

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 001-13341

**Titan Pharmaceuticals, Inc.**

(Exact name of registrant as specified in its charter)

Delaware	94-3171940
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Oyster Point Blvd., Suite 505, South San Francisco, California	94080
(Address of principal executive offices)	(Zip Code)

(650) 244-4990  
(Registrant's telephone number, including area code)

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.

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

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

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

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	TTNP	Nasdaq Capital Market

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 10, 2023
Common Stock, par value \$0.001	15,016,295

**Titan Pharmaceuticals, Inc.**

**Index to Form 10-Q**

**Part I. Financial Information**

<a href="#">Item 1. Financial Statements (unaudited)</a>	1
<a href="#">Condensed Balance Sheets as of September 30, 2023 and December 31, 2022</a>	1
<a href="#">Condensed Statements of Operations for the three and nine months ended September 30, 2023 and 2022</a>	2
<a href="#">Condensed Statements of Stockholders' Equity (Deficit) for the three and nine months ended September 30, 2023 and 2022</a>	3

<u>Condensed Statements of Cash Flows for the nine months ended September 30, 2023 and 2022</u>	4
<u>Notes to Condensed Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<b>Part II. Other Information</b>	
<u>Item 1. Legal Proceedings</u>	21
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	23
<u>Item 5. Other Information</u>	23
<u>Item 6. Exhibits</u>	24
<b>SIGNATURES</b>	25

**Part I. Financial Information**

**Item 1. Financial Statements**

**TITAN PHARMACEUTICALS, INC.**

**CONDENSED BALANCE SHEETS**  
(in thousands, except share and per share data)

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
	(unaudited)	(Note 1)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,096	\$ 2,937
Restricted cash	13	196
Receivables	26	36
Notes receivable	1,500	-
Inventory	-	106
Prepaid expenses and other current assets	244	314
Discontinued operations - current assets	20	14
Total current assets	<u>9,899</u>	<u>3,603</u>
Property and equipment, net	6	224
Other assets	-	48
Operating lease right-of-use assets, net	94	183
Total assets	<u>\$ 9,999</u>	<u>\$ 4,058</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 407	\$ 695
Note payable to related party	500	-
Other accrued liabilities	790	1,488
Operating lease liability, current	97	122
Deferred grant revenue	12	196
Discontinued operations – current liabilities	60	129
Total current liabilities	<u>1,866</u>	<u>2,630</u>
Operating lease liability, noncurrent	-	65
Total liabilities	<u>1,866</u>	<u>2,695</u>
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, at amounts paid-in, \$ 0.001 par value per share; 5,000,000 shares authorized, 950,000 shares issued and outstanding at September 30, 2023 and no shares issued and outstanding at December 31, 2022.	1	-
Common stock, at amounts paid-in, \$ 0.001 par value per share; 225,000,000 shares authorized, 15,016,295 shares issued and outstanding at September 30, 2023 and December 31, 2022.	15	15
Additional paid-in capital	397,977	387,609
Accumulated deficit	(389,860)	(386,261)
Total stockholders' equity	<u>8,133</u>	<u>1,363</u>
Total liabilities and stockholders' equity	<u>\$ 9,999</u>	<u>\$ 4,058</u>

See Notes to Condensed Financial Statements

**TITAN PHARMACEUTICALS, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amount)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Revenues:</b>				
License revenue	\$ -	\$ 4	\$ 1	\$ 9
Grant revenue	4	91	183	427
Total revenues	4	95	184	436
<b>Operating expenses:</b>				
Research and development	424	932	1,426	3,315
General and administrative	1,641	1,806	4,104	4,745
Total operating expenses	2,065	2,738	5,530	8,060
Loss from operations	(2,061)	(2,643)	(5,346)	(7,624)
<b>Other income (expense):</b>				
Interest income (expense)	(11)	21	18	26
Gain on asset sale	1,732	-	1,732	-
Other income (expense), net	2	(16)	(3)	(42)
Other income (expense), net	1,723	5	1,747	(16)
<b>Net loss</b>	<b>\$ (338)</b>	<b>\$ (2,638)</b>	<b>\$ (3,599)</b>	<b>\$ (7,640)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.02)</b>	<b>\$ (0.18)</b>	<b>\$ (0.24)</b>	<b>\$ (0.59)</b>
<b>Weighted average shares used in computing basic and diluted net loss per common share</b>	<b>15,016</b>	<b>14,629</b>	<b>15,016</b>	<b>13,031</b>

See Notes to Condensed Financial Statements

2

**TITAN PHARMACEUTICALS, INC.**

**CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
(in thousands)  
(unaudited)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balances at December 31, 2022	15,016	\$ 15			\$ 387,609	\$ (386,261)	\$ 1,363
Net loss	-	-			-	(1,675)	(1,675)
Balances at March 31, 2023	15,016	\$ 15			\$ 387,609	\$ (387,936)	\$ (312)
Net loss	-	-			-	(1,586)	(1,586)
Stock-based compensation	-	-			864	-	864
Balances at June 30, 2023	15,016	\$ 15			\$ 388,473	\$ (389,522)	\$ (1,034)
Net loss	-	-			-	(338)	(338)
Stock-based compensation	-	-			411	-	411
Issuance of preferred stock, net		950		1	9,093		9,094
Balances at September 30, 2023	<b>15,016</b>	<b>\$ 15</b>	<b>950</b>	<b>\$ 1</b>	<b>\$ 397,977</b>	<b>\$ (389,860)</b>	<b>\$ 8,133</b>

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balances at December 31, 2021	9,914	\$ 10	\$ 381,183	\$ (376,055)	\$ 5,138
Net loss	-	-	-	(2,540)	(2,540)
Issuance of common stock, net	1,151	1	5,029	-	5,030
Issuance of common stock upon exercises of warrants	974	1	-	-	1
Amortization of restricted stock	-	-	27	-	27
Stock-based compensation	-	-	226	-	226
Balances at March 31, 2022	12,039	\$ 12	\$ 386,465	\$ (378,595)	\$ 7,882
Net loss	-	-	-	(2,462)	(2,462)
Issuance of common stock upon exercises of warrants	2,590	3	-	-	3
Amortization of restricted stock			27		27
Stock-based compensation	-	-	217	-	217
Balances at June 30, 2022	14,629	\$ 15	\$ 386,709	\$ (381,057)	\$ 5,667
Net loss	-	-	-	(2,638)	(2,638)
Amortization of restricted stock			18		18
Stock-based compensation			503		503
Balances at September 30, 2022	<b>14,629</b>	<b>\$ 15</b>	<b>\$ 387,230</b>	<b>\$ (383,695)</b>	<b>\$ 3,550</b>

3

**TITAN PHARMACEUTICALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (3,599)	\$ (7,640)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of assets	(1,732)	-
Depreciation and amortization	109	151
Stock-based milestone payment	-	50
Stock-based compensation	965	1,038
Other	(1)	2
Changes in operating assets and liabilities:		
Receivables	-	63
Inventory	-	(167)
Prepaid expenses and other assets	122	(34)
Accounts payable	(374)	(182)
Deferred grant revenue	(184)	(34)
Other accrued liabilities	(152)	149
Net cash used in operating activities	<u>(4,846)</u>	<u>(6,604)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of assets	228	-
Net cash provided by investing activities	<u>228</u>	<u>-</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from equity offering	-	4,980
Net proceeds from issuance of preferred stock	9,094	-
Proceeds from short-term loans	750	-
Net proceeds from the exercises of common stock warrants	-	4
Payments on short-term loans	(250)	-
Net cash provided by financing activities	<u>9,594</u>	<u>4,984</u>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>4,976</b>	<b>(1,620)</b>
Cash, cash equivalents and restricted cash at beginning of period	3,133	6,332
Cash, cash equivalents and restricted cash at end of period	<u>\$ 8,109</u>	<u>\$ 4,712</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 4	\$ -
Inventory transferred with sale of assets	\$ 106	\$ -
Property and equipment, net, transferred with sale of assets	\$ 109	\$ -
Notes receivable received in connection with sale of assets	\$ 1,500	\$ -
Accounts payable related to sale of assets	\$ 17	\$ -
Other accrued liabilities transferred with sale of assets	\$ 236	\$ -

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed balance sheets that sum to the total of the same such amounts shown in the condensed statements of cash flows (in thousands):

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 8,096	\$ 4,450
Restricted cash	13	262
Cash, cash equivalents and restricted cash shown in the condensed statements of cash flows	<u>\$ 8,109</u>	<u>\$ 4,712</u>

See Notes to Condensed Financial Statements

**TITAN PHARMACEUTICALS, INC.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
(unaudited)

**1. Organization and Summary of Significant Accounting Policies**

***The Company***

We are a pharmaceutical company developing therapeutics utilizing the proprietary long-term drug delivery platform, ProNeura®, for the treatment of select chronic diseases for which steady state delivery of a drug has the potential to provide an efficacy and/or safety benefit. ProNeura consists of a small, solid implant made from a mixture of ethylene-vinyl acetate, or EVA, and a drug substance. The resulting product is a solid matrix that is designed to be administered subdermally in a brief, outpatient procedure and is removed in a similar manner at the end of the treatment period.

Our first product based on the ProNeura technology was Probuphine® (buprenorphine implant), which is approved in the United States, Canada and the European Union, or EU, for the maintenance treatment of opioid use disorder in clinically stable patients taking 8 mg or less a day of oral buprenorphine. While Probuphine continues to be commercialized in Canada and in the EU (as Sixmo™) by other companies that had either licensed or

acquired the rights from Titan, we discontinued commercialization of the product in the U.S. during the fourth quarter of 2020. Discontinuation of our commercial operations has allowed us to focus our limited resources on important product development programs and transition back to a product development company.

In December 2021, we announced our intention to work with our financial advisor to explore strategic alternatives to enhance stockholder value, potentially including an acquisition, merger, reverse merger, other business combination, sales of assets, licensing or other transaction. In June 2022, we implemented a plan to reduce expenses and conserve capital that included a company-wide reduction in salaries and a scale back of certain operating expenses to enable us to maintain sufficient resources as we pursued potential strategic alternatives. In July 2022, David Lazar and Activist Investing LLC (collectively, "Activist") acquired an approximately 25% ownership interest in Titan, filed a proxy statement and nominated six additional directors, each of whom was elected to our board of directors (the "Board") at a special meeting of stockholders held on August 15, 2022 (the "Special Meeting"). The exploration and evaluation of possible strategic alternatives by the Board has continued following the Special Meeting. Following the election of the new directors at the Special Meeting, Dr. Marc Rubin was replaced as our Executive Chairman, and David Lazar assumed the role of Chief Executive Officer. In connection with the termination of his employment as Executive Chairman, Dr. Rubin will receive aggregate severance payments of approximately \$0.4 million, of which, approximately \$247,000 have been paid as of September 30, 2023. In December 2022, we implemented additional cost reduction measures including a reduction in our workforce.

In September 2023, (the "Closing Date"), we closed on the sale of certain ProNeura assets including our portfolio of drug addiction products, in addition to other early development programs based on the ProNeura drug delivery technology (the "ProNeura Assets"). In July 2023, we entered into an asset purchase agreement (the "Asset Purchase Agreement") with Fedson, Inc., a Delaware corporation ("Fedson") for the sale of the ProNeura Assets. Our addiction portfolio consisted of the Probuphine and Nalmefene implant programs. The ProNeura Assets constituted only a portion of our assets. In August 2023, we entered into an Amendment and Extension Agreement (the "Amendment") to the Asset Purchase Agreement, pursuant to which Fedson agreed to purchase our ProNeura Assets for a purchase price of \$2.0 million, consisting of (i) \$500,000 in readily available funds, paid in full on the Closing Date, (ii) \$500,000 in the form of a promissory note due and payable on October 1, 2023 (the "Cash Note") and (iii) \$1,000,000 in the form of a promissory note due and payable on January 1, 2024 (the "Escrow Note"). We will also be eligible to receive potential milestone payments of up to \$50 million on future net sales of the products and certain royalties on future net sales of the products. As further consideration, Fedson assumed all liabilities related to a pending employment claim against us. On the Closing Date, Fedson delivered a written guaranty by a principal of Fedson of all of Fedson's obligations under both the Cash Note and Escrow Note. The Cash Note included provisions, which Fedson has exercised, allowing Fedson to extend the payment of the Cash Note to November 1, 2023 and again to December 1, 2023 upon payment of \$5,000 for each extension. The Cash Note is currently due and payable on December 1, 2023. The Cash Note and Escrow Note are included in Notes Receivable in the condensed balance sheet at September 30, 2023.

