delivering vorolanib, currently in Phase 2 clinical trials for wet age-related macular degeneration (wet AMD), the leading cause of vision loss among people 50 years of age and older in the United States and non-proliferative diabetic retinopathy (NPDR), a largely untreated disease due to limitations of available therapies. The Company is also advancing EYP-2301 into pre-clinical development delivering razuprotafib in Durasert E for the potential treatment of diabetic eye diseases.

In May 2023, the Company granted an exclusive license and rights to its YUTIQ® (fluocinolone acetonide intravitreal implant) 0.18 mg (YUTIQ) product to Alimera Sciences, Inc. (Alimera) for $82.5 million, consisting of a $75.0 million upfront cash payment (Upfront Payment) and an additional $7.5 million payment in equal quarterly installments in 2024. In addition, commencing in 2025, the Company will receive a low-to-mid double-digit royalty on Alimera's related U.S. net sales above defined thresholds for the calendar years 2025-2028.

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

Liquidity

The Company had cash, cash equivalents and investments in marketable securities of $136.0 million at September 30, 2023. The Company has a history of operating losses and has not had significant recurring cash inflows from revenue. The Company's operations have been financed primarily from sales of its equity securities, issuance of debt and a combination of license fees, milestone payments, royalty income and other fees received from its collaboration partners. The Company anticipates that it will continue to incur losses as it continues the research and development of its product candidates, and the Company does not expect revenues to generate sufficient funding to sustain its operations in the near-term. The Company expects to continue fulfilling its funding needs through cash inflows from revenues, licensing and research collaboration transactions, additional equity capital raises and other arrangements. The Company believes that its cash, cash equivalents and investments in marketable securities of $136.0 million at September 30, 2023 will enable the Company to fund its current and planned operations for at least the next twelve months from the date these consolidated financial statements were issued. Actual cash requirements could differ from management's projections due to many factors, including the timing and results of the Company's clinical trials for EYP-1901, additional investments in research and development programs, competing technological and market developments and the costs of any strategic acquisitions and/or development of complementary business opportunities.

Recently Adopted and Recently Issued Accounting Pronouncements

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

2. Summary of Significant Accounting Policies

Revenue Recognition

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

Product sales, net — The Company sold YUTIQ and DEXYCU primarily to a limited number of specialty distributors and specialty pharmacies (collectively the Distributors) in the U.S., with whom the Company had entered into formal agreements, for delivery to physician practices for YUTIQ and to hospital outpatient departments and ambulatory surgical centers (ASCs) for DEXYCU. The Company recognized revenue on sales of its products when Distributors obtained control of the products, which occurred at a point in time, typically upon delivery. In addition to agreements with Distributors, the Company also entered arrangements with healthcare providers, ASCs and payors that provided for government mandated and/or privately negotiated rebates, chargebacks and discounts with respect to the purchase of the Company's products from Distributors.

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

Distribution fees — The Company compensated its Distributors for services explicitly stated in the Company's contracts and were recorded as a reduction of revenue in the period the related product sale was recognized.

Provider chargebacks and discounts — Chargebacks were discounts that represented the estimated obligations resulting from contractual commitments to sell products at prices lower than the list prices charged to the Company's Distributors. These Distributors charged the Company for the difference between what they paid for the product and the Company's contracted selling price. These reserves were established in the same period that the related revenue was recognized, resulting in a reduction of product revenue and the establishment of a current liability. Reserves for chargebacks consisted of amounts that the Company expected to pay for units that remained in the distribution channel inventories at each reporting period-end that the Company expected to be sold under a contracted selling price, and chargebacks that Distributors had claimed, but for which the Company had not yet settled.

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

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

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

Product returns — The Company generally offered a limited right of return based on its returned goods policy, which included damaged product and remaining shelf life. The Company estimated the amount of its product sales that may be returned and recorded this estimate as a reduction of revenue in the period the related product revenue was recognized, as well as reductions to trade receivables, net on the condensed consolidated balance sheets.

License and collaboration agreement revenue — The Company analyzes each element of its license and collaboration arrangements to determine the appropriate revenue recognition. The terms of the license agreement may include payment to the Company of non-refundable upfront license fees, milestone payments if specified objectives are achieved, and/or royalties on product sales. The Company recognizes revenue from upfront payments at a point in time, typically upon fulfilling the delivery of the associated intellectual property to the customer. For licenses that are combined with other promises, the Company determines whether the combined performance obligation is satisfied over time or at a point in time, when (or as) the associated performance obligation in the contract is satisfied.

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

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

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying the practical expedient in paragraph 606-10-32-18, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less. None of the Company's contracts contained a significant financing component as of September 30, 2023.

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

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

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

Research Collaborations — The Company recognizes revenue over the term of the statements of work under any funded research collaborations. Revenue recognition for consideration, if any, related to a license option right is assessed based on the terms of any such future license agreement or is otherwise recognized at the completion of the research collaborations.

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

Cost of sales, excluding amortization of acquired intangible assets — Cost of sales, excluding amortization of acquired intangible assets, consist of costs associated with the manufacture of YUTIQ and DEXYCU, certain period costs for DEXYCU product revenue, product shipping and, as applicable, royalty expense. The inventory costs for YUTIQ include purchases of various components, the active pharmaceutical ingredient (API) and direct labor and overhead for the product manufactured in the Company's Watertown, Massachusetts facility. The inventory costs for DEXYCU include purchased components, the API and third-party manufacturing and assembly.

For the three months ended September 30, 2023 and 2022, the Company accrued DEXYCU product revenue-based royalty expense of $0 and $351,000, respectively, as a component of cost of sales. For the nine months ended September 30, 2023 and 2022, the Company accrued DEXYCU product revenue-based royalty expense of $1,000 and $1.5 million, respectively, as a component of cost of sales.

3. Revenue

Product Revenue Reserves and Allowances

From January 1, 2023 through May 17, 2023 (the date the Company entered into the product rights agreement with Alimera), the Company's product revenues were primarily from sales of YUTIQ in the U.S. For the three months ended September 30, 2023, the Company's product revenues were primarily from the Company's existing commercial supply agreements with Alimera. For the three and nine months ended September 30, 2022, the Company's product revenues were made up of $7.3 million and $19.3 million from the sales of YUTIQ, and $2.4 million and $10.7 million from the sales of DEXYCU, respectively.

The following table summarizes activity in each of the product revenue allowance and reserve categories for the nine months ended September 30, 2023 and 2022 (in thousands):

	Chargebacks, Discounts and Fees	Government and Other Rebates	Returns	Total
Beginning balance at January 1, 2023	$ 859	$ 158	$ 871	$ 1,888
Provision related to sales in the current year	1,561	—	—	1,561
Adjustments related to prior period sales	40	(55)	(154)	(169)
Deductions applied and payments made	(2,279)	(103)	(156)	(2,538)
Ending balance at September 30, 2023	$ 181	$ —	$ 561	$ 742

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

Returns are recorded as a reduction of accounts receivable on the condensed consolidated balance sheets. Chargebacks, discounts and fees and rebates are recorded as a component of accrued expenses on the condensed consolidated balance sheets (See Note 6).

License and Collaboration Agreements and Royalty Income

Alimera Product Rights Agreement and Commercial Supply Agreement

On May 17, 2023 (the Closing Date), the Company entered into a product rights agreement (PRA) with Alimera Sciences, Inc. (Alimera). Under the PRA, the Company granted to Alimera an exclusive and sublicensable right and license (the License) under the Company's and its affiliates' interest in certain of the Company's and its affiliates' intellectual property to develop, manufacture, sell, commercialize and otherwise exploit certain products, including YUTIQ, for the treatment and prevention of uveitis in the entire world except Europe, the Middle East and Africa (the EMEA). The License also excludes any rights to YUTIQ for the treatment of chronic non-infectious uveitis affecting the posterior segment of the eye the Company granted to Ocumension Therapeutics (Ocumension) under the license agreements and a Memorandum of Understanding for YUTIQ (the Ocumension Agreement), pursuant to which rights have been exclusively licensed to Ocumension in China and certain other countries and regions in Asia.

Additionally, pursuant to the PRA, the Company transferred and assigned to Alimera certain assets (the Transferred Assets) and certain contracts with third parties related to YUTIQ, including the new drug application #210331 for YUTIQ (collectively, the Asset Transfer). The Transferred Assets consist primarily of agreements and internally developed intangible assets which have zero carrying value. Pursuant to the PRA, Alimera paid the Company a $75.0 million Upfront Payment. Alimera will also make four quarterly payments of $1.875 million to the Company totaling $7.5 million during 2024. Alimera will also pay royalties to the Company from 2025 to 2028 at a percentage of low-to-mid double digits of Alimera's related U.S. annual net sales of certain products (including YUTIQ) in excess of certain thresholds, beginning at $70.0 million in 2025, and increasing annually thereafter. Upon Alimera's payment of the Upfront Payment and the 2024 quarterly payments, the licenses and rights granted to Alimera will automatically become perpetual and irrevocable.