#### **Basis of Presentation**

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023, or any future interim periods.

The balance sheet as of December 31, 2022 is derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in the Titan Pharmaceuticals, Inc. Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission ("SEC").

The accompanying condensed financial statements have been prepared assuming we will continue as a going concern.

As of September 30, 2023, we had cash and cash equivalents of approximately \$8.1 million, which we believe, will be sufficient to fund our planned operations through December of 2024. We continue to explore several financing and strategic alternatives; however, there can be no assurance that our efforts will be successful.

#### **Discontinued Operations**

In October 2020, we announced our decision to discontinue selling Probuphine in the U.S. and wind down our commercialization activities, and to pursue a plan that will enable us to focus on our current, early-stage ProNeura-based product development programs.

The accompanying condensed financial statements have been recast for all periods presented to reflect the assets, liabilities, revenue and expenses related to our U.S. commercialization activities as discontinued operations (see Note 7). The accompanying condensed financial statements are generally presented in conformity with our historical format. We believe this format provides comparability with the previously filed financial statements.

#### **Going Concern Assessment**

We assess going concern uncertainty in our financial statements to determine if we have sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the financial statements are issued, which is referred to as the "look-forward period" as defined by Accounting Standard Update ASU No. 2014-15. As part of this assessment, based on conditions that are known and reasonably knowable to us, we will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, and our ability to delay or curtail expenditures or programs, if necessary, among other factors. Based on this assessment, as necessary or applicable, we make certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent we deem probable those implementations can be achieved and we have the proper authority to execute them within the look-forward period in accordance with ASU No. 2014-15.

Based upon the above assessment, we concluded that, at the date of filing the condensed financial statements in this Quarterly Report on Form 10-Q for the nine months ended September 30, 2023, we have sufficient cash to fund our operations for the next 12 months without additional funds. Additionally, we have suffered recurring losses from operations and have an accumulated deficit that raises substantial doubt about our ability to continue as a going concern beyond the next 12 months. We continue to explore several financing and strategic alternatives; however, there can be no assurance that our efforts will be successful.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is based on the first in, first out method. We regularly review inventory quantities on hand and write down to its net realizable value any inventory that we believe to be impaired. The determination of net realizable value requires judgment including consideration of many factors, such as estimates of future product demand, product net selling prices, current and future market conditions and potential product obsolescence, among others. The components of inventories are as follows:

(in thousands)	As of December 31, 2022
Raw materials and supplies	\$ 60
Finished goods	46
	<u><u>\$ 106</u></u>

Approximately \$106,000 of raw materials and supplies and finished goods inventory at December 31, 2022 were sold to Fedson under the Asset Purchase Agreement in September 2023.

## Revenue Recognition

We generate revenue principally from collaborative research and development arrangements, sales or licenses of technology and government grants. Consideration received for revenue arrangements with multiple components is allocated among the separate performance obligations based upon their relative estimated standalone selling price.

In determining the appropriate amount of revenue to be recognized as we fulfill our obligations under our agreements, we perform the following steps for our revenue recognition: (i) identify contracts with customers; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognize revenue when (or as) we satisfy each performance obligation.

### Grant Revenue

We have contracts with National Institute on Drug Abuse or NIDA, within the U.S. Department of Health and Human Services, or HHS, the Bill & Melinda Gates Foundation, and other government-sponsored organizations for research and development related activities that provide for payments for reimbursed costs, which may include overhead and general and administrative costs. We recognize revenue from these contracts as we perform services under these arrangements when the funding is committed. Associated expenses are recognized when incurred as research and development expenses. Revenues and related expenses are presented gross in the condensed statements of operations.

### Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Our performance obligations include commercialization license rights, development services and services associated with the regulatory approval process.

We have optional additional items in contracts, which are accounted for as separate contracts when the customer elects such options. Arrangements that include a promise for future commercial product supply and optional research and development services at the customer's discretion are generally considered as options. We assess if these options provide a material right to the customer and, if so, such material rights are accounted for as separate performance obligations. If we are entitled to additional payments when the customer exercises these options, any additional payments are recorded in revenue when the customer obtains control of the goods or services.

### Transaction Price

We have both fixed and variable considerations. Non-refundable upfront payments are considered fixed, while milestone payments are identified as variable consideration when determining the transaction price. Funding of research and development activities is considered variable until such costs are reimbursed at which point, they are considered fixed. We allocate the total transaction price to each performance obligation based on the relative estimated standalone selling prices of the promised goods or services for each performance obligation.

At the inception of each arrangement that includes milestone payments, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated milestone is included in the transaction price. Milestone payments that are not within our control, such as approvals from regulators, are not considered probable of being achieved until those approvals are received.

For arrangements that include sales-based royalties or earn-out payments, including milestone payments based on the level of sales, and the license or purchase agreement is deemed to be the predominant item to which the royalties or earn-out payments relate, we recognize revenue at the later of (a) when the related sales occur, or (b) when the performance obligation to which some or all of the royalty or earn-out payment has been allocated has been satisfied (or partially satisfied).

### Allocation of Consideration

As part of the accounting for these arrangements, we must develop assumptions that require judgment to determine the stand-alone selling price of each performance obligation identified in the contract. Estimated selling prices for license rights are calculated using the residual approach. For all other performance obligations, we use a cost-plus margin approach.

### Timing of Recognition

Significant management judgment is required to determine the level of effort required under an arrangement and the period over which we expect to complete our performance obligations under an arrangement. We estimate the performance period or measure of progress at the inception of the arrangement and re-evaluate it each reporting period. This re-evaluation may shorten or lengthen the period over which revenue is recognized. Changes

to these estimates are recorded on a cumulative catch-up basis. If we cannot reasonably estimate when our performance obligations either are completed or become inconsequential, then revenue recognition is deferred until we can reasonably make such estimates. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method. Revenue is recognized for licenses or sales of functional intellectual property at the point in time the customer can use and benefit from the license. For performance obligations that are services, revenue is recognized over time proportionate to the costs that we have incurred to perform the services using the cost-to-cost input method.

#### Contract Assets and Liabilities

The following table presents the activity related to our accounts receivable for the nine months ended September 30, 2023.

(In thousands)	September 30, 2023
Balance at January 1, 2023	\$ 36
Additions	184
Deductions	(194)
Balance at September 30, 2023	\$ 26

#### Research and Development Costs and Related Accrual

Research and development expenses include internal and external costs. Internal costs include salaries and employment related expenses, facility costs, administrative expenses and allocations of corporate costs. External expenses consist of costs associated with outsourced contract research organization ("CRO") activities, sponsored research studies, product registration, and investigator sponsored trials. Significant judgments and estimates must be made and used in determining the accrued balance in any accounting period. Actual results could differ from those estimates under different assumptions. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

#### Leases

We determine whether the arrangement is or contains a lease at inception. Operating lease right-of-use assets and lease liabilities are recognized at the present value of the future lease payments at commencement date. The interest rate implicit in lease contracts is typically not readily determinable, and therefore, we utilize our incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

Lease expense is recognized over the expected term on a straight-line basis. Operating leases are recognized on our condensed balance sheets as right-of-use assets, operating lease liabilities current and operating lease liabilities non-current.

The following table presents the minimum lease payments of our operating lease:

2023	\$ 33
2024	66
Total minimum lease payments (base rent)	99
Less: imputed interest	(2)
Total operating lease liabilities	\$ 97

#### Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326): Measurement of Credit Losses, which requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective beginning on January 1, 2023. The adoption of Topic 326 did not have a material impact on our condensed financial statements and disclosures.

#### Accounting Standards Not Yet Adopted

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments. ASU 2020-06 eliminates certain models that require separate accounting for embedded conversion features, in certain cases. Additionally, among other changes, the guidance eliminates certain of the conditions for equity classification for contracts in an entity's own equity. The guidance also requires entities to use the if converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. This guidance is effective beginning after December 15, 2023 and must be applied using either a modified or full retrospective approach. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our condensed financial statements and related disclosures.

#### Fair Value Measurements

Financial instruments, including receivables, accounts payable and accrued liabilities are carried at cost, and their fair values are approximated due to the short-term nature of these instruments. Our investments in money market funds are classified within Level 1 of the fair value hierarchy.

At December 31, 2022, the fair value of our investments in money market funds was approximately \$2.6 million which is included within our cash and cash equivalents in our condensed balance sheets. We had no investments in money market funds at September 30, 2023.

#### 2. Stock Plans

The following table summarizes option activity:

	Options (in thousands)	Weighted Average Exercise Price per share	Weighted Average Remaining Option Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	927	\$ 7.97	8.34	\$ -
Granted	1,475	0.93	-	235
Forfeited or expired	(91)	23.01	-	-
Outstanding at September 30, 2023	2,311	2.89	8.84	213
Exercisable at September 30, 2023	2,311	2.89	8.84	213

During August and September 2022, our Board granted 125,000 options to purchase common stock at \$1.52 per share and 900,000 options to purchase common stock at \$1.31 per share which are subject to shareholder approval of an amendment to increase the number of shares reserved for issuance under our 2015 Plan. The options vest monthly over a 12-month period from the grant dates. The shares underlying these options were approved by our stockholders on June 29, 2023 and have been included in the table above as of September 30, 2023.

In July 2023, our Board granted, pursuant to our Fifth Amended and Restated 2015 Omnibus Equity Incentive Plan, an aggregate of 450,000 shares of fully vested unrestricted common stock to seven members of the Board of Directors and one member of the management team. As a result, we recognized non-cash stock compensation of approximately \$0.2 million during the three months ending September 30, 2023.

The following table summarizes the stock-based compensation expense recorded for awards under our stock option plans (in thousands):

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Research and development	\$ 52	\$ 306	\$ 106	\$ 553
Selling, general and administrative	359	217	859	414
Total stock-based compensation	\$ 411	\$ 523	\$ 965	\$ 967

10

We use the Black-Scholes-Merton option-pricing model with the following assumptions to estimate the fair value of our stock options:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted-average risk-free interest rate	4.08%	-%	4.06%	1.91%
Expected dividend payments	-	-	-	-
Expected holding period (years) <sup>1</sup>	4.8	-	5.3	5.3
Weighted-average volatility factor <sup>2</sup>	1.14	-	1.10	1.16
Estimated forfeiture rates for options granted <sup>3</sup>	7.5%	-%	7.0%	5.6%

(1) Expected holding period is based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and the expectations of future employee behavior.  
 (2) Weighted average volatility is based on the historical volatility of our common stock.  
 (3) Estimated forfeiture rates are based on historical data.

As of September 30, 2023, there was no unrecognized compensation expense related to non-vested stock options.

### 3. Net Loss Per Share

The table below presents common shares underlying stock options and warrants that are excluded from the calculation of the weighted average number of common shares outstanding used for the calculation of diluted net loss per common share. These are excluded from the calculation due to their anti-dilutive effect:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted-average anti-dilutive common shares resulting from convertible preferred stock	3,767	-	1,269	-
Weighted-average anti-dilutive common shares resulting from convertible notes	504	-	170	-
Weighted-average anti-dilutive common shares resulting from options	1,861	932	1,241	975
Weighted-average anti-dilutive common shares resulting from warrants	9,818	4,933	7,678	5,586
	15,950	5,865	10,358	6,561

### 4. JT Pharmaceuticals Asset Purchase Agreement

In October 2020, we entered into an Asset Purchase Agreement, or JT Agreement, with JT Pharmaceuticals, Inc., or JT Pharma, to acquire JT Pharma's kappa opioid agonist peptide, TP-2021 (formerly JT-09) for use in combination with our ProNeura long-term, continuous drug delivery technology, for the treatment of chronic pruritus and other medical conditions. Under the terms of the JT Agreement, JT Pharma received a \$15,000 closing payment and is entitled to receive future milestone payments, payable in cash or in stock, based on the achievement of certain developmental and regulatory milestones, and single-digit percentage earn-out payments on net sales of the product if successfully developed and approved for commercialization. In January 2022, we entered into an agreement with JT Pharma to clarify certain provisions of the JT Agreement pursuant to which we agreed that the proof-of-concept milestone provided for in the JT Agreement was achieved and made a payment of \$100,000 and issued 51,021 shares of our common stock to JT Pharma. The related expense was included in research and development expenses in our condensed statements of

## 5. Commitments and Contingencies

### ***Lease Commitments***

We lease our office facility under an operating lease that expires in June 2024. Rent expense associated with this lease was approximately \$ 32,000 and \$96,000 for the three and nine months ended September 30, 2023, respectively.

### ***Legal Proceedings***

A legal proceeding has been initiated by a former employee alleging wrongful termination, retaliation, infliction of emotional distress, negligent supervision, hiring and retention and slander. An independent investigation into this individual's allegations of whistleblower retaliation, while still an employee, was conducted utilizing an outside investigator and concluded that such allegations were not substantiated. Fedson, as further consideration for the Asset Purchase Agreement, has agreed to assume all liabilities related to this pending employment claim (See Note 8. Asset Sale).

## 6. Stockholders' Equity

Our common stock outstanding as of September 30, 2023 and December 31, 2022 was 15,016,295 shares.

### ***Annual Meeting of Stockholders***

In June 2023, our stockholders approved an amendment to the 2015 Omnibus Equity Incentive plan to increase the number of authorized shares to 2,500,000 shares.

### ***September 2023 Preferred Stock***

In September 2023, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with The Sire Group Ltd. ("Sire Group" or the "Investor"), pursuant to which we agreed to issue 950,000 shares of Series AA Convertible Preferred Stock, par value \$ 0.001 per share (the "Series AA Preferred Stock") to the Investor at a price of \$10.00 per share, for an aggregate purchase price of \$9.5 million (the "Private Placement"). The purchase price consisted of (i) \$5.0 million in cash at closing and (ii) \$4.5 million in the form of a promissory note from Sire Group which was paid off in September 2023.

Each share of Series AA Preferred Stock will be convertible, at the holder's option at any time, into shares of our common stock at a conversion rate equal to the quotient of (i) the stated value of such share divided by (ii) the initial conversion price of \$0.466, subject to specified adjustments as set forth in the Certificate of Designations. The Series AA Preferred Stock contains limitations that prevent the Investor from acquiring the lower of either (i) the maximum percentage of common stock permissible under the rules and regulations of The Nasdaq Stock Market ("Nasdaq") without first obtaining shareholder approval or (ii) 19.99% of our outstanding common stock.

The holder of the Series AA Preferred Stock is entitled to receive dividends on shares of the Series AA Preferred Stock equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends actually paid on shares of the common stock. No other dividends will be paid on shares of the Series AA Preferred Stock. Any shares of Series AA Preferred Stock may, at the option of the holder, be converted at any time into that number of shares of common stock at the conversion price set forth above. Without approval of holders of a majority of the outstanding Series AA Preferred Stock, we may not (a) alter or adversely change the powers, preferences or rights given to the Series AA Preferred Stock, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders of the Series AA Preferred Stock, (c) increase the number of authorized shares of the Series AA Preferred Stock, (d) enter into or consummate any Fundamental Transaction (as defined in the Certificate of Designations), or (e) enter into any agreement with respect to any of the foregoing. In the event of any liquidation, dissolution or winding up, the holder of the Series AA Preferred Stock will be entitled to receive out of the assets, whether capital or surplus, the same amount that a holder of common stock would receive if the Series AA Preferred Stock were fully converted to common stock, which amounts shall be paid *pari passu* with all holders of common stock.

### ***February 2022 Offerings***

In February 2022, we completed a registered direct offering with an accredited investor pursuant to which we issued an aggregate of 1,100,000 shares of our common stock and 2,274,242 pre-funded warrants to purchase shares of our common stock, with an exercise price of \$0.001 per share. In a concurrent private placement, we sold unregistered pre-funded warrants to purchase an aggregate of 1,289,796 shares of common stock with an exercise price of \$0.001 per share and issued unregistered five year and six month warrants to purchase an aggregate of 4,664,038 shares of common stock with an exercise price of \$1.14. The net cash proceeds from these offerings were approximately \$ 5.0 million after deduction of underwriting fees and other offering expenses.

### ***Warrant Exercises***

In March 2022, we received approximately \$ 1,000 from the exercise of 974,242 pre-funded warrants issued in the February 2022 registered direct offering.

### ***JT Pharma Milestone***

In January 2022, we entered into an agreement with JT Pharma to clarify certain provisions of the JT Agreement pursuant to which we agreed that the proof-of-concept milestone provided for in the JT Agreement was achieved and made a payment of \$100,000 and issued 51,021 shares of our common stock to JT Pharma.

### ***Restricted Shares***

In August 2021, we agreed to issue 50,000 shares of our common stock pursuant to a restricted stock agreement with Maxim Partners, LLC in connection with the entry into an amendment to our existing advisory agreement. The shares vested monthly over 12 months. We recorded approximately \$27,000 and \$54,000 of stock-based compensation expense during the three and nine months ended September 30, 2022, respectively.

## 7. Discontinued Operations

The following table presents information related to assets and liabilities reported as discontinued operations in our condensed balance sheets:

(In thousands)	September 30,		December 31,	
	2023	2022	2023	2022
Receivables	\$ 10	\$ -		
Prepaid expenses and other current assets	10	14		
Discontinued operations – current assets	\$ 20	\$ 14		
Accounts payable	\$ 60	\$ 129		
Discontinued operations – current liabilities	\$ 60	\$ 129		

## 8. Asset Sale

In September 2023, we closed on the sale of certain ProNeura Assets. In July 2023, we entered into an Asset Purchase Agreement with Fedson for the sale of the ProNeura Assets. The ProNeura Assets constituted only a portion of our assets. In August 2023, we entered into an Amendment to the Asset Purchase Agreement, pursuant to which Fedson agreed to purchase our ProNeura Assets for a purchase price of \$2.0 million, consisting of (i) \$500,000 in readily available funds, paid in full on the Closing Date, (ii) \$500,000 in the form of a promissory note due and payable on October 1, 2023 (the "Cash Note") and (iii) \$1,000,000 in the form of a promissory note due and payable on January 1, 2024 (the "Escrow Note"). We will also be eligible to receive potential milestone payments of up to \$50 million on future net sales of the products and certain royalties on future net sales of the products. As further consideration, Fedson assumed all liabilities related to a pending employment claim against us. On the Closing Date, Fedson delivered a written guaranty by a principal of Fedson of all of Fedson's obligations under both the Cash Note and Escrow Note. The Cash Note included provisions, which Fedson has exercised, allowing Fedson to extend the maturity date of the Cash Note to November 1, 2023 and again to December 1, 2023 upon payment of \$5,000 for each extension. The Cash Note is currently due and payable on December 1, 2023.

## 9. Related Party Transactions

During the nine months ended September 30, 2023, we made payments related to legal fees of approximately \$ 100,000 to a law firm operated by one of our Board members.

In August 2023, we received \$ 500,000 in funding in exchange for the issuance of a convertible promissory note for that principal amount to Choong Choon Hau, a major stockholder (the "Hau Promissory Note"). Pursuant to the Hau Promissory Note, the principal amount will accrue interest at a rate of 10% per annum and will be payable monthly. All principal and accrued interest shall be due and payable on January 1, 2024, unless extended as provided. All or part of the Hau Promissory Note can be converted into our common stock at a conversion price of \$0.5712 per share from time to time following the issuance date and ending on the maturity date. We incurred interest expense of approximately \$7,500 during the three months ended September 30, 2023 on this promissory note. The Hau Promissory note is included in Notes Payable to Related Party in the condensed balance sheet at September 30, 2023.

In July 2023, we received \$250,000 in funding in exchange for the issuance of an unsecured promissory note for that principal amount to David E. Lazar, our Chief Executive Officer and chairman of our Board of Directors (the "Lazar Promissory Note"). Pursuant to the Lazar Promissory Note, the principal amount accrued interest at a rate of the Prime Rate + 2.00% per annum, and all principal and accrued interest would have been due and payable on the earlier of January 1, 2024 or such time as we receive debt or equity financing or proceeds in excess of \$500,000 from the aforementioned transaction with Fedson. The promissory note was paid off in September 2023. We incurred interest expense of approximately \$3,718 during the three months ended September 30, 2023 on this promissory note.

## 10. Subsequent Events

We have evaluated events that have occurred after September 30, 2023 and through the date that our condensed financial statements are issued.

In September 2023, our Board granted, pursuant to our Fifth Amended and Restated 2015 Omnibus Equity Incentive Plan (the "2015 Plan") an aggregate of 113,750 shares of fully vested unrestricted common stock to six members of the Board of Directors and one member of the management team. The Board conditioned the grant on the filing of a Form S-8 registration statement to register the common shares authorized for issuance under the 2015 Plan, which occurred on October 25, 2023.

In October 2023, Fedson exercised the provision for a second extension of the maturity date of the Cash Note in exchange for a cash payment of \$5,000. The Cash Note is currently due and payable on December 1, 2023.

In October 2023, we agreed to issue 50,000 shares of our common stock pursuant to a settlement agreement with MDM Worldwide Solutions, Inc. The shares vested immediately.

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

### Forward-Looking Statements

This Quarterly Report on Form 10-Q or in the documents incorporated by reference herein may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") that involve substantial risks and uncertainties. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative of these terms or other comparable terminology. Although we do not make forward looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Forward-looking statements included or incorporated by reference in this report or our other filings with the Securities and Exchange Commission, or the SEC, include, but are not necessarily limited to, those relating to uncertainties relating to:

- Our ability to complete one or more strategic transactions that will maximize our assets or otherwise provide value to stockholders;

- our ability to raise capital when needed;
- difficulties or delays in the product development and regulatory process; and
- protection for our patents and other intellectual property or trade secrets.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by which, that performance or those results will be achieved. Forward-looking statements are based on information available at the time they are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties, including the risks outlined under "Risk Factors" or elsewhere in this report, that could cause actual performance or results to differ materially from what is expressed in or suggested by the forward-looking statements.

Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. We caution you not to give undue weight to such projections, assumptions and estimates.

References herein to "we," "us," "Titan," and "our company" refer to Titan Pharmaceuticals, Inc. unless the context otherwise requires.

Probuphine® and ProNeura® are trademarks of Fedson, Inc. This Quarterly Report on Form 10-Q also includes trade names and trademarks of companies other than Titan.

## Overview

We are a pharmaceutical company developing therapeutics utilizing the proprietary long-term drug delivery platform, ProNeura®, for the treatment of select chronic diseases for which steady state delivery of a drug has the potential to provide an efficacy and/or safety benefit. ProNeura consists of a small, solid implant made from a mixture of ethylene-vinyl acetate, or EVA, and a drug substance. The resulting product is a solid matrix that is designed to be administered subdermally in a brief, outpatient procedure and is removed in a similar manner at the end of the treatment period.

---

15

Our first product based on the ProNeura technology was Probuphine® (buprenorphine implant), which is approved in the United States, Canada and the European Union, or EU, for the maintenance treatment of opioid use disorder in clinically stable patients taking 8 mg or less a day of oral buprenorphine. While Probuphine continues to be commercialized in Canada and in the EU (as Sixmo™) by other companies that had either licensed or acquired the rights from Titan, we discontinued commercialization of the product in the U.S. during the fourth quarter of 2020. Discontinuation of our commercial operations has allowed us to focus our limited resources on important product development programs and transition back to a product development company.