On the Closing Date, the Company and Alimera also entered into a commercial supply agreement (CSA), pursuant to which, during the term of the PRA, the Company agreed to manufacture and exclusively supply to Alimera agreed-upon quantities of YUTIQ necessary for Alimera to commercialize YUTIQ in the United States at certain cost plus amounts, subject to adjustments set forth in the CSA (the Supply Transaction and together with the License and the Asset Transfer, the Transaction). The initial term of the CSA is two years following the Closing Date, subject to certain changes set forth in the CSA. The CSA shall thereafter automatically renew for successive one (1) year terms; provided, that the term of the CSA automatically terminates upon the successful completion of the transfer of manufacturing for YUTIQ to Alimera or its designee in accordance with the CSA.

In addition, the Company entered into a transition services agreement (TSA) under which the Company agreed to provide agreed upon transition services to Alimera, on a cost-plus pricing arrangement for up to six months following the closing of the Transaction. As part of the TSA, the Company agreed to fulfill Alimera sales orders for YUTIQ in the United States, to the extent requested by Alimera, during the period up to six months following the Closing Date, to the Company's third-party customers on behalf of Alimera, including by invoicing for YUTIQ and receiving payments for such invoiced YUTIQ for fulfilling Alimera sales orders of YUTIQ and remit such payments to Alimera (See Note 6) (the Sales Services). The Sales Services were completed as of September 30, 2023.

The Company classified the cash proceeds of the $75.0 million Upfront Payment received from Alimera as deferred revenue at the Closing Date, pursuant to the PRA and the CSA because the License and supply units to be delivered under both agreements comprise a single, combined performance obligation as Alimera will not have the right or ability to manufacture YUTIQ (or have YUTIQ manufactured by a third-party contract manufacturing organization) over the initial two-year term pursuant to the CSA. The combined performance obligation is satisfied over time using the units delivered output method to measure progress based on initial estimated supply units of YUTIQ over the two-year term for purposes of recognizing revenue, such that revenue is recognized based on the value transferred in the form of units of product in the satisfaction of a performance obligation. Through this method, the Company compares the actual units delivered to date with the current estimated total to be delivered in the contractual term to measure the satisfaction of the performance obligation and recognize revenue. The Company will monitor its estimate of total units to be delivered to determine if an adjustment is needed to ensure that revenue is recognized proportionally for units delivered to date relative to the total units expected to be delivered for the combined performance obligation. Such estimates of the total delivery will be reassessed on an ongoing basis. If the Company determines that a change in estimate is necessary, it will adjust revenue using a cumulative catch-up method.

During the three and nine months ended September 30, 2023, the Company recognized $1.0 million and $1.2 million, respectively, of revenue from sales of product supply to Alimera under the CSA and recorded this amount in product sales, net on the condensed consolidated statements of operations and comprehensive loss. The Company recognized $13.6 million and $16.8 million of license and collaboration revenue related to the PRA and the CSA during the three and nine months ended September 30, 2023, respectively. The Company also recognized approximately $394,000 and $799,000 of license and collaboration revenue, related to additional transitional services for the three and nine months ended September 30, 2023, respectively. As of September 30, 2023, the Company had $38.5 million and $19.6 million as current and non-current deferred revenue recognized under the PRA, respectively.

SWK Royalty Purchase Agreement

Pursuant to a royalty purchase agreement (RPA) with SWK Funding LLC (SWK), the Company sold its right to receive royalty payments on future sales of products subject to a licensing and development agreement, as amended, with Alimera (the Amended Alimera Agreement) for an upfront cash payment of $16.5 million. The Company classified the proceeds received from SWK as deferred revenue at inception of the RPA and is recognizing revenue as royalty payments are made from Alimera to SWK. The Company recognized $249,000 and $737,000 of royalty revenue related to the RPA for the three and nine months ended September 30, 2023, respectively, and $240,000 and $663,000 of royalty revenue related to the RPA for the three and nine months ended September 30, 2022, respectively. As of September 30, 2023, the Company had $1.3 million and $12.7 million as current and non-current deferred revenue recognized under the RPA, respectively. As of December 31, 2022, the Company classified $1.2 million and $13.6 million as current and non-current deferred revenue recognized under the RPA, respectively.

Ocumension Therapeutics

Pursuant to license agreements and a Memorandum of Understanding signed with the Company, Ocumension has:

- An exclusive license for the development and commercialization of its three-year micro insert using the Durasert technology for the treatment of posterior segment uveitis of the eye (YUTIQ in the U.S.) in Mainland China, Hong Kong, Macau and Taiwan at its own cost and expense in return for royalties based on sales with the Company supplying products for clinical trials and commercial sale;
- An exclusive license for the development and commercialization in Mainland China, Hong Kong, Macau and Taiwan of DEXYCU for the treatment of post-operative inflammation following ocular surgery at its own cost and expense in return for royalties based on sales with the Company supplying product for clinical trials and commercial sale; and
- Exclusive rights to develop and commercialize YUTIQ and DEXYCU products under its own brand names in South Korea and other jurisdictions across Southeast Asia in Brunei, Burma (Myanmar), Cambodia, Timor-Leste, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam, at its own cost and expense in return for royalties based on sales with the Company supplying product for clinical trials and commercial sale.

The Chief Executive Officer of Ocumension is a member of the Company's board of directors.

During the three and nine months ended September 30, 2023, the Company recognized $0 and $471,000, respectively, of revenue from sales of product supply to Ocumension under the supply agreement and recorded this amount in product sales, net on the condensed consolidated statements of operations and comprehensive loss. The Company recognized approximately $17,000 and $65,000 of license and collaboration revenue, respectively, related to additional technical assistance during the three and nine months ended September 30, 2023. During the three and nine months ended September 30, 2022, in addition to $20,000 and $87,000 of revenue from product sales, respectively, the Company recognized approximately $50,000 and $158,000 of license and collaboration revenue, respectively, related to additional technical assistance. No royalty income was recorded for the three and nine months ended September 30, 2023 and 2022.

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

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

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

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

The Company recorded no revenue from product sales, license and collaboration revenue, or royalty income for the three and nine months ended September 30, 2023 and 2022 related to this agreement.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Prepaid expenses	$ 1,610	$ 2,723
Prepaid clinical trials	6,932	6,353
Other	549	782
Total prepaid expenses and other current assets	$ 9,091	$ 9,858

5. Inventory

Inventory consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials	$ 1,271	$ 1,410
Work in process	1,864	1,078
Finished goods	1,442	398
Total inventory	$ 4,577	$ 2,886

6. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Personnel costs	$ 8,470	$ 9,515
Clinical trial costs	2,067	3,308
Due to Alimera (see Note 3)	1,579	—
Professional fees	937	761
Sales chargebacks, rebates and other revenue reserves	181	1,017
Other	183	1,758
Total accrued expenses	$ 13,417	$ 16,359

7. Leases

On March 8, 2022, the Company amended the lease for its headquarters in Watertown, Massachusetts totaling 21,649 square feet (i) to extend the term to May 31, 2028 for 13,650 square feet of laboratory and manufacturing operations space, with the landlord agreeing to provide the Company a construction allowance of up to $555,960 to be applied toward upgrades and improvements within the space; (ii) to rent an additional 11,999 square feet of office space within the building through May 31, 2028 (New Premises); and (iii) to terminate a portion of the lease comprising 7,999 square feet of office space in the building in accordance with its existing contractual term on May 31, 2025. The amendment also reinstated the Company's right to extend the lease for the space it occupies after May 31, 2025 for one additional period of five years. Rent for the extension period would be at the fair market rent for comparable space in comparable properties in the Watertown area. During the second quarter of 2022, the Company recognized a $2.9 million increase to its lease liabilities and right-of-use (ROU) assets resulting from the lease amendment for the term extension of the laboratory and manufacturing operations space.

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

The Company previously provided a cash-collateralized $150,000 irrevocable standby letter of credit as security for the Company's obligations under the lease, which will remain in effect through the period that is four months beyond the expiration date of the amended lease. The Company will also be required to pay its proportionate share of certain operating costs and property taxes applicable to the leased premises in excess of new base year amounts.

On January 23, 2023, the Company entered into a lease agreement for its new standalone manufacturing facility, including office and lab space located at 600 Commerce Drive, Northbridge, Massachusetts. The new leased premises will consist of approximately 40,000 square feet. The lease includes a non-cancellable lease term of fifteen years and four months, with two options to extend the lease term for two additional terms of either five years or ten years at 95% of the then-prevailing fair market rent. The lease term will commence upon the substantial completion of construction of the facility and related leasehold improvements, which are owned by the lessor, to prepare the premises for the Company's intended use, which is currently expected to occur during the second half of 2024. The Company's obligation to pay base rent will begin four months following the commencement of the lease term. The lease will create significant rights and obligations for the Company, including the payment of base rent on monthly basis, of

which the Company estimates will total approximately $40.8 million during the initial non-cancellable term of the lease (i.e., fifteen years and four months). The Company is responsible for real estate taxes, maintenance, and other operating expenses applicable to the leased premises. As of the date the condensed consolidated financial statements were issued, a lease commencement date in accordance with ASC 842, *Leases*, had not occurred, as such, no ROU or lease liability has been recorded as of September 30, 2023.