In December 2021, we announced our intention to work with our financial advisor to explore strategic alternatives to enhance stockholder value, potentially including an acquisition, merger, reverse merger, other business combination, sales of assets, licensing or other transaction. In June 2022, we implemented a plan to reduce expenses and conserve capital that included a company-wide reduction in salaries and a scale back of certain operating expenses to enable us to maintain sufficient resources as we pursued potential strategic alternatives. In July 2022, David Lazar and Activist Investing LLC (collectively, "Activist") acquired an approximately 25% ownership interest in Titan, filed a proxy statement and nominated six additional directors, each of whom was elected to our board of directors (the "Board") at a special meeting of stockholders held on August 15, 2022 (the "Special Meeting"). The exploration and evaluation of possible strategic alternatives by the Board has continued following the Special Meeting. Following the election of the new directors at the Special Meeting, Dr. Marc Rubin was replaced as our Executive Chairman, and David Lazar assumed the role of Chief Executive Officer. In connection with the termination of his employment as Executive Chairman, Dr. Rubin will receive aggregate severance payments of approximately \$0.4 million, of which, approximately \$247,000 have been paid as of September 30, 2023. In December 2022, we implemented additional cost reduction measures including a reduction in our workforce.

In September 2023, (the "Closing Date"), we closed on the sale of certain ProNeura assets including our portfolio of drug addiction products, in addition to other early development programs based on the ProNeura drug delivery technology (the "ProNeura Assets"). In July 2023, we entered into an asset purchase agreement (the "Asset Purchase Agreement") with Fedson, Inc., a Delaware corporation ("Fedson") for the sale of the ProNeura Assets. Our addiction portfolio consisted of the Probuphine and Nalmefene implant programs. The ProNeura Assets constituted only a portion of our assets. In August 2023, we entered into an Amendment and Extension Agreement (the "Amendment") to the Asset Purchase Agreement, pursuant to which Fedson agreed to purchase our ProNeura Assets for a purchase price of \$2.0 million, consisting of (i) \$500,000 in readily available funds, paid in full on the Closing Date, (ii) \$500,000 in the form of a promissory note due and payable on October 1, 2023 (the "Cash Note") and (iii) \$1,000,000 in the form of a promissory note due and payable on January 1, 2024 (the "Escrow Note"). We will also be eligible to receive potential milestone payments of up to \$50 million on future net sales of the products and certain royalties on future net sales of the products. As further consideration, Fedson assumed all liabilities related to a pending employment claim against us. On the Closing Date, Fedson delivered a written guaranty by a principal of Fedson of all of Fedson's obligations under both the Cash Note and Escrow Note. The Cash Note included provisions, which Fedson has exercised, allowing Fedson to extend the payment of the Cash Note to November 1, 2023 and again to December 1, 2023 upon payment of \$5,000 for each extension. The Cash Note is currently due and payable on December 1, 2023.

## ProNeura Continuous Drug Delivery Platform

The ProNeura continuous drug delivery system consists of a small, solid rod-shaped implant made from a mixture of EVA and a given drug substance. The resulting product is a solid matrix that is placed subdermally, normally in the inside part of the upper arm in a brief procedure using a local anesthetic and is removed in a similar manner at the end of the treatment period. The drug substance is released continuously through the process of dissolution-controlled diffusion. This results in a continuous, steady rate of release generally similar to intravenous administration. We believe that such long-term, near linear release characteristics are desirable as they avoid the fluctuating peak and trough drug levels seen with oral dosing that often poses treatment problems in a range of diseases.

---

16

The ProNeura platform was developed to address the need for a simple, practical method to achieve continuous long-term drug delivery, and, depending on the characteristics of the compound to be delivered, can potentially provide treatment on an outpatient basis over extended periods of up to 12 months. We believe that the benefits of this technology have been demonstrated by the clinical results seen to date with Probuphine, and, in addition, that the development and regulatory process have been affirmed by the U.S. Food and Drug Administration, or FDA, the European Medicines

Agency, or EMA, and Health Canada approvals of this product. We have further demonstrated the feasibility of the ProNeura platform with small molecules, hormones, and bio-active peptides. The delivery system works with both hydrophobic and hydrophilic molecules. We have also shown the flexibility of the platform by experimenting with the release characteristics of the EVA implants, layering the implants with varying concentrations of drug, and generating implants of different sizes and porosity to achieve a desired delivery profile.

### Development Programs

We currently have the following development program for which development activities have been substantially curtailed while we are exploring several financing and strategic alternatives.

- **TP-2021** - A subdermal ProNeura implant containing TP-2021, our kappa opioid agonist peptide, for the potential delivery of therapeutic concentrations of TP-2021 in human subjects with pruritus for up to six months or longer following a single in-office procedure. We will need to conduct Investigational New Drug, or IND, enabling non-clinical safety and pharmacology studies in preparation for regulatory approval to enter human clinical studies.

We operate in only one business segment, the development of pharmaceutical products. We make available free of charge through our website, [www.titanpharm.com](http://www.titanpharm.com), our periodic reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

### Recent Accounting Pronouncements

See Note 1 to the accompanying unaudited condensed financial statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q for information on recent accounting pronouncements.

### Results of Operations for the Three and Nine months ended September 30, 2023 and September 30, 2022

#### Revenues

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
(In thousands)						
Revenues:						
License revenue	\$ -	\$ 4	\$ (4)	\$ 1	\$ 9	\$ (8)
Grant revenue	\$ 4	\$ 91	\$ (87)	\$ 183	\$ 427	\$ (244)
Total revenues	<u>\$ 4</u>	<u>\$ 95</u>	<u>\$ (91)</u>	<u>\$ 184</u>	<u>\$ 436</u>	<u>\$ (252)</u>

The decrease in total revenues for the three and nine months ended September 30, 2023 was primarily due to decreased activities related to the NIDA grant for the development of a Nalmefene implant and the Gates Foundation grant.

17

#### Operating Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
(In thousands)						
Operating expenses:						
Research and development	\$ 424	\$ 932	\$ (508)	\$ 1,426	\$ 3,315	\$ (1,889)
General and administrative	\$ 1,641	\$ 1,806	\$ (165)	\$ 4,104	\$ 4,745	\$ (641)
Total operating expenses	<u>\$ 2,065</u>	<u>\$ 2,738</u>	<u>\$ (673)</u>	<u>\$ 5,530</u>	<u>\$ 8,060</u>	<u>\$ (2,530)</u>

The decrease in research and development costs for the three and nine months ended September 30, 2023 was primarily associated with reduced activities related to non-clinical studies required for the IND submission as part of our NIDA grant for the development of a Nalmefene implant, decreases in expenses related to initial non-clinical proof of concept studies related to our TP-2021 implant program and decreases in research and development personnel-related costs and other expenses following our December 2022 reduction in our workforce. Other research and development expenses include internal operating costs such as research and development personnel-related expenses, non-clinical and clinical product development related travel expenses, and allocation of facility and corporate costs. As a result of the risks and uncertainties inherently associated with pharmaceutical research and development activities described elsewhere in this document, we are unable to estimate the specific timing and future costs of our clinical development programs or the timing of material cash inflows, if any, from our product candidates. However, we anticipate that our research and development expenses will increase as we continue our current or any future ProNeura development programs to the extent these costs are not supported through grants or partners.

The decrease in general and administrative expenses for the three months ended September 30, 2023 was primarily related to decreases in legal and professional fees and other expenses. This was partially offset by increases in employee-related expenses and non-cash stock-based compensation. The decrease in general and administrative expenses for the nine months ended September 30, 2023 was primarily related to decreases in employee-related expenses, legal and professional fees, and other expenses. This was partially offset by increases in non-cash stock-based compensation.

#### Other Income (Expense), Net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
(In thousands)						
Other income (expense):						
Interest income (expense), net	\$ (11)	\$ 21	\$ (32)	\$ 18	\$ 26	\$ (8)
Gain on asset disposition	\$ 1,732	\$ -	\$ 1,732	\$ 1,732	\$ -	\$ 1,732
Other income (expense), net	\$ 2	\$ (16)	\$ 18	\$ (3)	\$ (42)	\$ 39
Other income (expense), net	<u>\$ 1,723</u>	<u>\$ 5</u>	<u>\$ 1,718</u>	<u>\$ 1,747</u>	<u>\$ (16)</u>	<u>\$ 1,763</u>

The increase in other income (expense), net for the three and nine months ended September 30, 2023 was primarily due to the gain related to the

sale of the ProNeura Assets to Fedson and decreases in tax related expenses. This was partially offset by increases in interest expense.

#### *Net Loss and Net Loss per Share*

Our net loss from operations for the three-month period ended September 30, 2023 was approximately \$0.3 million, or approximately \$0.02 per share, compared to our net loss from operations of approximately \$2.6 million, or approximately \$0.18 per share, for the comparable period in 2022. Our net loss from operations for the nine-month period ended September 30, 2023 was approximately \$3.6 million, or approximately \$0.24 per share, compared to our net loss from operations of approximately \$7.6 million, or approximately \$0.59 per share, for the comparable period in 2022.

#### *Liquidity and Capital Resources*

We have funded our operations since inception primarily through the sale of our securities and the issuance of debt, as well as with proceeds from warrant and option exercises, corporate licensing and collaborative agreements, and government and private sponsored research grants. At September 30, 2023, we had a working capital of approximately \$8.0 million compared to working capital of approximately \$1.0 million at December 31, 2022.

In September 2023, we entered into a Purchase Agreement with Sire Group, pursuant to which we agreed to issue 950,000 shares of Series AA Preferred Stock at a price of \$10.00 per share, for an aggregate purchase price of \$9.5 million. The purchase price consisted of (i) \$5.0 million in cash at closing and (ii) \$4.5 million in the form of a promissory note from Sire Group which was paid in September 2023. The net cash proceeds from this transaction were approximately \$9.1 million.

In September 2023, we closed on the sale of certain ProNeura Assets. In July 2023, we entered into an Asset Purchase Agreement with Fedson for the sale of the ProNeura Assets. The ProNeura Assets constituted only a portion of our assets. In August 2023, we entered into an Amendment to the Asset Purchase Agreement, pursuant to which Fedson agreed to purchase our ProNeura Assets for a purchase price of \$2.0 million, consisting of (i) \$500,000 in readily available funds, paid in full on the Closing Date, (ii) \$500,000 in the form of a promissory note due and payable on October 1, 2023 (the "Cash Note") and (iii) \$1,000,000 in the form of a promissory note due and payable on January 1, 2024 (the "Escrow Note"). We will also be eligible to receive potential milestone payments of up to \$50 million on future net sales of the products and certain royalties on future net sales of the products. As further consideration, Fedson assumed all liabilities related to a pending employment claim against us. On the Closing Date, Fedson delivered a written guaranty by a principal of Fedson of all of Fedson's obligations under both the Cash Note and Escrow Note. The Cash Note included provisions, which Fedson has exercised, allowing Fedson to extend the payment of the Cash Note to November 1, 2023 and again to December 1, 2023 upon payment of \$5,000 for each extension. The Cash Note is currently due and payable on December 1, 2023.

In August 2023, we received \$500,000 in funding in exchange for the issuance of the Hau Promissory Note. Pursuant to the Hau Promissory Note, the principal amount will accrue interest at a rate of 10% per annum and will be payable monthly. All principal and accrued interest shall be due and payable on January 1, 2024, unless extended as provided. All or part of the Hau Promissory Note can be converted into our common stock at a conversion price of \$0.5712 per share from time to time following the issuance date and ending on the maturity date.

In February 2022, we completed a registered direct offering with an accredited investor pursuant to which we issued an aggregate of 1,100,000 shares of our common stock and 2,274,242 pre-funded warrants to purchase shares of our common stock, with an exercise price of \$0.001 per share. In a concurrent private placement, we sold unregistered pre-funded warrants to purchase an aggregate of 1,289,796 shares of common stock with an exercise price of \$0.001 per share and issued unregistered five year and six month warrants to purchase an aggregate of 4,664,038 shares of common stock with an exercise price of \$1.14. The net cash proceeds from these offerings were approximately \$5.0 million after deduction of underwriting fees and other offering expenses.

As of September 30, 2023, we had cash and cash equivalents of approximately \$8.1 million, which we believe will be sufficient to fund our planned operations through December of 2024. We are exploring several financing and strategic alternatives; however, there can be no assurance that our efforts will be successful.

#### *Sources and Uses of Cash*

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In thousands)</i>	
Net cash used in operating activities	\$ (4,846)	\$ (6,604)
Net cash provided by investing activities	228	-
Net cash provided by financing activities	9,594	4,984
Change in cash, cash equivalents and restricted cash	\$ 4,976	\$ (1,620)

Net cash used in operating activities for the nine months ended September 30, 2023 consisted primarily of our net loss of approximately \$3.6 million, approximately \$1.7 million of gains related to the sale of assets and approximately \$0.6 million related to net changes in operating assets and liabilities. This was partially offset by approximately \$1.1 million of non-cash charges related to stock-based compensation and depreciation and amortization. Net cash used in operating activities for the nine months ended September 30, 2022 consisted primarily of our net loss of approximately \$7.6 million and approximately \$0.2 million related to net changes in operating assets and liabilities, partially offset by approximately \$1.2 million of non-cash charges primarily related to stock-based compensation and depreciation and amortization.

Net cash provided by investing activities for the nine months ended September 30, 2023 related to net proceeds from the sale of assets and liabilities to Fedson.

Net cash provided by financing activities for the nine months ended September 30, 2023 consisted of approximately \$9.1 million of net cash proceeds from the issuance of preferred stock and approximately \$0.8 million of proceeds from short-term debt. This was partially offset by approximately \$0.3 million related to payments on short-term notes payable. Net cash provided by financing activities for the nine months ended September 30, 2022 consisted primarily of net cash proceeds from the February 2022 offering.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

Our Chief Executive Officer, being our principal executive and financial officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of September 30, 2023, the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our principal executive and principal financial officer as appropriate to allow timely decisions regarding required disclosure.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the nine months ended September 30, 2023 that materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II**

#### **Item 1. Legal Proceedings**

A legal proceeding has been initiated by a former employee alleging wrongful termination, retaliation, infliction of emotional distress, negligent supervision, hiring and retention and slander. An independent investigation into this individual's allegations of whistleblower retaliation, while still an employee, was conducted utilizing an outside investigator and concluded that such allegations were not substantiated. Fedson, as further consideration for the Asset Purchase Agreement, has agreed to assume all liabilities related to this pending employment claim.

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2022 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2022 10-K are not the only risks facing our company. Except as noted below, the risks and uncertainties described in "Item 1A – Risk Factors" have not materially changed. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**We have incurred net losses in almost every year since our inception, which losses will continue for the foreseeable future and raise substantial doubt about our ability to continue as a going concern.**

We have incurred net losses in almost every year since our inception. Our financial statements have been prepared assuming that we will continue as a going concern. For the years ended December 31, 2022 and 2021 and for the nine months ended September 30, 2023, we had net losses of approximately \$10.2 million, \$8.8 million and \$3.6 million, respectively, and had net cash used in operating activities of approximately \$8.2 million, \$7.9 million and \$4.8 million, respectively. These net losses and negative cash flows have had, and will continue to have, an adverse effect on our stockholders' equity and working capital, which have declined in the past year. As described elsewhere in this report, as of September 30, 2023 we had cash and cash equivalents of approximately \$8.1 million. We expect to continue to incur net losses and negative operating cash flow for the foreseeable future as we focus on exploring strategic alternatives to enhance stockholder value and development of our ProNeura based products. The amount of future net losses will depend, in part, on the rate of future growth of our expenses and our ability to obtain government or third-party funding for our development programs. Our history of losses raises substantial doubt about our ability to continue as a going concern.

**If we cannot continue to satisfy the Nasdaq Capital Market continued listing standards and other Nasdaq rules, our common stock could be delisted, which would harm our business, the trading price of our common stock, our ability to raise additional capital and the liquidity of the market for our common stock.**

Our Common Stock is currently listed on the Nasdaq Capital Market ("Nasdaq"). The listing standards of Nasdaq require that a company maintain stockholders' equity of at least \$2.5 million (the "Equity Rule") and a minimum bid price subject to specific requirements of \$1.00 per share. There is no assurance that we will be able to maintain compliance with the minimum closing price requirement or the minimum stockholders' equity requirement. Should we fail to comply with the minimum listing standards applicable to issuers listed on Nasdaq, our common stock may be delisted from Nasdaq. If our common stock is delisted, it could reduce the price of our common stock and the levels of liquidity available to our stockholders.

On April 5, 2023, we received a notice from Nasdaq notifying us that the Company's stockholders' equity as reported in our Annual Report on Form 10-K for the period ended December 31, 2022 ("2022 10-K"), did not satisfy the continued listing requirement under Nasdaq Listing Rule 5550(b)(1) for the Nasdaq Capital Market, which requires that a listed company's stockholders' equity be at least \$2,500,000. In our 2022 10-K, we reported stockholders' equity of \$1,363,000, and, as a result, we did not satisfy Nasdaq Marketplace Rule 5550(b)(1) as of December 31, 2022. We submitted a compliance plan within 45 days of the date of the notification and, on June 5, 2023, we received a letter from the Listing Qualifications Department of Nasdaq notifying us that we had been granted an additional 180-day period, or until October 2, 2023, to regain compliance with Nasdaq Listing Rule 5550(b)(1).

In March 2023, we received a letter from the Listing Qualifications staff of The Nasdaq Stock Market, or Nasdaq, notifying us that we were no longer in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed companies to maintain a minimum bid price of \$1.00 per share. The letter noted that the bid price of our common stock was below \$1.00 for the 30-day period ending March 15, 2023. The notification letter had no immediate effect on our listing on the Nasdaq Capital Market. In accordance with Listing Rule 5810(c)(3), Nasdaq provided us with 180 days, or until September 12, 2023, to regain compliance with the minimum bid price requirement by having a closing bid price of at least \$1.00 per share for a minimum of 10 consecutive business days.

On September 13, 2023, we received a determination letter (the "Determination Letter") from the Staff stating that we had not regained compliance with Listing Rule 5550(a)(2) and were not eligible for a second 180 day period to regain compliance. Unless the Company requested an appeal of this determination, the trading of the Company's common stock would be suspended at the opening of business on September 22, 2023, and a Form 25-NSE

would be filed with the Securities and Exchange Commission (the "SEC"), which would remove the Company's securities from listing and registration on The Nasdaq Stock Market.

In addition, the Staff indicated in the Determination Letter that, pursuant to Listing Rule 5810(d)(2), this deficiency served as an additional and separate basis for delisting, and as such, the Company should address its non-compliance with the Equity Rule before a Hearings Panel (the "Panel") if it appeals the Staff's determination.

We appealed Nasdaq's determination to a Panel pursuant to the procedures set forth in the Nasdaq Listing Rule 5800 Series to stay the suspension of our securities and the filing of the Form 25-NSE pending the Panel's decision. At a Panel hearing on November 2, 2023, we presented our plan to regain compliance with both the minimum bid price requirement and the Equity Rule. With respect to the minimum bid price requirement, we presented a plan to effect a reverse stock split in early 2024. On November 7, 2023, the Panel granted our request for continued listing subject demonstrating compliance with the minimum bid price requirement by February 1, 2024.

If our common stock is delisted from Nasdaq, our common stock would likely then trade only in the over-the-counter market. If our common stock were to trade on the over-the-counter market, selling our common stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and we could face significant material adverse consequences, including: a limited availability of market quotations for our securities; reduced liquidity with respect to our securities; a determination that our shares are a "penny stock," which will require brokers trading in our securities to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our securities; a reduced amount of news and analyst coverage for our company; and a decreased ability to issue additional securities or obtain additional financing in the future. These factors could result in lower prices and larger spreads in the bid and ask prices for our common stock and would substantially impair our ability to raise additional funds and could result in a loss of institutional investor interest and fewer development opportunities for us.

In addition to the foregoing, if our common stock is delisted from Nasdaq and it trades on the over-the-counter market, the application of the "penny stock" rules could adversely affect the market price of our common stock and increase the transaction costs to sell those shares. The Securities and Exchange Commission, or SEC, has adopted regulations which generally define a "penny stock" as an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. If our common stock is delisted from Nasdaq and it trades on the over-the-counter market at a price of less than \$5.00 per share, our common stock would be considered a penny stock. The SEC's penny stock rules require a broker-dealer, before a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and the salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that before a transaction in a penny stock occurs, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's agreement to the transaction. If applicable in the future, these rules may restrict the ability of brokers-dealers to sell our common stock and may affect the ability of investors to sell their shares, until our common stock no longer is considered a penny stock.

## **Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities.**

Not required to be furnished.

## **Item 5. Other Information.**

In July 2023, we received \$250,000 in funding in exchange for the issuance of an unsecured promissory note for that principal amount to David E. Lazar, our Chief Executive Officer and chairman of our Board of Directors (the "Lazar Promissory Note"). Pursuant to the Lazar Promissory Note, the principal amount accrued interest at a rate of the Prime Rate + 2.00% per annum, and all principal and accrued interest were due and payable on the earlier of January 1, 2024 or such time as we receive debt or equity financing or proceeds in excess of \$500,000 from the aforementioned transaction with Fedson. The loan was paid off in September 2023.

In August 2023, we received \$500,000 in funding in exchange for the issuance of a convertible promissory note for that principal amount to Choong Choon Hau (the "Hau Promissory Note"). Pursuant to the Hau Promissory Note, the principal amount accrues interest at a rate of 10% per annum and is payable monthly. All principal and accrued interest is due and payable on January 1, 2024, unless extended as provided. All or part of the Hau Promissory Note can be converted into our common stock at a conversion price of \$0.5712 per share from time to time following the issuance date and ending on the maturity date.

## **Item 6. Exhibits**

### **(b) Exhibits**

No	Description
4.1	<a href="#">Certificate of Designations, Preferences and Rights of Series AA Convertible Preferred Stock.</a> <sup>(1)</sup>
10.1	<a href="#">Amendment and Extension Agreement between Titan Pharmaceuticals, Inc. and Fedson, Inc., dated as of August 25, 2023.</a> <sup>(2)</sup>
10.2	<a href="#">Form of Securities Purchase Agreement, dated as of September 13, 2023, by and among the Company and The Sire Group Ltd.</a> <sup>(1)</sup>
10.3	<a href="#">Form of Registration Rights Agreement, dated as of September 13, 2023, by and among the Company and The Sire Group Ltd.</a> <sup>(1)</sup>
10.4	<a href="#">Convertible Promissory Note between Titan Pharmaceuticals, Inc. and Choong Choon Hau*</a>
31.1	<a href="#">Certification of the Principal Executive and Financial Officer pursuant to Rule 13(a)-14(a) of the Securities Exchange Act of 1934*</a>
32.1	<a href="#">Certification of the Principal Executive and Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Incorporated by reference from the Registrant's Current Report on Form 8-K dated September 18, 2023.

(2) Incorporated by reference from the Registrant's Current Report on Form 8-K dated August 30, 2023.  
\* Filed herewith

24

---

**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.

**TITAN PHARMACEUTICALS, INC.**

Dated: November 14, 2023

By: /s/ David Lazar

Name: **David Lazar**

Title: **Chief Executive Officer  
(Principal Executive Officer)**

---

25

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT OR OTHER APPLICABLE EXEMPTION. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: US\$500,000

Issue Date: August 8, 2023

#### CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, TITAN PHARMACEUTICALS INC., a public listed Delaware corporation (hereinafter called the "Borrower") (Trading Symbol: TTNP), hereby promises to pay to the order of Choong Choon Hau, or his registered assigns (the "Holder") the sum of US\$500,000 (the "Principal") together with interest (the "Interest") on the Principal balance hereof in the amount of ten percent (10%) (the "Interest Rate") per calendar year from the date hereof (the "Issue Date"). Interest shall be payable on a monthly basis beginning on the date that is one month following the Issue Date. All Principal and accrued but unpaid Interest owing hereunder, along with any and all other amounts, shall be due and owing on January, 2024, unless extended as provided herein or accelerated in accordance with the terms hereof (the "Maturity Date"). This Note may be prepaid in whole or in part as set forth herein. Any amount of Principal or Interest on this Note which is not paid when due shall bear interest at the rate of the lesser of (i) eighteen percent (18%) per annum and (ii) the maximum amount permitted under law from the due date thereof until the same is paid (the "Default Interest"). Default Interest shall commence accruing upon an Event of Default and shall be computed on the basis of a 360-day year and the actual number of days elapsed. All payments due hereunder (to the extent not converted into common stock, \$0.001 par value per share, of the Borrower (the "Common Stock") in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Whenever any amount expressed to be due by the terms of this Note is due on any day which is not a business day, the same shall instead be due on the next succeeding day which is a business day and, in the case of any interest payment date which is not the date on which this Note is paid in full, the extension of the due date thereof shall not be taken into account for purposes of determining the amount of interest due on such date. As used in this Note, the term "business day" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in the city of New York, New York are authorized or required by law or executive order to remain closed.