Since the Company elected to account for each lease component and its associated non-lease components as a single combined component, all contract consideration was allocated to the respective lease components. The expected lease terms include non-cancellable lease periods. Renewal option periods have not been included in the determination of the lease terms as they are not deemed reasonably certain of exercise. Variable lease payments, such as common area maintenance, real estate taxes and property insurance are not included in the determination of the lease's ROU asset or lease liability.

As of September 30, 2023, the weighted average remaining term of the Company's operating leases was 4.5 years and the weighted average discount rate was 5.84%.

Supplemental balance sheet information related to operating leases as of September 30, 2023 and December 31, 2022 are as follows (in thousands):

	September 30, 2023	December 31, 2022
Other current liabilities – operating lease current portion	$ 1,058	$ 543
Operating lease liabilities – noncurrent portion	5,185	5,984
Total operating lease liabilities	$ 6,243	$ 6,527

Operating lease expense recognized related to ROU assets was $356,000 and $263,000, excluding $47,000 and $2,000 of variable lease costs, for each of the three months ended September 30, 2023 and 2022, respectively, which consisted of $291,000 and $240,000 for research and development expense and $65,000 and $23,000 for general and administrative expense, respectively, and was included in the accompanying condensed consolidated statements of operations and comprehensive loss. Operating lease expense recognized related to ROU assets was $1,067,000 and $781,000, excluding $106,000 and $8,000 of variable lease costs, during each of the nine months ended September 30, 2023 and 2022, respectively, which consisted of $873,000 and $637,000 for research and development expense, $0 and $53,000 for sales and marketing expense, and $194,000 and $91,000 for general and administrative expense, respectively, and was included in the accompanying condensed consolidated statements of operations and comprehensive loss. Cash paid for amounts included in the measurement of operating lease liabilities was $274,000 and $164,000 for the three months ended September 30, 2023 and 2022, respectively, and $563,000 and $595,000 for the nine months ended September 30, 2023 and 2022, respectively.

The Company's total future minimum lease payments under non-cancellable leases at September 30, 2023 were as follows (in thousands):

	Operating Leases
Remainder of 2023	$ 346
2024	1,392
2025	1,494
2026	1,589
2027	1,637
Thereafter	693
Total lease payments	$ 7,151
Less imputed interest	(908)
Total	$ 6,243

8. Loan Agreements

SVB Loan Agreement

The Company's loans (SVB Loan) under an agreement (the SVB Loan Agreement) with First Citizens BancShares (First Citizens), as successor to Silicon Valley Bank (SVB), as lender (the Lender), were originally due and payable on January 1, 2027. The loans bore interest that was payable monthly in arrears at a per annum rate equal to (i) with respect to the term facility, the greater of (x) the Wall Street Journal prime rate plus 2.25% and (y) 5.50% and (ii) with respect to the revolving facility, the Wall Street Journal Prime Rate. Commencing on February 1, 2024, the Company was scheduled to begin repaying the principal of the term facility in 36 consecutive equal monthly installments. At maturity or if earlier prepaid, the Company was also required to pay an exit fee equal to 2.00% of the aggregate principal amount of the term facility.

On May 17, 2023, the Company utilized a portion of the Upfront Payment from the PRA with Alimera (see Note 3) and repaid in full all outstanding amounts under the SVB Loan Agreement. The SVB Loan Agreement was terminated, and all security interests and other liens granted to or held by the Lender were terminated and released. This payment included (i) the remaining $30.0 million principal portion of the SVB Loan, (ii) $600,000, representing a prepayment fee equal to 2.00% of the aggregate principal amount of the term facility, (iii) a $600,000 exit fee, (iv) accrued and unpaid interest of $139,000 through the pay-off date, and (v) $155,000, representing in the aggregate a statement fee, termination fee and unused credit line fee under the revolving facility. As a result of the early repayment of the SVB Loan Agreement, the Company recorded a loss on extinguishment of debt of $1.4 million for the nine months ended September 30, 2023 related to the write-off of the remaining balance of unamortized debt discount.

9. Stockholders’ Equity

ATM Facility

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

During the three and nine months ended September 30, 2023, the Company sold 902,769 shares of its common stock at a weighted average price of $11.05 per share for gross proceeds of approximately $10.0 million. Share issue costs, including sales agent commissions, totaled approximately $434,000 during the reporting periods.

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

Warrants to Purchase Common Shares

Pursuant to a credit agreement, the Company issued a warrant to SWK to purchase (i) 40,910 shares of the Company’s common stock on March 28, 2018 at an exercise price of $11.00 per share with a seven-year term and (ii) 7,773 shares of the Company’s common stock on June 26, 2018 at an exercise price of $19.30 per share with a seven-year term. The weighted average exercise price for the warrants as of January 1, 2021 and 2022, September 30, 2022 and 2023 was $12.33 per share. At September 30, 2023, the weighted average remaining life of the warrant was approximately 1.53 years.

10. Share-Based Payment Awards

Equity Incentive Plan

Prior to June 20, 2023, the Company had authorized the issuance of 5,900,000 shares of the Company's common stock under the 2016 Long-Term Incentive Plan (the 2016 Plan), of which 184,904 shares remained available for future grants.

At the Company’s Annual Meeting of Stockholders held on June 20, 2023, the Company’s stockholders approved the adoption of the 2023 Long Term Incentive Plan (the 2023 Plan) and authorized up to 3,500,000 shares of common stock reserved for issuance to participating employees plus the 184,904 shares that remained available for grant under the 2016 Plan upon adoption of the 2023 Plan plus any shares that would have otherwise have become available for grant under the Company's 2008 Plan or the 2016 Plan as a result of termination or forfeiture of awards under such plan. The 2023 Plan replaced the 2008 Plan and the 2016 Plan. At September 30, 2023, a total of approximately 2,400,000 shares were available for new awards under the 2023 Plan.

Starting March 2022, the Company granted non-statutory stock options to new employees as inducement awards to enter into employment with the Company. The grants were approved by the Compensation Committee of the Board of Directors and awarded in accordance with Nasdaq Listing Rule 5635(c)(4). Although not awarded under the 2023 Plan or the 2016 Plan, the grants are subject to and governed by the terms and conditions of the plan in effect at the time of the grant.

Stock Options

The following table provides a reconciliation of stock option activity under the Company's equity incentive plan and for inducement awards for the nine months ended September 30, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
			(in years)	(in thousands)
Outstanding at January 1, 2023	4,082,555	$ 13.79		
Granted	2,739,861	4.28		
Exercised	(56,090)	11.31		
Forfeited	(373,911)	7.01		
Expired	(51,753)	25.98		
Outstanding at September 30, 2023	6,340,662	$ 10.00	8.07	$ 10,437
Exercisable at September 30, 2023	2,354,229	$ 15.69	6.54	$ 42

The Company's stock options generally vest over four years with 25% vesting after one year of service followed by ratable monthly vesting over the remaining three years. Nonemployee awards are granted similar to the Company's employee awards. All option grants have a 10-year term. Options to purchase a total of 938,000 shares of the Company's common stock vested during the nine months ended September 30, 2023.

In determining the grant date fair value of option awards during the nine months ended September 30, 2023, the Company applied the Black-Scholes option pricing model based on the following key assumptions:

Option life (in years)	5.27 - 6.08
Stock volatility	78% - 88%
Risk-free interest rate	3.44% - 4.38%
Expected dividends	0.0%

The following table summarizes information about employee, non-executive director and external consultant stock options for the nine months ended September 30, 2023 (in thousands except per share amount):

	Nine Months Ended September 30, 2023
Weighted average grant date fair value per share	$ 3.07
Total cash received from exercise of stock options	634
Total intrinsic value of stock options exercised	138

Time-Vested Restricted Stock Units

Time-vested restricted stock units (RSUs) issued to date under the 2016 Plan and the 2023 Plan generally vest on a ratable annual basis over 3 years. The related stock-based compensation expense is recorded over the requisite service period, which is the vesting period. The fair value of all time-vested RSUs is based on the closing share price of the Company's common stock on the date of grant.

The following table provides a reconciliation of RSU activity under the 2016 Plan and the 2023 Plan for the nine months ended September 30, 2023:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2023	509,170	$ 10.81
Granted	1,071,354	3.92
Vested	(201,414)	11.04
Forfeited	(45,368)	8.63
Nonvested at September 30, 2023	1,333,742	$ 5.31

At September 30, 2023, the weighted average remaining vesting term of the RSUs was 1.45 years.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the ESPP) allows qualified participants to purchase the Company's common stock twice a year at 85% of the lesser of the average of the high and low sales price of the Company's common stock on (i) the first trading day of the relevant offering period and (ii) the last trading day of the relevant offering period. The number of shares of the Company's common stock each employee may purchase under this plan, when combined with all other employee stock purchase plans, is limited to the lower of an aggregate fair market value of $25,000 during each calendar year, or 5,000 shares of the Company's common stock in any one offering period. The Company has maintained consecutive six-month offering periods since August 1, 2019. During the three and nine months ended September 30, 2023, 43,335 and 107,056 shares of the Company's common stock were issued pursuant to the ESPP.