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower.

The following terms shall also apply to this Note:

---

#### ARTICLE I. CONVERSION RIGHTS UPON EVENT OF DEFAULT

1.1 Conversion Right. The Holder shall have the right, from time to time following the Issue Date and ending on the Maturity Date (the "Conversion Period"), and subject to receipt of any required corporate body and/or listing exchange approvals, to convert all or any part of the outstanding and unpaid principal, interest, penalties, and all other amounts under this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or any shares of capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed or reclassified at the Conversion Price (as defined below) determined as provided herein (a "Conversion"). The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 11:59 p.m., New York, New York time on such conversion date (the "Conversion Date"). The term "Conversion Amount" means, with respect to any conversion of this Note, the sum of (1) the Principal to be converted in such conversion plus (2) at the Holder's option, accrued and unpaid Interest, if any, on such Principal at the interest rates provided in this Note to the Conversion Date.

##### 1.2 Conversion Price.

(a) Calculation of Conversion Price. Subject to the adjustments described herein, the conversion price (as adjusted, the "Conversion Price") shall equal the Trading Price on the Trading Day immediately prior to the Issue Date. To the extent the Conversion Price of the Borrower's Common Stock closes below the par value per share, the Borrower will take all steps necessary to solicit the consent of the stockholders to reduce the par value to the lowest value possible under applicable law. The Borrower agrees to honor all conversions submitted pending this adjustment. If the shares of the Borrower's Common Stock have not been delivered within three (3) business days to the Borrower or Borrower's transfer agent, the Notice of Conversion may be rescinded. "Trading Price" shall mean the daily dollar volume-weighted average sale price for the Common Stock on the Trading Market on any particular Trading Day during the period beginning at 9:30 a.m., New York City Time (or such other time as the Trading Market publicly announces is the official open of trading), and ending at 4:00 p.m., New York City Time (or such other time as the Trading Market publicly announces is the official close of trading), as reported by Bloomberg through its "Volume at Price", or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the Trading Market. If the Trading Price cannot be calculated for such security on such date on any of the foregoing bases, the Trading Price of such security on such date shall be the fair market value as mutually determined by the Borrower and the Holder. All such determinations of Trading Price shall be appropriately and equitably adjusted in accordance with the provisions set forth herein for any stock dividend, stock split, stock combination or other similar transaction occurring during any period used to determine the Trading Price. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the Trading Market. "Trading Market" shall mean the Nasdaq Capital Market or on any other principal securities exchange or other securities market on which the Common Stock is then being traded. The Borrower shall be responsible for the fees of its transfer agent and all DTC fees associated with any such issuance. The Holder shall be entitled to deduct \$500.00 from the conversion amount in each Notice of Conversion to cover Holder's deposit fees associated with each Notice of Conversion.

##### (b) RESERVED.

(c) Pro Rata Conversion; Disputes. In the event of a dispute as to the number of shares of Common Stock issuable to the Holder in connection with a conversion of this Note, the Borrower shall issue to the Holder the number of shares of Common Stock not in dispute and resolve

(d) If at any time the Conversion Price as determined hereunder for any conversion would be less than the par value of the Common Stock, then the Conversion Price hereunder shall equal such par value for such conversion and the Conversion Amount for such conversion shall be increased to include Additional Principal, where "Additional Principal" means such additional amount to be added to the Conversion Amount to the extent necessary to cause the number of conversion shares issuable upon such conversion to equal the same number of conversion shares as would have been issued had the Conversion Price not been subject to the minimum price set forth in this Section 1.2(d).

**1.3 Beneficial Ownership Limitation.** The Borrower shall not effect any exercise of this Note, and the Holder shall not have the right to exercise any portion of this Note to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates (such Persons, "Attribution Parties")), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates and Attribution Parties shall include the number of shares of Common Stock issuable upon exercise of this Note with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, non-exercised portion of this Note beneficially owned by the Holder or any of its Affiliates or Attribution Parties and (ii) exercise or conversion of the unexercised or non-converted portion of any other securities of the Borrower (including, without limitation, any other securities of the Borrower which would entitle the holder thereof to acquire at any time shares of Common Stock, including, without limitation, any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, shares of Common Stock ("Common Stock Equivalents")) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates or Attribution Parties. Except as set forth in the preceding sentence, for purposes of this Section 1.3, beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Borrower is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1.3 applies, the determination of whether this Note is exercisable (in relation to other securities owned by the Holder together with any Affiliates and Attribution Parties) and of which portion of this Note is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Note is exercisable (in relation to other securities owned by the Holder together with any Affiliates and Attribution Parties) and of which portion of this Note is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Borrower shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 1.3, in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Borrower's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Borrower or (C) a more recent written notice by the Borrower or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Borrower shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Borrower, including this Note, by the Holder or its Affiliates or Attribution Parties since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall mean, as of any date, the maximum percentage of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Note that can be issued to the Holder without requiring a vote of the shareholders of the Borrower under the rules and regulations of the Trading Market on which the Common Stock trades on such date and applicable securities laws. The Holder, upon notice to the Borrower, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 1.3. Any increase in the Beneficial Ownership Limitation will not be effective until the 61<sup>st</sup> day after such notice is delivered to the Borrower. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1.3 to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Note.

#### **1.4 RESERVED.**

**1.5 Authorized Shares.** The Borrower covenants that during the period while any outstanding balance is owing hereunder or any conversion of the Note is available, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note (the "Reserved Amount"). The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of this Note. The Borrower: (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Note, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note. Notwithstanding the foregoing, in no event shall the Reserved Amount be lower than the initial Reserved Amount, regardless of any prior conversions.

If, at any time the Borrower does not maintain or replenish the Reserved Amount as required hereunder within three (3) business days of the request of the Holder, the principal amount of the Note shall increase by Five Thousand and No/100 United States Dollars (\$5,000) (under Holder's and Borrower's expectation that any Principal increase will tack back to the Issue Date) per occurrence.

#### **1.6 Method of Conversion.**

**(a) Mechanics of Conversion.** Subject to Section 1.1, this Note may be converted by the Holder in whole or in part at any time from time to time during the Conversion Period, by (A) submitting to the Borrower or Borrower's transfer agent a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 11:59 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower.

**(b) Surrender of Note Upon Conversion.** Notwithstanding anything to the contrary set forth herein, upon conversion of this Note

in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the Principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion. In the event of any dispute or discrepancy, such records of the Borrower shall, *prima facie*, be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if any portion of this Note is converted as aforesaid, the Holder may not transfer this Note unless the Holder first physically surrenders this Note to the Borrower, whereupon the Borrower will forthwith issue and deliver upon the order of the Holder a new Note of like tenor, registered as the Holder (upon payment by the Holder of any applicable transfer taxes) may request, representing in the aggregate the remaining unpaid principal amount of this Note. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted Principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

(c) Payment of Taxes. The Borrower shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock or other securities or property on conversion of this Note in a name other than that of the Holder (or in street name), and the Borrower shall not be required to issue or deliver any such shares or other securities or property unless and until the person or persons (other than the Holder or the custodian in whose street name such shares are to be held for the Holder's account) requesting the issuance thereof shall have paid to the Borrower the amount of any such tax or shall have established to the satisfaction of the Borrower that such tax has been paid.

(d) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder copies of Transfer Agent book entry records for the Common Stock issuable upon such conversion within five (5) business days after such receipt (the "Deadline") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof.

(e) Obligation of Borrower to Deliver Common Stock. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding Principal amount and the amount of accrued and unpaid Interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations under this Article I, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion. The Conversion Date specified in the Notice of Conversion shall be the Conversion Date so long as the Notice of Conversion is received by the Borrower before 11:59 p.m., New York, New York time, on such date.

(f) Delivery of Common Stock by Electronic Transfer. In lieu of delivering transfer agent book entry records representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Holder and its compliance with the provisions contained in Section 1.1 and in this Section 1.4, the Borrower shall use its commercially reasonable best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal At Custodian ("DWAC") system.

(g) DTC Eligibility and Market Loss. If the Borrower fails to maintain its status as "DTC Eligible" for any reason, the Principal amount of the Note shall increase by Five Thousand and No/100 United States Dollars (\$5,000) (and any Principal amount increase will tack back to the Issue Date).

(h) Failure to Deliver Common Stock Prior to Delivery Deadline. Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline (other than a failure due to the circumstances described in Section 1.3 above, which failure shall be governed by such Section) the Borrower shall pay to the Holder \$1,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock until the Borrower issues and delivers a certificate to the Holder or credit the Holder's balance account for the number of shares of Common Stock to which the Holder is entitled upon such Holder's conversion of any Conversion Amount (under Holder's and Borrower's expectation that any damages will tack back to the Issue Date). Such cash amount shall be paid to Holder by the fifth (5<sup>th</sup>) day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the Principal amount of this Note, in which event Interest shall accrue thereon in accordance with the terms of this Note and such additional Principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, or interference with such conversion right are difficult if not impossible to quantify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 1.4(h) are justified.

(i) Rescindment of a Notice of Conversion. If (i) the Borrower fails to respond to Holder within one (1) business day from the Conversion Date confirming the details of Notice of Conversion, (ii) the Borrower fails to provide any of the shares of the Borrower's Common Stock requested in the Notice of Conversion within three (3) business days from the date of receipt of the Note of Conversion, (iii) the Holder is unable to procure a legal opinion required to have the shares of the Borrower's Common Stock issued unrestricted and/or deposited to sell for any reason related to the Borrower's standing, (iv) the Holder is unable to deposit the shares of the Borrower's Common Stock requested in the Notice of Conversion for any reason related to the Borrower's standing, (v) at any time after a missed Deadline, at the Holder's sole discretion, or (vi) if Trading Market imposes any trading restriction on the Common Stock on the day of or any day after the Conversion Date, the Holder maintains the option and sole discretion to rescind the Notice of Conversion ("Rescindment") with a "Notice of Rescindment."

**1.7 Concerning the Shares.** The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration or (iii) such shares are sold or transferred pursuant to Rule 144 under the Act (or a successor rule) ("Rule 144") or other applicable exemption or (iv) such shares are transferred to an "affiliate" (as defined in Rule 144) of the Holder who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an "accredited investor" (as defined in Rule 501(a) of the Securities Act of 1933, as amended (the "Securities Act")). Subject to the removal provisions set forth below, until such time as the shares of Common Stock issuable upon conversion of this Note have been registered under the Act or otherwise may

be sold pursuant to Rule 144 or other applicable exemption without any restriction as to the number of securities as of a particular date that can then be immediately sold, each certificate for shares of Common Stock issuable upon conversion of this Note that has not been so included in an effective registration statement or that has not been sold pursuant to an effective registration statement or an exemption that permits removal of the legend, shall bear a legend substantially in the following form, as appropriate:

**"NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT OR OTHER APPLICABLE EXEMPTION. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT."**

The legend set forth above shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if (i) the Borrower or its transfer agent shall have received an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be reasonably accepted by the Borrower so that the sale or transfer is effected or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act or otherwise may be sold pursuant to Rule 144 or other applicable exemption without any restriction as to the number of securities as of a particular date that can then be immediately sold. In the event that the Borrower does not accept the opinion of counsel provided by the Holder with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

#### **1.8 Effect of Certain Events.**

(a) **Effect of Merger, Consolidation, Etc.** At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall either: (i) be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III) or (ii) be treated pursuant to Section 1.6(b) hereof. "Person" shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

(b) **Adjustment Due to Merger, Consolidation, Etc.** If, at any time when this Note is issued and outstanding and prior to conversion thereof, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives fifteen (15) days prior written of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Section 1.6(b). The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) **Adjustment Due to Distribution.** If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a "Distribution"), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

(d) **Adjustment Due to Dilutive Issuance.** If, at any time when this Note is issued and outstanding, the Borrower issues or sells, or in accordance with this Section 1.6(d) hereof is deemed to have issued or sold any shares of Common Stock for a consideration per share (before deduction of reasonable expenses or commissions or underwriting discounts or allowances in connection therewith) less than the Conversion Price in effect on the date of such issuance (or deemed issuance) of such shares of Common Stock (a "Dilutive Issuance"), then immediately upon the Dilutive Issuance, the Conversion Price will be reduced to the amount of the consideration per share received by the Borrower in such Dilutive Issuance.

The Borrower shall be deemed to have issued or sold shares of Common Stock if the Borrower in any manner issues or grants any warrants, rights or options (not including employee stock option plans), whether or not immediately exercisable, to subscribe for or to purchase Common Stock or other securities convertible into or exchangeable for Common Stock ("Convertible Securities") (such warrants, rights and options to purchase Common Stock or Convertible Securities are hereinafter referred to as "Options") and the price per share for which Common Stock is issuable upon the exercise of such Options is less than the Conversion Price then in effect, then the Conversion Price shall be equal to such price per share. For purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon the exercise of such Options" is determined by dividing (i) the total amount, if any, received or receivable by the Borrower as consideration for the issuance or granting of all such Options, plus the minimum aggregate amount of additional consideration, if any, payable to the Borrower upon the exercise of all such Options, plus, in the case of Convertible Securities issuable upon the exercise of such Options, the minimum aggregate amount of additional consideration payable upon the conversion or exchange thereof at the time such Convertible Securities first become convertible or exchangeable, by (ii) the maximum total number of

shares of Common Stock issuable upon the exercise of all such Options (assuming full conversion of Convertible Securities, if applicable). No further adjustment to the Conversion Price will be made upon the actual issuance of such Common Stock upon the exercise of such Options or upon the conversion or exchange of Convertible Securities issuable upon exercise of such Options.

Additionally, the Borrower shall be deemed to have issued or sold shares of Common Stock if the Borrower in any manner issues or sells any Convertible Securities, whether or not immediately convertible, and the price per share for which Common Stock is issuable upon such conversion or exchange is less than the Conversion Price then in effect, then the Conversion Price shall be equal to such price per share. For the purposes of the preceding sentence, the "price per share for which Common Stock is issuable upon such conversion or exchange" is determined by dividing (i) the total amount, if any, received or receivable by the Borrower as consideration for the issuance or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Borrower upon the conversion or exchange thereof at the time such Convertible Securities first become convertible or exchangeable, by (ii) the maximum total number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities. No further adjustment to the Conversion Price will be made upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities.

(e) Purchase Rights. If, at any time when this Note is issued and outstanding, the Borrower issues any convertible securities or rights to purchase stock, warrants, securities or other property (the "Purchase Rights") pro rata to the record holders of any class of Common Stock, then the Holder of this Note will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Holder could have acquired if such Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without regard to any limitations on conversion contained herein) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(f) Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price as a result of the events described in this Section 1.6, the Borrower, at its expense, shall promptly compute such adjustment or readjustment and prepare and furnish to the Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Borrower shall, upon the written request at any time of the Holder, furnish to such Holder a like certificate setting forth (i) such adjustment or readjustment, (ii) the Conversion Price at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other securities or property which at the time would be received upon conversion of this Note.

**1.9 Status as Shareholder.** Upon submission of a Notice of Conversion by a Holder, (i) the shares covered thereby shall be deemed converted into shares of Common Stock and (ii) the Holder's rights as a Holder of such converted portion of this Note shall cease and terminate, excepting only the right to receive certificates for such shares of Common Stock and to any remedies provided herein or otherwise available at law or in equity to such Holder because of a failure by the Borrower to comply with the terms of this Note. Notwithstanding the foregoing, if a Holder has not received certificates for all shares of Common Stock prior to the tenth (10th) business day after the expiration of the Deadline with respect to a conversion of any portion of this Note for any reason, then (unless the Holder otherwise elects to retain its status as a holder of Common Stock by so notifying the Borrower) the Holder shall regain the rights of a Holder of this Note with respect to such unconverted portions of this Note and the Borrower shall, as soon as practicable, return such unconverted Note to the Holder or, if the Note has not been surrendered, adjust its records to reflect that such portion of this Note has not been converted. In all cases, the Holder shall retain all of its rights and remedies (including, without limitation, (i) the right to receive Conversion Default Payments pursuant to Section 1.3 to the extent required thereby for such Conversion Default and any subsequent Conversion Default and (ii) the right to have the Conversion Price with respect to subsequent conversions determined in accordance with Section 1.3) for the Borrower's failure to convert this Note.

**1.10 Prepayment.** The Borrower may at any time pay or prepay all or any portion of the amounts outstanding hereunder by making a payment to the Holder of an amount in cash equal to the sum of: (w) the then outstanding Principal amount of this Note plus (x) accrued and unpaid Interest on the unpaid principal amount of this Note plus (y) Default Interest, if any.

## ARTICLE II. CERTAIN COVENANTS

**2.1 Distributions on Capital Stock.** So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder's written consent (a) pay, declare or set apart for such payment, any dividend or other distribution (whether in cash, property or other securities) on shares of capital stock other than dividends on shares of Common Stock solely in the form of additional shares of Common Stock or (b) directly or indirectly or through any subsidiary make any other payment or distribution in respect of its capital stock except for distributions pursuant to any shareholders' rights plan which are approved by a majority of the Borrower's disinterested directors.

**2.2 Restriction on Stock Repurchases.** So long as the Borrower shall have any obligation under this Note, the Borrower shall not without the Holder's written consent redeem, repurchase or otherwise acquire (whether for cash or in exchange for property or other securities or otherwise) in any one transaction or series of related transactions any shares of capital stock of the Borrower or any warrants, rights or options to purchase or acquire any such shares.

**2.3 Borrowings.** So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, create, incur, assume guarantee, endorse, contingently agree to purchase or otherwise become liable upon the obligation of any person, firm, partnership, joint venture or corporation, except by the endorsement of negotiable instruments for deposit or collection, or suffer to exist any liability for borrowed money, except (a) borrowings in existence or committed on the Issue Date and of which the Borrower has informed Holder in writing prior to the date hereof, (b) indebtedness to trade creditors financial institutions or other lenders incurred in the ordinary course of business, (c) borrowings, the proceeds of which shall be used to repay this Note, and (d) borrowings which are expressly subordinated to this Note. The Borrower shall use the proceeds from any borrowings or financings, other than those proceeds received pursuant to exceptions (a), (b) or (d) above, following the date hereof to repay this Note and the Borrower's failure to comply with this covenant shall constitute an Event of Default hereunder.

**2.4 Sale of Assets.** So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, which consent shall not be unreasonably withheld, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets shall be conditioned on a specified use of the proceeds towards the repayment of this Note.

**2.5 Advances and Loans.** So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, lend money, give credit or make advances to any person, firm, joint venture or corporation, including, without limitation, officers, directors, employees, subsidiaries and affiliates of the Borrower, except loans, credits or advances (a) in existence or committed on the Issue Date hereof and which the Borrower has informed Holder in writing prior to the date hereof, (b) made in the ordinary course of business or (c) not in excess of \$50,000.

**2.6 Section 3(a)(9) or 3(a)(10) Transaction.** So long as this Note is outstanding, the Borrower shall not enter into any transaction or arrangement structured in accordance with, based upon, or related or pursuant to, in whole or in part, either Section 3(a)(9) of the Securities Act (a "3(a)(9) Transaction") or Section 3(a)(10) of the Securities Act (a "3(a)(10) Transaction"). In the event that the Borrower does enter into, or makes any issuance of Common Stock related to a 3(a)(9) Transaction or a 3(a)(10) Transaction while this Note is outstanding, a liquidated damages charge of 25% of the outstanding Principal balance of this Note, but not less than Fifteen Thousand Dollars \$15,000, will be assessed and will become immediately due and payable to the Holder at its election in the form of cash payment or addition to the balance of this Note.

**2.7 Preservation of Existence, etc.** The Borrower shall maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its Subsidiaries (other than dormant Subsidiaries that have no or minimum assets) to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

**2.8 Non-circumvention.** The Borrower hereby covenants and agrees that the Borrower will not, by amendment of its Certificate or Articles of Incorporation or Bylaws, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Note, and will at all times in good faith carry out all the provisions of this Note and take all action as may be required to protect the rights of the Holder.

### ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur:

**3.1 Failure to Pay Principal or Interest.** The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity, upon acceleration or otherwise and such failure continues for a period of three (3) business days.

---

11

**3.2 Conversion and the Shares.** The Borrower (i) fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, (ii) fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, (iii) directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, (iv) fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion, (v) fails to remain current in its obligations to its transfer agent, (vi) causes a conversion of this Note to be delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent, (vii) fails to repay Holder, within two (2) business days of a demand from the Holder, any amount of funds advanced by Holder to Borrower's transfer agent in order to process a conversion, and (viii) fails to reserve sufficient amount of shares of Common Stock to satisfy the Reserved Amount at all times, (ix) subject to Holder not being subject to any affiliate resale restrictions under Rule 144, fails to provide a Rule 144 opinion letter from the Borrower's legal counsel to the Holder, covering the Holder's resale into the public market of the respective conversion shares under this Note, within two (2) business days of the Holder's submission of a Notice of Conversion to the Borrower (provided that the Holder must request the opinion from the Borrower at the time that Holder submits the respective Notice of Conversion, provide its own legal opinion as may be required pursuant to the restrictive legend, and the date of the respective Notice of Conversion must be on or after the date which is six (6) months after the date that the Holder funded the Principal under this Note), and/or (x) an exemption under Rule 144 is unavailable for the Holder's deposit into Holder's brokerage account and resale into the public market of any of the conversion shares under this Note at any time after the date which is six (6) months after the date that the Holder funded the Principal under this Note (other than as a result of Holder's status as an affiliate of the Borrower, or of having acquired the Note from an affiliate of the Borrower, and thus subjecting the Holder to affiliate resale restrictions under Rule 144).

**3.3 Breach of Covenants.** The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents and such breach continues for a period of five (5) business days after written notice thereof to the Borrower from the Holder.

**3.4 Breach of Representations and Warranties.** Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith, shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note.

**3.5 Receiver or Trustee.** The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors or commence proceedings for its dissolution, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed for the Borrower or for a substantial part of its property or business without its consent and shall not be discharged within fifteen (15) days after such appointment.

**3.6 Judgments.** Any money judgment, writ or similar process shall be entered or filed against the Borrower or any subsidiary of the Borrower or any of its property or other assets for more than \$50,000, and shall remain unvacated, unbonded or unstayed for a period of ten (10) days unless otherwise consented to by the Holder.

---

12

**3.7 Bankruptcy.** Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower, or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under federal or state laws as applicable or the Borrower admits in writing its inability to pay its debts generally as they mature, or have filed against it an involuntary petition for bankruptcy relief, all under international, federal or state laws as applicable.

**3.8 Delisting of Common Stock.** The Borrower shall fail to maintain the listing of the Common Stock on at least one of the Nasdaq Capital Market, Nasdaq Small Cap Market, New York Stock Exchange, NYSE MKT, or an equivalent replacement exchange.

**3.9 Failure to Comply with the Exchange Act.** The Borrower shall fail to comply with the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including but not limited to becoming delinquent in its filings); and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act.

3.10 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

3.11 Cessation of Operations. Any admission by Borrower that it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

**3.12 RESERVED**

3.13 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC for any date or period from two years prior to the Issue Date of this Note and until this Note is no longer outstanding, if the result of such restatement would, by comparison to the unrestated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note.

3.14 [Reserved]

3.15 [Reserved]

3.16 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed irrevocable transfer agent Instructions in a form acceptable to the Holder signed by the successor transfer agent to Borrower and the Borrower.

3.17 Cessation of Trading. Any cessation of trading of the Common Stock on at least one of the Nasdaq Capital Market, Nasdaq Small Cap Market, New York Stock Exchange, NYSE MKT, or an equivalent replacement exchange, and such cessation of trading shall continue for a period of five consecutive (5) Trading Days.