The Company estimated the fair value of the option component of the ESPP shares at the date of grant using a Black-Scholes valuation model. During the three and nine months ended September 30, 2023 and 2022, the compensation expense from ESPP shares was immaterial.

Stock-Based Compensation Expense

The Company's condensed consolidated statements of comprehensive loss included total compensation expense from stock-based payment awards as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Compensation expense included in:				
Research and development	$ 1,263	$ 1,277	$ 3,405	$ 4,762
Sales and marketing	60	290	290	1,195
General and administrative	2,306	1,632	4,772	4,859
	$ 3,629	$ 3,199	$ 8,467	$ 10,816

At September 30, 2023, there was approximately $13.0 million of unrecognized compensation expense related to outstanding equity awards under the 2023 Plan, the 2016 Plan, the inducement awards and the ESPP that is expected to be recognized as expense over a weighted average period of approximately 1.58 years.

11. License and Asset Purchase Agreements

Equinox Science, LLC

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

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

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

On May 2, 2022, concurrent with the Company entering into the Betta License Agreement (see Note 3), the Company entered into Amendment #1 to the Equinox License Agreement, pursuant to which the Original Field was expanded to cover the prevention or treatment of ophthalmology indications using the Company's proprietary localized delivery technologies, and certain conforming changes were made to the Equinox License Agreement in connection therewith.

No R&D expense was recorded for the three and nine months ended September 30, 2023 related to the Equinox License Agreement, as no milestones were achieved. No R&D expense was recorded for the three and nine months ended September 30, 2022 related to the Equinox License Agreement.

12. Restructuring Charges

Fiscal Year 2023 Restructuring Plan

On May 17, 2023, the Company executed a restructuring plan (the Restructuring Plan) with regard to its commercial operations. The Restructuring Plan is a result of the PRA with Alimera (see Note 3). In connection with the Restructuring Plan, the Company, among other things, downsized its current workforce, with reductions coming primarily from its YUTIQ sales force and supporting commercial operations. The Company recorded $0 and approximately $1.4 million of YUTIQ sales force personnel and employee severance for discretionary termination benefits during the three and nine months ended September 30, 2023, upon notification of the affected YUTIQ sales force personnel and employees in accordance with ASC 420, Exit or Disposal Cost Obligations. The charges of $1.4 million were recognized in the Company's operating results, of which $300,000, $940,000, and $165,000 were included in research and development expense, sales and marketing expense and general and administrative expense, respectively.

The Company expects the implementation of the Restructuring Plan will be substantially completed by the end of fiscal year 2023. The charges that the Company expects to incur in connection with the Restructuring Plan are subject to a number of assumptions, and actual results may differ materially. The Company may also incur additional costs not currently contemplated due to events that may occur as a result of, or that are associated with, the Restructuring Plan.

The following table summarizes the restructuring activities related to the Plan for the nine months ended September 30, 2023 (in thousands):

	Employee Severance and Benefits	Total
Beginning balance at January 1, 2023	—	—
Restructuring charges	1,405	1,405
Cash payments	(1,062)	(1,062)
Ending balance at September 30, 2023	$ 343	$ 343

13. Fair Value Measurements

The following tables summarize the Company's assets by significant categories carried at fair value measured on a recurring basis by valuation hierarchy (in thousands):

	September 30, 2023					
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
Level 1:						
Money market funds	$ 126,234	$ —	$ —	$ 126,234	$ 126,234	$ —
Subtotal	$ 126,234	$ —	$ —	$ 126,234	$ 126,234	$ —
Level 2:						
U.S. Treasury securities	$ 2,977	$ —	$ —	$ 2,977	$ —	$ 2,977
Subtotal	$ 2,977	$ —	$ —	$ 2,977	$ —	$ 2,977
Total	$ 129,211	$ —	$ —	$ 129,211	$ 126,234	$ 2,977

	December 31, 2022					
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
Level 1:						
Money market funds	$ 77,191	$ —	$ —	$ 77,191	$ 77,191	$ —
Subtotal	$ 77,191	$ —	$ —	$ 77,191	$ 77,191	$ —
Level 2:						
Commercial paper	$ 18,701	$ —	$ —	$ 18,701	$ —	$ 18,701
U.S. Treasury securities	35,266	—	(55)	35,211	4,984	30,227
Subtotal	$ 53,967	$ —	$ (55)	$ 53,912	$ 4,984	$ 48,928
Total	$ 131,158	$ —	$ (55)	$ 131,103	$ 82,175	$ 48,928

At September 30, 2023 a total of $126.2 million or 100% of the Company's interest-bearing cash equivalent balances were concentrated in one institutional money market fund that has investments consisting primarily of Repurchase Agreements, U.S Treasuries, and U.S. Government Agency Debts. The Company had no interest-bearing cash equivalent balance consisted of investment-grade U.S. Treasury securities at September 30, 2023.

At December 31, 2022, a total of $77.2 million, or 93.9% of the Company's interest-bearing cash equivalent balances were concentrated in one institutional money market fund that has investments consisting primarily of certificates of deposit, commercial paper, time deposits, Treasury repurchase agreements and U.S. Treasury securities. A total of $5.0 million, or 6.1%, of the Company's interest-bearing cash equivalent balances consisted of investment-grade U.S. Treasury securities at December 31, 2022. Generally, these deposits may be redeemed upon demand and, therefore, the Company believes they have minimal risk.

Marketable securities consist of investments with an original or remaining maturity of greater than three months but less than one year at the date of purchase. The Company had investments of $3.0 million and $48.9 million in marketable securities at September 30, 2023 and December 31, 2022, respectively.

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

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

14. Contingencies

Legal Proceedings

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

U.S. Department of Justice Subpoena

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

15. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by adding to the basic weighted average number of common shares outstanding the total number of dilutive common equivalent shares using the treasury stock method, unless the effect is anti-dilutive. Potentially dilutive shares were not included in the calculation of diluted net loss per share for each of the three and nine months ended September 30, 2023 and 2022 as their inclusion would be anti-dilutive.

The Company issued 3,272,727 shares of Pre-Funded Warrants (PFW) to purchase common stock, in connection with the November 2021 underwritten public offering. The PFWs were included in the basic and diluted net loss per share calculation during the three and nine months ended September 30, 2022 and 2023, respectively.

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

	September 30,	
	2023	**2022**
Stock options	6,340,662	4,031,665
ESPP	8,522	12,849
Warrants	48,683	48,683
Restricted stock units	1,333,742	529,678
	7,731,609	4,622,875

16. Related Party Transactions

The former Chief Executive Officer and current Executive Vice Chair of the Board of Directors of the Company (the Board), joined the Board of Directors of Altasciences Company Inc. (Altasciences) in April 2021. In May 2021, Altasciences acquired Calvert Laboratories, Inc. (Calvert Labs), an entity with which the Company conducts business. The Company recorded $413,000 and $1.3 million of research and development expense in the accompanying condensed consolidated statements of operations and comprehensive loss related to preclinical and analytical services provided by Altasciences for the three and nine months ended September 30, 2023, respectively. The Company recorded $237,000 and $1.5 million of research and development expense in the accompanying condensed consolidated statements of operations and comprehensive loss related to preclinical and analytical services provided by Altasciences for the three and nine months ended September 30, 2022, respectively. Additionally, the Company recorded accounts payable of $469,000 and $201,000, and prepaid expenses of $610,000 and $752,000 in the accompanying condensed consolidated balance sheets related to services provided by Altasciences, as of September 30, 2023 and December 31, 2022, respectively.

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

Note Regarding Forward-Looking Statements

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

- the potential for EYP-1901, as an investigational sustained delivery intravitreal treatment deploying an erodible Durasert E insert of vorolanib, a selective and patented tyrosine kinase inhibitor (TKI) targeting wet age-related macular degeneration (wet AMD), non-proliferative diabetic retinopathy (NPDR) and diabetic macular edema (DME);
- our expectations regarding the timing and outcome of our ongoing Phase 2 clinical trials for EYP-1901 for the treatment of wet AMD, and NPDR;
- our expectations regarding the timing and clinical development of our product candidates, including EYP-1901 and EYP-2301;
- our strategic alliances with other companies;
- our ability to manufacture YUTIQ, EYP-1901 or any future products or product candidates, in sufficient quantities and quality;
- our belief that our cash, cash equivalents, and investments in marketable securities of $136.0 million at September 30, 2023 will fund our operating plan into 2025 under current expectations regarding the timing and outcomes of our Phase 2 clinical trials for EYP-1901;
- our ability to obtain additional capital in sufficient amounts and on terms acceptable to us, and the consequences of failing to do so;
- our future expenses and capital expenditures;
- our expectations regarding the timing and results of the subpoena from the U.S. Attorney's Office for the District of Massachusetts seeking production of documents related to sales, marketing and promotional practices (DOJ Subpoena), including as pertain to DEXYCU;
- our expectations regarding our ability to obtain and adequately maintain sufficient intellectual property protection for EYP-1901 and any future products or product candidates, and to avoid claims of infringement of third-party intellectual property rights;
- the extent to which our business, clinical studies, the medical community and the global economy will continue to be materially and adversely impacted by the effects of the COVID-19 pandemic (the Pandemic), or by other pandemics, epidemics or outbreaks;
- the potential to receive future payments from Alimera pursuant to our May 2023 sale and license agreement with Alimera;
- our expectation that we will continue to incur significant expenses and that our operating losses and our net cash outflows to fund operations will continue for the foreseeable future; and
- the effect of legal and regulatory developments.

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

The following are some of the factors that could cause actual results to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements:

- our ability to realize the anticipated operational benefits and future cash flow from the May 2023 sale of YUTIQ® to Alimera Sciences, Inc. (Alimera);
- the sufficiency of our existing cash resources into 2025;
- our access to needed capital;
- our ability to manufacture YUTIQ in sufficient quantities pursuant to our commercial supply agreements with Alimera and Ocumension Therapeutics (Ocumension);
- the effectiveness and timeliness of our preclinical studies and clinical trials, and the usefulness of the data;

- our expectations regarding the timing and clinical development of our product candidates, including EYP-1901 and EYP-2301, and the potential for EYP-1901 as a sustained delivery treatment for serious eye diseases, including wet AMD, NPDR and DME;
- fluctuations in our operating results;
- the duration, scope and outcome of any governmental inquiries or investigations;
- the extent to which the Pandemic impacts our business, the medical community and the global economy;
- the success of current and future license and collaboration agreements, including our agreements with Alimera, Ocumension, Equinox Science, LLC (Equinox) and Betta Pharmaceuticals Co., Ltd. (Betta);
- our dependence on contract research organizations, vendors and investigators;
- effects of competition and other developments affecting sales of products;
- market acceptance of our products;
- protection of intellectual property and avoiding intellectual property infringement;
- product liability; and
- other factors described in our filings with the SEC.

We cannot guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The risks set forth under Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 describe major risks to our business, and you should read and interpret any forward-looking statements together with these risks. A variety of factors, including these risks, could cause our actual results and other expectations to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements. Should known or unknown risks materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected in the forward-looking statements. You should bear this in mind as you consider any forward-looking statements.

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

DEXYCU®, DURASERT® and DURASERT E™ are our trademarks. Retisert® and Vitrasert® are Bausch & Lomb's trademarks. ILUVIEN® is Alimera's trademark. YUTIQ® was assigned to Alimera in certain jurisdictions pursuant to the product rights agreement (PRA) and licensed to Ocumension in other jurisdictions pursuant to the license agreement with Ocumension in November 2018. Verisome® is a trademark owned by Ramscor, Inc. and exclusively licensed to us. The reports we file or furnish with the SEC, including this Quarterly Report on Form 10-Q, also contain trademarks, trade names and service marks of other companies, which are the property of their respective owners.

Our Business

Overview

We are a company committed to developing and commercializing innovative therapeutics to help improve the lives of patients with serious eye disorders. Our pipeline leverages our proprietary bioerodible DURASERT E™ technology for sustained intraocular drug delivery including EYP-1901, an investigational treatment delivering vorolanib currently in Phase 2 clinical trials for wet AMD, the leading cause of vision loss among people 50 years of age and older in the United States, and NPDR. We are also advancing EYP-2301 into pre-clinical development delivering razuprotafib in Durasert E for the potential treatment of diabetic eye diseases.

Recent Developments

- In October 2023, we announced the appointment of Stuart Duty to the Company's Board of Directors. Mr. Duty is an experienced financial executive with over 30 years of experience in finance and investment banking. Mr. Duty has focused primarily on biotechnology and specialty pharmaceuticals clients for much of his career, advising senior executives and boards on a range of financing activities and strategic transactions.
- In October 2023, we announced the promotion of George Elston, our Chief Financial Officer, to Executive Vice President.
- In July 2023, we announced the appointment of Jay S. Duker, M.D. as President and Chief Executive Officer (CEO). Dr. Duker has transitioned from his most recent role as President and Chief Operating Officer (COO). Dr. Duker was also appointed to the Board of Directors of the Company (Board), effective July 10, 2023. Nancy S. Lurker has transitioned to the role of Executive Vice Chair from the position of CEO. Ms. Lurker was also appointed to serve as Vice Chair of the Board.

- In May 2023, we entered into a definitive agreement pursuant to which we granted an exclusive license and rights to YUTIQ to Alimera. Under the terms of the agreement, Alimera received global rights to YUTIQ outside of China, Hong Kong, Taiwan, Macau and Southeast Asia, where YUTIQ is exclusively licensed to Ocumension and we will continue to receive royalties from Ocumension for its YUTIQ sales. In exchange for the rights granted to Alimera under the agreement, we received a $75 million upfront cash payment at closing and will receive an additional $7.5 million in equal quarterly installments in 2024. In addition, commencing in 2025, we will receive a low to mid double-digit royalty on Alimera's related U.S. net sales above defined thresholds for the calendar years 2025-2028.
- In May 2023, we received confirmation from the FDA that the September 2021 inspection of our Watertown, MA facility has been classified as Voluntary Action Indicated (VAI) and is no longer considered Official Action Indicated (OAI). A VAI classification means that the agency is not prepared to take or recommend further regulatory action.

R&D Highlights

- In September 2023, we disclosed the advancement of pipeline program EYP-2301 into pre-clinical development. EYP-2301 delivers razuprotafib, a small molecule inhibitor of vascular endothelial protein tyrosine phosphatase (VE-PTP) with potential vasculature stabilizing activity, utilizing Durasert E.
- In September 2023 we announced positive interim masked safety data for our lead product candidate EYP-1901 from the ongoing Phase 2 PAVIA trial evaluating EYP-1901 as a potential nine-month treatment for moderate to severe NPDR, and DAVIO 2 trial as a potential six-month maintenance treatment for wet AMD. All treatment arms in the PAVIA trial have reached at least three-months post-dosing follow-up as of September 1, 2023. Approximately 170 patients have received EYP-1901 with a minimum of three months of follow-up post injection from the ongoing Phase 2 PAVIA and DAVIO 2 clinical trials and the completed DAVIO 1 trial with no reported drug-related ocular severe adverse events (SAEs) and no reported drug-related systemic SAEs.
- In July 2023 we presented the interim safety and patient demographics of the DAVIO 2 clinical trial in wet AMD at the OIS Retina Innovation Summit in July. As of July 1, 2023, there were no reported drug related ocular serious adverse events (SAEs) or drug related systemic SAEs. An analysis of the reported patient demographics suggests that Phase 2 DAVIO 2 patients have, on average, better starting visual acuity and less central subfield thickness than the Phase 1 DAVIO cohort.
- In June 2023, we completed enrollment in the Phase 2 PAVIA clinical trial evaluating EYP-1901 as a potential nine-month treatment for moderate to severe non-proliferative diabetic retinopathy (NPDR). The trial enrolled 77 patients randomly assigned to one of two doses of EYP-1901 (approximately 2 mg or 3 mg), or to the control group receiving a sham injection. EYP-1901 is delivered with a single intravitreal injection in the physician's office. The primary efficacy endpoint of the trial is improvement of at least two diabetic retinopathy severity scale (DRSS) levels as of week 36 after the EYP-1901 injection. Secondary endpoints include reduction in vision-threatening complications, occurrence of diabetic macular edema and/or proliferative disease, retinal ischemia/nonperfusion and safety.
- In March 2023, we completed enrollment in the Phase 2 "Durasert® and Vorolanib in Ophthalmology 2" (DAVIO 2) clinical trial evaluating EYP-1901 as a potential six-month maintenance treatment for wet AMD. The trial enrolled a total of 160 patients. All patients were previously treated with a standard-of-care anti-VEGF therapy and were randomly assigned to one of two doses of EYP-1901 or to an aflibercept on-label control.
- Phase 2 PAVIA clinical trial evaluating EYP-1901 in non-proliferative diabetic retinopathy (NPDR) enrollment completion is expected in 2Q 2023, versus 4Q 2023, due to accelerated enrollment and trial size reduction to a minimum of 60 patients based on body of evidence and proof of concept for vorolanib in DAVIO 1 and ongoing DAVIO 2 trial in wet AMD.
- In February 2023, we entered into a research collaboration with Rallybio to evaluate sustained delivery of their inhibitor of complement component 5 (C5) using our proprietary Durasert technology for sustained intraocular drug delivery. The initial focus will be on geographic atrophy, an advanced form of age-related macular degeneration that leads to irreversible vision loss.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with GAAP requires that we make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates, judgments and assumptions on historical experience, anticipated results and trends, and on various other factors that we believe are reasonable under the circumstances at the time. By their nature, these estimates, judgments and assumptions are subject to an inherent degree of uncertainty. Actual results may differ from our estimates under different assumptions or conditions. In our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, we set forth our critical accounting policies and estimates, which included revenue recognition, reserves for variable consideration associated with our commercial revenue and recognition of expense in outsourced clinical trial agreements. See Note 2 of the notes to our unaudited condensed consolidated financial statements contained in this quarterly report on Form 10-Q for a description of our accounting policies and estimates for reserves for variable consideration related to product sales.