---

13

---

3.18 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other documents executed in connection herewith (the "Transaction Documents"), a breach of or the occurrence of an Event of Default under any of the other Transaction Documents or under loans, credits or advances (a) in existence or committed on the date hereof and which the Borrower has informed Holder in writing prior to the date hereof; (b) made in the ordinary course of business; or (c) otherwise permitted under this Note, which in any instance is continuing after the expiration of applicable notice, grace or cure periods shall, at the option of the Holder, be considered an Event of Default under this Note and the other Transaction Documents. In such event, the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the other Transaction Documents by reason of a breach, default or Event of Default having occurred under this Note or any other Transaction Document.

3.19 Bid Price. The Borrower shall lose the "bid" price for its Common Stock (\$0.0001 on the "Ask" with zero market makers on the "Bid" per Level 2) and/or a market.

3.20 [Reserved]

3.21 Inside Information. Any attempt by the Borrower or its officers, directors, and/or affiliates to transmit, convey, disclose, or any actual transmittal, conveyance, or disclosure by the Borrower or its officers, directors, and/or affiliates of, material non-public information concerning the Borrower, to the Holder or its successors and assigns, which is not immediately cured by Borrower's filing of a Form 8-K pursuant to Regulation FD on that same date.

3.22 Unavailability of Rule 144. If, at any time on or after the date which is six (6) months after the Issue Date, and subject to the Holder submitting its own "144 legal opinion letter" as may be required hereinunder, the Holder is unable to (i) obtain a standard "144 legal opinion letter" from an attorney reasonably acceptable to the Holder, the Holder's brokerage firm (and respective clearing firm), and the Borrower's transfer agent in order to facilitate the Holder's conversion of any portion of the Note into free trading shares of the Borrower's Common Stock pursuant to Rule 144, and (ii) thereupon deposit such shares into the Holder's brokerage account (in each case, other than as a result of Holder's status as an affiliate of the Borrower, or of having acquired the Note from an affiliate of the Borrower, and thus subjecting the Holder to affiliate resale restrictions under Rule 144).

3.23 Reserved.

3.24 Failure to Hold Meetings of Shareholders. If the Borrower shall fail hold meetings of shareholders as required under its governing documents, the rules and regulations of the Trading Market on which the Common Stock trades or applicable law, and such failure is not cured within the timeframe allowed by the Borrower's listing exchange.

---

14

---

UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT SPECIFIED IN SECTION 3 OF THIS NOTE, THE NOTE SHALL BECOME IMMEDIATELY AND AUTOMATICALLY DUE AND PAYABLE WITHOUT DEMAND, PRESENTMENT, OR NOTICE AND THE BORROWER SHALL PAY TO THE HOLDER, IN FULL SATISFACTION OF ITS OBLIGATIONS HEREUNDER, AN AMOUNT EQUAL TO: (A) IN THE EVENT OF AN OCCURRENCE OF ANY EVENT OF DEFAULT SPECIFIED IN OF SECTION 3.2, 3.9, 3.10, 3.16, 3.17, 3.19, , 3.22, OR 3.24, THE THEN OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE PLUS (X) ACCRUED AND UNPAID INTEREST ON THE UNPAID PRINCIPAL AMOUNT OF THIS NOTE TO THE DATE OF PAYMENT (THE "MANDATORY PREPAYMENT DATE") PLUS (Y) DEFAULT INTEREST, IF ANY, ON THE AMOUNTS REFERRED TO IN CLAUSES (W) AND/OR (X) PLUS (Z) ANY AMOUNTS OWED TO THE HOLDER PURSUANT TO SECTIONS 1.3 AND 1.4(G) HEREOF, MULTIPLIED BY ONE AND ONE HALF (2); OR (B) IN THE EVENT OF THE OCCURRENCE OF ANY EVENT OF DEFAULT SPECIFIED IN ANY OTHER SECTION, THE THEN OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE PLUS (X) ACCRUED AND UNPAID INTEREST ON THE UNPAID PRINCIPAL AMOUNT OF THIS NOTE TO THE MANDATORY PREPAYMENT DATE, PLUS (Y) DEFAULT INTEREST, IF ANY, ON THE AMOUNTS REFERRED TO IN CLAUSES (W) AND/OR (X) PLUS (Z) ANY AMOUNTS OWED TO THE HOLDER PURSUANT TO SECTIONS 1.3 AND 1.4(G) HEREOF (THE THEN OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE TO THE DATE OF PAYMENT PLUS THE AMOUNTS REFERRED TO IN CLAUSES (X), (Y) AND (Z) SHALL COLLECTIVELY BE KNOWN AS THE "DEFAULT SUM") or (ii) at the option of the Holder, the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest trading price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of

collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity. Further, if a breach of Sections 3.9, 3.10 and/or 3.19 occurs or is continuing after the six (6) month anniversary of this Note, then the principal amount of the Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000) (under Holder's and Borrower's expectation that any principal amount increase will tack back to the Issue Date) and the Holder shall be entitled to use the lowest trading price during the delinquency period as a base price for the conversion, subject to adjustment as provided in this Note. For example, if the lowest trading price during the delinquency period is \$0.50 per share and the conversion discount is 50%, then the Holder may elect to convert future conversions at \$0.25 per share. If this Note is not paid at Maturity Date, then the outstanding principal due under this Note shall increase by Fifteen Thousand and No/100 United States Dollars (\$15,000).

The Holder shall have the right at any time after an Event of Default occurs under this Note to require the Borrower, to immediately issue, in lieu of the Default Amount and/or Default Sum, the number of shares of Common Stock of the Borrower equal to the Default Amount and/or Default Sum divided by the Conversion Price then in effect, pursuant to the terms of this Note (including but not limited to any beneficial ownership limitations contained herein). This requirement by the Borrower shall automatically apply upon the occurrence of an Event of Default without the need for any party to give any notice or take any other action.

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, then if the Holder prevails in such action, the Holder shall be reimbursed by the Borrower for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, the Holder shall be entitled to use the lowest trading price during the delinquency period as a base price for the conversion subject to a discount of sixty percent (60%).

#### ARTICLE IV. MISCELLANEOUS

**4.1 Failure or Indulgence Not Waiver.** No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

---

15

---

**4.2 Notices.** All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, electronic mail, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by electronic mail or facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

Titan Pharmaceuticals Inc.  
400 Oyster Point Blvd., Suite 505  
South San Francisco, CA 94080  
Attn: David Lazar, CEO  
E-mail: david@activistinvestingllc.com

If to the Holder:

Choong Choon Hau  
Emerald Heights 23 Lrg Terubong Ria 2, Paya Terubong  
11060 Pulau Pinang  
Attn: Mr. Choong Choon Hau  
Email: choonhauchoon389@gmail.com

**4.3 Amendments.** This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument as originally executed, or if later amended or supplemented, then as so amended or supplemented.

**4.4 Assignability.** This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Notwithstanding anything herein to the contrary, neither the Borrower nor the Holder may transfer or assign this Note, whether in whole or in part, nor may they transfer or assign any of their respective rights or obligations hereunder, without the prior written consent of the other party hereto. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that following conversion of a portion of this Note, the unpaid and unconverted Principal amount of this Note represented by this Note may be less than the amount stated on the face hereof.

**4.5 Cost of Collection.** If default is made in the payment of this Note, the Borrower shall pay the Holder hereof reasonable costs of collection, including reasonable attorneys' fees.

---

16

---

**4.6 Governing Law.** This Note shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state courts located in the State of New York or federal courts located in the City of New York, State of New York. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. **THE BORROWER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY TRANSACTION CONTEMPLATED HEREBY.** The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is

invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

**4.7 Certain Amounts.** Whenever pursuant to this Note the Borrower is required to pay an amount in excess of the outstanding Principal amount (or the portion thereof required to be paid at that time) plus accrued and unpaid Interest plus Default Interest on such Interest, the Borrower and the Holder agree that the actual damages to the Holder from the receipt of cash payment on this Note may be difficult to determine and the amount to be so paid by the Borrower represents stipulated damages and not a penalty and is intended to compensate the Holder in part for loss of the opportunity to convert this Note and to earn a return from the sale of shares of Common Stock acquired upon conversion of this Note at a price in excess of the price paid for such shares pursuant to this Note. The Borrower and the Holder hereby agree that such amount of stipulated damages is not plainly disproportionate to the possible loss to the Holder from the receipt of a cash payment without the opportunity to convert this Note into shares of Common Stock.

#### **4.8 RESERVED**

**4.9 Usury.** If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable provision shall automatically be revised to equal the maximum rate of interest or other amount deemed interest permitted under applicable law. The Borrower covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any law that would prohibit or forgive the Borrower from paying all or a portion of the principal or interest on this Note.

**4.10 Remedies.** The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required. No provision of this Note shall alter or impair the obligation of the Borrower, which is absolute and unconditional, to pay the principal of, and interest on, this Note at the time, place, and rate, and in the form, herein prescribed.

---

17

**4.11 Severability.** In the event that any provision of this Note is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

**4.12 Dispute Resolution.** In the case of a dispute as to the determination of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum, Closing or Maturity Date, the closing bid price, or fair market value (as the case may be) or the arithmetic calculation of the Conversion Price or the applicable prepayment amount(s) (as the case may be), the Borrower or the Holder shall submit the disputed determinations or arithmetic calculations via facsimile (i) within two (2) Business Days after receipt of the applicable notice giving rise to such dispute to the Borrower or the Holder or (ii) if no notice gave rise to such dispute, at any time after the Holder learned of the circumstances giving rise to such dispute. If the Holder and the Borrower are unable to agree upon such determination or calculation within two (2) Business Days of such disputed determination or arithmetic calculation (as the case may be) being submitted to the Borrower or the Holder, then the Borrower shall, within two (2) Business Days, submit via facsimile (a) the disputed determination of the Conversion Price, the closing bid price, the or fair market value (as the case may be) to an independent, reputable investment bank selected by the Borrower and approved by the Holder or (b) the disputed arithmetic calculation of the Conversion Price, Conversion Amount, any prepayment amount or Default Amount, Default Sum to an independent, outside accountant selected by the Holder that is reasonably acceptable to the Borrower. The Borrower shall cause at its expense the investment bank or the accountant to perform the determinations or calculations and notify the Borrower and the Holder of the results no later than ten (10) Business Days from the time it receives such disputed determinations or calculations. Such investment bank's or accountant's determination or calculation shall be binding upon all parties absent demonstrable error.

[signature page follows]

---

18

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer as of the date first above written.

**TITAN PHARMACEUTICALS INC.**

By: /s/ David Lazar  
Name: David Lazar  
Title: Chief Executive Officer

---

19

**EXHIBIT A**  
**NOTICE OF CONVERSION**

The undersigned hereby elects to convert \$ \_\_\_\_\_ principal amount of the Note (defined below) together with \$ \_\_\_\_\_ of accrued and unpaid interest thereto, totaling \$ \_\_\_\_\_ into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of Titan Pharmaceuticals Inc., a Delaware corporation (the "Borrower"), according to the conditions of the convertible note of the Borrower dated as of August 8, 2023 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any.

Box Checked as to applicable instructions:

The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal At Custodian system ("DWAC Transfer").

Name of DTC Prime Broker:

Account Number:

The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

Name: [NAME]

Address: [ADDRESS]

Date of Conversion:

Applicable Conversion Price:

\$ \_\_\_\_\_

Number of Shares of Common Stock to be Issued Pursuant to  
Conversion of the Note:

\_\_\_\_\_

Amount of Principal Balance Due remaining Under the Note after this  
conversion:

\_\_\_\_\_

Accrued and unpaid interest remaining:

\_\_\_\_\_

[HOLDER]

By: \_\_\_\_\_

Name: [NAME]

Title: [TITLE]

Date: [DATE]

## CERTIFICATION

I, David Lazar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Titan 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. I am 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 my supervision, to ensure that material information relating to the registrant is made known to me 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 my 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. I have disclosed, based on my 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 14, 2023

/s/ David Lazar

Name: David Lazar  
 Title: Chief Executive Officer  
 (Principal Executive Officer and Principal Financial Officer)

---

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report on Form 10-Q of Titan Pharmaceuticals, Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his 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 14, 2023

/s/ David Lazar

Name: David Lazar  
Title: Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)

---