Results of Operations

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022:

	Three Months Ended September 30,		Change	
	2023	2022	Amounts	%
Revenues:				
Product sales, net	$ 816	$ 9,720	$ (8,904)	-92%
License and collaboration agreements	14,137	52	14,085	27087%
Royalty income	249	240	9	4%
Total revenues	15,202	10,012	5,190	52%
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	1,202	1,405	(203)	-14%
Research and development	17,363	11,162	6,201	56%
Sales and marketing	479	6,016	(5,537)	-92%
General and administrative	10,556	9,212	1,344	15%
Amortization of acquired intangible assets	—	615	(615)	-100%
Total operating expenses	29,600	28,410	1,190	4%
Loss from operations	(14,398)	(18,398)	4,000	-22%
Other income (expense):				
Interest and other income, net	1,786	640	1,146	179%
Interest expense	—	(662)	662	-100%
Loss on extinguishment of debt	—	—	—	0%
Total other income (expense), net	1,786	(22)	1,808	-8218%
Net loss	$ (12,612)	$ (18,420)	$ 5,808	-32%
Net loss per share - basic and diluted	$ (0.33)	$ (0.49)	$ 0.16	-33%
Weighted average shares outstanding - basic and diluted	38,341	37,338	1,003	3%
Net loss	$ (12,612)	$ (18,420)	$ 5,808	-32%

Product Sales, Net

Product sales, net represents the gross sales of YUTIQ and DEXYCU less provisions for product sales allowances. Product sales, net decreased by $8.9 million, or 92%, to $816,000 for the three months ended September 30, 2023 compared to $9.7 million for the three months ended September 30, 2022. This decrease was driven by the agreement that granted license and rights to YUTIQ to Alimera in May 2023 and de minimis DEXYCU sales in 2023 due to the loss of pass-through reimbursement as of January 1, 2023. For the three months ended September 30, 2023, product sales, net were primarily from the sales of product supply under the existing commercial supply agreement (CSA) with Alimera.

Customer demand has a direct impact on product orders from our specialty distributors that we record as net product sales. Net product revenue represents product purchased by our distributors whereas customer demand represents purchases of product by physician practices and ambulatory surgical centers (ASCs) from our specialty distributors.

License and Collaboration Agreement

License and collaboration agreement revenues were $14.1 million for the three months ended September 30, 2023 compared to $52,000 for the three months ended September 30, 2022. This increase was related to the recognition of a portion of deferred revenue related to the agreement to license YUTIQ product rights to Alimera, as well as invoices to Alimera as part of the transition services agreement with Alimera.

Royalty Income

Royalty income increased by $9,000, or 4%, to $249,000 for the three months ended September 30, 2023 compared to $240,000 for the three months ended September 30, 2022. The increase was attributable to higher non-cash Alimera royalties payable to SWK Funding LLC (SWK).

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, decreased by $203,000, or 14%, to $1.2 million for the three months ended September 30, 2023 from $1.4 million for the three months ended September 30, 2022. This decrease was primarily due to lower sales volume to Alimera compared to commercial sales in the year prior, partially offset by additional distribution costs passed back to Alimera as part of the transition services agreement. Revenue related to these costs passed back to Alimera are included in license and collaboration revenues.

Research and Development

Research and development expenses increased by $6.2 million, or 56%, to $17.4 million for the three months ended September 30, 2023 from $11.2 million for the same period in the prior year. This increase was attributable primarily to (i) $4.4 million in increased clinical trial costs, related to the ongoing Phase 2 DAVIO2 and PAVIA clinical trials for EYP-1901, and (ii) $1.8 million in higher personnel expense to support clinical trial activity and product development.

Sales and Marketing

Sales and marketing expenses decreased by $5.5 million, or 92%, to $479,000 for the three months ended September 30, 2023 from $6.0 million for the same period in the prior year. This decrease was primarily driven by (i) reduced YUTIQ promotion of $4.7 million due to the agreement that granted license and rights to YUTIQ to Alimera in Q2 2023, (ii) the discontinuation of promotional activities for DEXYCU in 2023 of $771,000, and (iii) $65,000 of sales related expenses.

General and Administrative

General and administrative expenses increased by $1.3 million, or 15%, to $10.6 million for the three months ended September 30, 2023 from $9.2 million for the same period in the prior year. This increase was primarily attributable to (i) $1.5 million in personnel and related expenses, including an increase of $677,000 in stock-based compensation, driven by an increase in personnel, a (ii) $562,000 increase in professional fees, partially offset by a (i) $769,000 decrease in other administrative expenses.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled $615,000 for the three months ended September 30, 2022. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon acquisition (Icon Acquisition). There was no amortization for the three months ended September 30, 2023 due to the impairment of the DEXYCU intangible asset in Q4 2022.

Interest (Expense) Income

Interest income from investments in marketable securities and institutional money market funds increased by $1.1 million, or 179%, to $1.8 million for the three months ended September 30, 2023 compared to $640,000 in the prior year quarter. This increase was due primarily to an increase in cash invested in marketable securities and higher interest rates in the current calendar quarter.

There was no interest expense in the three months ended September 30, 2023 due to the repayment of the SVB loan on May 17, 2023. Interest expense for the three months ended September 30, 2022 was $662,000.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended September 30,		Change	
	2023	2022	Amounts	%
Revenues:				
Product sales, net	$ 13,483	$ 30,048	$ (16,565)	-55%
License and collaboration agreements	17,768	160	17,608	11005%
Royalty income	739	663	76	11%
Total revenues	31,990	30,871	1,119	4%
Operating expenses:				
Cost of sales, excluding amortization of acquired intangible assets	3,634	4,916	(1,282)	-26%
Research and development	46,711	34,099	12,612	37%
Sales and marketing	11,504	19,592	(8,088)	-41%
General and administrative	28,854	26,321	2,533	10%
Amortization of acquired intangible assets	—	1,845	(1,845)	-100%
Total operating expenses	90,703	86,773	3,930	5%
Loss from operations	(58,713)	(55,902)	(2,811)	5%
Other income (expense):				
Interest and other income, net	4,611	1,067	3,544	332%
Interest expense	(1,247)	(2,408)	1,161	-48%
Gain (loss) on extinguishment of debt	(1,347)	(1,559)	212	-14%
Total other income (expense), net	2,017	(2,900)	4,917	-170%
Net loss	$ (56,696)	$ (58,802)	$ 2,106	-4%
Net loss per share - basic and diluted	$ (1.50)	$ (1.58)	$ 0.08	-5%
Weighted average shares outstanding - basic and diluted	37,804	37,305	499	1%
Net loss	$ (56,696)	$ (58,802)	$ 2,106	-4%

Product Sales, Net

Product sales, net represents the gross sales of YUTIQ and DEXYCU less provisions for product sales allowances. Product sales, net decreased by $16.6 million, or 55%, to $13.5 million for the nine months ended September 30, 2023 compared to $30.0 million for the nine months ended September 30, 2022. This decrease was driven by the agreement that granted license and rights to YUTIQ to Alimera in May 2023 and de minimis DEXYCU sales in 2023 due to the loss of pass-through reimbursement as of January 1, 2023. For the nine months ended September 30, 2023, the revenue from net product sales totaled $1.2 million was recognized from sales of product supply to Alimera under the CSA.

Customer demand has a direct impact on product orders from our specialty distributors that we record as net product sales. Net product revenue represents product purchased by our distributors whereas customer demand represents purchases of product by physician practices and ASCs from our specialty distributors.

License and Collaboration Agreement

License and collaboration agreement revenues increased by $17.6 million, to $17.8 million for the nine months ended September 30, 2023 compared to $160,000 for the nine months ended September 30, 2022. This increase was related to deferred revenue recognized as the performance obligations under the Alimera supply agreement have been fulfilled.

Royalty Income

Royalty income increased by $76,000, or 11%, to $739,000 for the nine months ended September 30, 2023 compared to $663,000 for the nine months ended September 30, 2022. The increase was attributable to higher non-cash Alimera royalties payable to SWK.

Cost of Sales, Excluding Amortization of Acquired Intangible Assets

Cost of sales, excluding amortization of acquired intangible assets, decreased by $1.3 million, or 26%, to $3.6 million for the nine months ended September 30, 2023 from $4.9 million for the nine months ended September 30, 2022. This decrease was primarily attributable to reduced revenue driven by a significant reduction in DEXYCU sales due to the loss of pass-through reimbursement as of January 1, 2023, as well as the transfer of YUTIQ to Alimera on May 17, 2023, and associated costs for costs of goods, royalties, and distribution fees, partially offset by a $533,000 inventory reserve for DEXYCU finished goods and components. These decreases were partially offset by additional distribution costs passed back to Alimera as part of the transition services agreement. Revenue related to these costs passed back to Alimera are included in license and collaboration revenues.

Research and Development

Research and development expenses increased by $12.6 million, or 37%, to $46.7 million for the nine months ended September 30, 2023 from $34.1 million for the same period in the prior year. This increase was attributable primarily to (i) $11.4 million in increased clinical trial costs, related to the ongoing Phase 2 DAVIO2 and PAVIA clinical trials, (ii) $1.8 million of increased personnel related costs for investment in new employees across the research and clinical organizations, and (iii) $1.5 million increased facility costs related to additional personnel. These increases were partially offset by a decrease of $2.1 million in clinical manufacturing cost.

Sales and Marketing

Sales and marketing expenses decreased by $8.1 million, or 41%, to $11.5 million for the nine months ended September 30, 2023 from $19.6 million for the same period in the prior year. This decrease was primarily driven by (i) reduced YUTIQ activities of $4.5 million due to the agreement that granted license and rights to YUTIQ to Alimera in Q2 2023, (ii) discontinuation of promotional activities for DEXYCU in 2023 of $3.3 million, and (iii) $323,000 of other marketing activities. These reductions were offset by a one-time charge in Q2 2023 of $940,000 for restructuring resulting from the sale of the YUTIQ franchise.

General and Administrative

General and administrative expenses increased by $2.5 million, or 10%, to $28.9 million for the nine months ended September 30, 2023 from $26.3 million for the same period in the prior year. This increase was attributable primarily to a (i) $2.5 million increase in professional fees, and a (ii) $1.2 million increase in personnel and related expenses, including a $88,000 decrease of stock-based compensation. These increases were partially offset by a $1.2 million decrease in other administrative costs.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets totaled $1.8 million for the nine months ended September 30, 2022. This amount was attributable to the DEXYCU product intangible asset that resulted from the Icon Acquisition. There was no amortization for the nine months ended September 30, 2023 due to the write-off of the DEXYCU intangible asset in Q4 2022.

Interest (Expense) Income

Interest income from investments in marketable securities and institutional money market funds increased $3.5 million, to $4.6 million for the nine months ended September 30, 2023 compared to $1.1 million for the same period in the prior year. This increase was due primarily to an increase in cash invested in marketable securities and increased interest rates in the current calendar year.

Interest expense decreased $1.2 million, or 48%, to $1.2 million for the nine months ended September 30, 2023, compared to $2.4 million for the same period in the prior year. We incurred lower interest expense primarily due to the repayment of the SVB loan on May 17, 2023.

Liquidity and Capital Resources

We have had a history of operating losses and an absence of significant recurring cash inflows from revenue, and at September 30, 2023 we had a total accumulated deficit of $728.0 million. Our operations have been financed primarily from sales of our equity

securities, issuance of debt and a combination of license fees, milestone payments, royalty income and other fees received from collaboration partners.

Financing Activities

Our loans (SVB Loan) under an agreement (the SVB Loan Agreement) with First Citizens BancShares (First Citizens), as successor to Silicon Valley Bank (SVB), as lender (the Lender), were originally due and payable on January 1, 2027. The loans bore interest that was payable monthly in arrears at a per annum rate equal to (i) with respect to the term facility, the greater of (x) the Wall Street Journal prime rate plus 2.25% and (y) 5.50% and (ii) with respect to the revolving facility, the Wall Street Journal Prime Rate. Commencing on February 1, 2024, we were scheduled to begin repaying the principal of the term facility in 36 consecutive equal monthly installments. At maturity or if earlier prepaid, we were also required to pay an exit fee equal to 2.00% of the aggregate principal amount of the term facility.

On May 17, 2023, we utilized a portion of the Upfront Payment from the Alimera PRA (see Note 3) and repaid in full all outstanding amounts under the SVB Loan Agreement. The SVB Loan Agreement was terminated, and all security interests and other liens granted to or held by the Lender were terminated and released. This payment included (i) the remaining $30.0 million principal portion of the SVB Loan, (ii) a $600,000, representing a prepayment fee equal to 2.00% of the aggregate principal amount of the term facility, (iii) a $600,000 exit fee, (iv) accrued and unpaid interest of $139,000 through the pay-off date, and (v) $155,000, representing in the aggregate a statement fee, termination fee and unused credit line fee under the revolving facility. As a result of the early repayment of the SVB Loan, we recorded a loss on extinguishment of debt of $1.4 million for the three months ended June 30, 2023 related to the write-off of the remaining balance of unamortized debt discount. For the three and nine months ended September 30, 2023, there are no remaining obligations related to the SVB Loan.

During the three and nine months ended September 30, 2023, we sold 902,769 shares of our common stock (Common Stock) utilizing our at-the-market facility (ATM) at a weighted average price of $11.05 per share for net proceeds of approximately $9.6 million.

Future Funding Requirements

At September 30, 2023, we had cash, cash equivalents, and investments in marketable securities of $136.0 million. We expect that our cash and cash equivalents and investments in marketable securities will fund our operating plan into 2025 under current expectations regarding the timing and outcomes of our Phase 2 clinical trials for EYP-1901 and our plans for EYP-2301. Due to the difficulty and uncertainty associated with the design and implementation of preclinical studies and clinical trials, we will continue to assess our cash and cash equivalents and future funding requirements. However, there is no assurance that additional funding will be achieved and that we will succeed in our future operations. We expect to continue to incur substantial additional operating losses for at least the next several years as we continue to develop our product candidates and seek marketing approval and, subject to obtaining such approval, the eventual commercialization of our product candidates. If we obtain marketing approval for any of our product candidates, we will incur significant sales, marketing and manufacturing expenses. We also expect to continue to incur significant costs to comply with corporate governance, internal controls and similar requirements associated with operating as a public reporting company.

Actual cash requirements could differ from management's projections due to many factors including additional investments in research and development programs, clinical trial expenses for EYP-1901and EYP-2301, competing technological and market developments and the costs of any strategic acquisitions and/or development of complementary business opportunities.

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

1. the potential for EYP-1901, as a sustained delivery intravitreal anti-VEGF treatment for wet AMD, NPDR, and DME;
2. our expectations regarding the timing and clinical development of our product candidates, including EYP-1901 and EYP-2301;
3. the duration, scope and outcome of the DOJ Investigation and its impact on our financial condition, results of operations or cash flows;
4. whether and to what extent we internally fund, whether and when we initiate, and how we conduct additional pipeline product development programs;
5. payments we receive under any new collaboration agreements or payments expected from existing agreements;
6. whether and when we are able to enter into strategic arrangements for our products or product candidates and the nature of those arrangements;
7. the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing any patent claims;
8. changes in our operating plan, resulting in increases or decreases in our need for capital;

9. our views on the availability, timing and desirability of raising capital; and
10. the extent to which our business could be adversely impacted by the effects of the Pandemic or by other pandemics, epidemics or outbreaks.

We expect to seek additional funding to sustain our future operations and while we have successfully raised capital in the past, the ability to raise capital in future periods is not assured. We do not know if additional capital will be available when needed or on terms favorable to us or our stockholders. Collaboration, licensing or other agreements may not be available on favorable terms, or at all. If we seek to sell our equity securities, we do not know whether and to what extent we will be able to do so, or on what terms. If available, additional equity financing may be dilutive to stockholders, debt financing may involve restrictive covenants or other unfavorable terms and dilute our existing stockholders' equity, and funding through collaboration, licensing or other commercial agreements may be on unfavorable terms, including requiring us to relinquish rights to certain of our technologies or products. If adequate financing is not available if and when needed, we may delay, reduce the scope of, or eliminate research or development programs, if any, postpone or cancel the pursuit of product candidates, or otherwise significantly curtail our operations to reduce our cash requirements and extend our capital.

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

	Nine Months Ended September 30,		
	2023	2022	Change
Cash flows from operating activities:			
Net loss	$ (56,696)	$ (58,802)	$ 2,106
Changes in operating assets and liabilities	71,155	(7,883)	79,038
Other adjustments to reconcile net loss to cash flows from operating activities:	10,525	14,268	(3,743)
Net cash (used in) provided by operating activities	$ 24,984	$ (52,417)	$ 77,401
Net cash (used in) provided by investing activities	$ 43,833	$ (50,182)	$ 94,015
Net cash used in financing activities	$ (31,415)	$ (632)	$ (30,783)

Operating cash inflows for the nine months ended September 30, 2023 totaled $25.0 million, primarily due to our net loss of $56.7 million reduced by $10.5 million of non-cash expenses, which included $8.5 million of stock-based compensation, $1.3 million of loss on extinguishment of debt, $693,000 for the provision of excess and obsolete inventory, and $18,000 of other non-cash charges. This was further offset by changes in working capital of $71.2 million, including $57.4 million of deferred revenue related to the agreement to license YUTIQ product rights to Alimera, and $13.7 million of other working capital changes.

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

For the nine months ended September 30, 2023, $46.4 million of net cash was provided by the sales of marketable securities, and $2.6 million was used for the purchase of property and equipment.

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

Net cash used in financing activities for the nine months ended September 30, 2023 totaled $31.4 million and consisted of the following:
(i) $40.5 million used to pay off the SVB loan
(ii) $1.4 million used to extinguish debt costs related to the SVB loan
(iii) $9.6 million of net proceeds from the issuance of 902,769 shares of our Common Stock sold utilizing our ATM.

Net cash used in financing activities for the nine months ended September 30, 2022 totaled $632,000 and consisted of the following:
(i) $38.2 million used to pay off the CRG loan;
(ii) $2.3 million used to extinguish debt costs related to the CRG loan;
(iii) $30.0 million of proceeds from the issuance for long-term debt related to the SVB loan;

(iv) $10.5 million of net proceeds from the revolving facility

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving its desired objectives, and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2023, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

This section augments and updates certain risk factors disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022 (the Annual Report). The following risk factors should be read together with the other risk factors disclosed in the Annual Report. In addition to the other information in this Quarterly Report on Form 10-Q, all of the risk factors should be carefully considered in evaluating us and our common stock. Any of these risks, many of which are beyond our control, could materially and adversely affect our financial condition, results of operations or cash flows, or cause our actual results to differ materially from those projected in any forward-looking statements. We may also face other risks and uncertainties that are not presently known, are not currently believed to be material, or are not identified below because they are common to all businesses. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. For more information, see "Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q.

The Company's ability to access credit on favorable terms, if necessary, for the funding of the Company's operations and capital projects may be limited due to changes in credit markets.

The credit markets and the financial services industry have been experiencing disruption characterized by the bankruptcy, failure, collapse or sale of various financial institutions, increased volatility in securities prices, diminished liquidity and credit availability and intervention from the U.S. and other governments. Continued concerns about the systemic impact of potential long-term or widespread downturn, energy costs, geopolitical issues, the availability and cost of credit, the global commercial and residential real estate markets and related mortgage markets and reduced consumer confidence have contributed to increased market volatility. The cost and availability of credit has been and may continue to be adversely affected by these conditions.

The Company's receipt of maximum consideration in conjunction with its sale of YUTIQ® to Alimera Sciences, Inc. for $82.5 million cash plus royalties is dependent on Alimera's effective sale and distribution of YUTIQ® outside of China, Hong Kong, Taiwan, Macau and Southeast Asia.

Pursuant to our PRA with Alimera, the Company agreed to grant to Alimera an exclusive and sublicensable right and license under the Company's and its affiliates' interest in certain of the Company's and its affiliates' intellectual property to develop, manufacture, sell, commercialize and otherwise exploit certain products, including YUTIQ® (fluocinolone acetonide intravitreal implant) 0.18 mg, for the treatment and prevention of uveitis in the entire world except Europe, the Middle East and Africa. Pursuant to the agreement, Alimera paid the Company an Upfront Payment of $75 million. Alimera is required to make four quarterly Guaranteed Payments (as defined in the PRA) to the Company totaling $7.5 million during 2024. Alimera is also required to pay royalties to the Company from 2025 to 2028 at a percentage of low-to-mid double digits of Alimera's annual U.S. net sales of certain products (including YUTIQ) in excess of certain thresholds, beginning at $70 million in 2025, increasing annually thereafter (Royalties). Upon Alimera's payment of the Upfront Payment and the Guaranteed Payments, the licenses and rights granted to Alimera will automatically become perpetual and irrevocable. We cannot predict what success, if any, Alimera may have with respect to sales of YUTIQ and, therefore, it is uncertain as to when we may receive the royalties and if we will receive any royalties at all. In the event Alimera fails to execute the effective sale and distribution of YUTIQ in the specified regions the royalties contemplated under the PRA could be adversely impacted in total, or in part, and our business could be harmed.

We may not be able to realize the anticipated benefits from the sale of our YUTIQ franchise to Alimera.

We may not be able to realize the anticipated benefits of the sale of YUTIQ to Alimera, including utilizing the proceeds from the sale primarily on the development of EYP-1901, positioning our business for long-term growth and maximizing stockholder value.

Our ability to realize the anticipated benefits of the sale and the success of the remaining company is subject to various risks and uncertainties. There is a possibility of adverse clinical and other developments in respect of EYP-1901, and we may not be able to successfully develop, obtain marketing approval for and commercialize EYP-1901. We may not utilize the proceeds from the sale to successfully develop EYP-1901 or any product candidate we develop in the future. We may experience difficulties or delays with developing EYP-1901. Further, we could spend the proceeds from the sale of our YUTIQ business in ways that do not improve our remaining business, financial condition or results of operations. Our failure to apply these funds effectively could have an adverse effect on our business, financial condition and results of operations.

In addition, our current and prospective employees may feel uncertain about their roles with us following the completion of the sale to Alimera, including as a result of the workforce reduction we announced in May 2023, which may have an adverse effect on our ability to attract or retain key management personnel or other key employees. If key employees depart, our business, financial condition and results of operations may be adversely impacted.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference to SEC Filing		
		Form	SEC Filing Date	Exhibit No.
2.1#	Product Rights Agreement, dated May 17, 2023, by and between EyePoint Pharmaceuticals, Inc. and Alimera Sciences, Inc.	8-K	05/18/23	2.1
3.1	Certificate of Incorporation of pSivida Corp.	8-K12G3	06/19/08	3.1
3.2	Certificate of Amendment of the Certificate of Incorporation of pSivida Corp.	10-K	09/13/17	3.2
3.3	Certificate of Correction to Certificate of Amendment of the Certificate of Incorporation of pSivida Corp.	8-K	04/02/18	3.1
3.4	Certificate of Amendment of Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	06/27/18	3.1
3.5	By-Laws of EyePoint Pharmaceuticals, Inc.	10-K	09/18/18	3.5
3.6	Amendment No. 1 to the By-Laws of EyePoint Pharmaceuticals, Inc.	8-K	11/06/18	3.1
3.7	Certificate of Amendment of the Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	06/23/20	3.1
3.8	Certificate of Amendment of the Certificate of Incorporation, as amended, of EyePoint Pharmaceuticals, Inc.	8-K	12/08/20	3.1
4.1	Form of Specimen Stock Certificate for Common Stock	8-K12G3	06/19/08	4.1
4.2	Warrant to Purchase Common Stock of pSivida Corp., issued March 28, 2018, to SWK Funding, LLC	8-K	03/29/18	4.1
4.3	Registration Rights Agreement, dated as of March 28, 2018, by and among pSivida Corp. and EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P.	8-K	03/29/18	10.3
4.4	Second Registration Rights Agreement, dated as of June 25, 2018, by and among EyePoint Pharmaceuticals, Inc. and EW Healthcare Partners, L.P. and EW Healthcare Partners-A, L.P. and each other person identified on the signature pages thereto	8-K	06/27/18	10.1
4.5	Form of Pre-Funded Warrant to Purchase Common Stock	8-K	11/19/21	4.1
10.1	Second Amendment to Employment Agreement, dated July 10, 2023, by and between EyePoint Pharmaceuticals, Inc. and Nancy S. Lurker	8-K	7/10/2023	10.1
10.2	Second Amendment to Employment Agreement, dated July 10, 2023, by and between EyePoint Pharmaceuticals, Inc. and Jay S. Duker	8-K	7/10/2023	10.2
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			

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

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

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

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EyePoint Pharmaceuticals, Inc.

Date: November 3, 2023

By: /s/ Jay S. Duker
Name: Jay S. Duker, M.D.
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2023

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

Exhibit 31.1

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

CERTIFICATIONS

I, Jay S. Duker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EyePoint Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2023

/s/ Jay S. Duker

Name: Jay S. Duker, M.D.
Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

CERTIFICATIONS

I, George O. Elston, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EyePoint Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2023

/s/ George O. Elston

Name: George O. Elston

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

Exhibit 32.1

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

In connection with the Quarterly Report of EyePoint Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay S. Duker, President and Chief Executive Officer of the Company, certify that to the best of my knowledge:

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

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

Date: November 3, 2023

/s/ Jay S. Duker

Name: Jay S. Duker, M.D.

Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of EyePoint Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George O. Elston, Executive Vice President and Chief Financial Officer of the Company, certify that to the best of my knowledge:

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

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

Date: November 3, 2023

/s/ George O. Elston

Name: George O. Elston

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