

REFINITIV

DELTA REPORT

10-Q

HROWL - HARROW, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1642

█ CHANGES 270

█ DELETIONS 999

█ ADDITIONS 373

**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** **March 31, 2024**

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: **001-35814**

Harrow, Inc.

(Exact name of registrant as specified in its charter)

Delaware

45-0567010

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

**102 Woodmont Blvd., Suite 610
Nashville, Tennessee**

(Address of principal executive offices)

37205

(Zip code)

(615) 733-4730
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name on exchange on which registered
Common Stock, \$0.001 par value per share	HROW	The Nasdaq Stock Market LLC
8.625% Senior Notes due 2026	HROWL	The Nasdaq Stock Market LLC
11.875% Senior Notes due 2027	HROWM	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input 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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of **November 13, 2023** **May 10, 2024**, there were **35,117,746** **35,381,935** shares of the registrant's common stock, \$0.001 par value, outstanding.

HARROW, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

HARROW, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,610,000	\$ 96,270,000
Investment in Eton Pharmaceuticals	8,265,000	5,589,000
Accounts receivable, net	18,468,000	6,249,000
Inventories	8,924,000	6,541,000
Prepaid expenses and other current assets	9,011,000	3,611,000
Total current assets	110,278,000	118,260,000
Property, plant and equipment, net	3,629,000	3,486,000
Capitalized software costs, net	2,151,000	2,112,000
Deferred financing costs	—	1,950,000
Operating lease right-of-use assets, net	6,972,000	7,513,000
Intangible assets, net	162,703,000	23,725,000
Goodwill	332,000	332,000
TOTAL ASSETS	\$ 286,065,000	\$ 157,378,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 12,772,000	\$ 13,771,000
Accrued payroll and related liabilities	5,319,000	4,025,000
Deferred revenue and customer deposits	153,000	113,000
Current portion of operating lease obligations	785,000	723,000
Total current liabilities	19,029,000	18,632,000
Operating lease obligations, net of current portion	6,735,000	7,332,000
Accrued expenses, net of current portion	2,713,000	—
Notes payable, net of unamortized debt discount	182,186,000	104,174,000
TOTAL LIABILITIES	210,663,000	130,138,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 50,000,000 shares authorized, 35,117,621 and 29,901,530 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	35,000	30,000
Additional paid-in capital	200,478,000	137,058,000
Accumulated deficit	(124,756,000)	(109,493,000)
TOTAL HARROW, INC. STOCKHOLDERS' EQUITY	75,757,000	27,595,000
Noncontrolling interests	(355,000)	(355,000)
TOTAL STOCKHOLDERS' EQUITY	75,402,000	27,240,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 286,065,000	\$ 157,378,000
	March 31, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 68,538,000	\$ 74,085,000
Investment in Eton Pharmaceuticals	7,433,000	8,681,000
Accounts receivable, net	28,960,000	37,271,000
Inventories	10,810,000	10,867,000
Prepaid expenses and other current assets	9,717,000	9,588,000
Total current assets	125,458,000	140,492,000
Property, plant and equipment, net	3,389,000	3,521,000
Capitalized software costs, net	2,019,000	2,138,000
Operating lease right-of-use assets, net	6,968,000	6,785,000
Intangible assets, net	157,370,000	159,906,000
Goodwill	332,000	332,000
TOTAL ASSETS	\$ 295,536,000	\$ 313,174,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 15,129,000	\$ 24,581,000
Accrued rebates and copay assistance	20,690,000	19,442,000
Accrued payroll and related liabilities	5,027,000	5,450,000
Deferred revenue and customer deposits	112,000	75,000
Current portion of operating lease obligations	795,000	806,000

Total current liabilities	41,753,000	50,354,000
Operating lease obligations, net of current portion	6,716,000	6,524,000
Accrued expenses, net of current portion	2,713,000	2,713,000
Notes payable, net of unamortized debt discount	184,148,000	183,172,000
TOTAL LIABILITIES	235,330,000	242,763,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 50,000,000 shares authorized, 35,380,955 and 35,168,260 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	35,000	35,000
Additional paid-in capital	207,995,000	204,635,000
Accumulated deficit	(147,469,000)	(133,904,000)
TOTAL HARROW, INC. STOCKHOLDERS' EQUITY	60,561,000	70,766,000
Noncontrolling interests	(355,000)	(355,000)
TOTAL STOCKHOLDERS' EQUITY	60,206,000	70,411,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 295,536,000	\$ 313,174,000

The accompanying notes are an integral part of these condensed consolidated financial statements

HARROW, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31,	
	2024	2023
Revenues:		
Product sales, net	\$ 34,508,000	\$ 20,453,000
Other revenues	79,000	5,650,000
Total revenues	<u>34,587,000</u>	<u>26,103,000</u>
Cost of sales	(10,553,000)	(8,271,000)
Gross profit	<u>24,034,000</u>	<u>17,832,000</u>
Operating expenses:		
Selling, general and administrative	28,813,000	15,888,000
Research and development	2,149,000	734,000
Total operating expenses	<u>30,962,000</u>	<u>16,622,000</u>
(Loss)income from operations	<u>(6,928,000)</u>	<u>1,210,000</u>
Other (expense) income:		
Interest expense, net	(5,415,000)	(4,747,000)
Investment (loss) gain from Eton Pharmaceuticals	(1,248,000)	2,042,000
Loss on extinguishment of debt	-	(5,465,000)
Other income, net	26,000	29,000
Total other expense, net	<u>(6,637,000)</u>	<u>(8,141,000)</u>
Loss before income tax expense	(13,565,000)	(6,931,000)
Income tax benefit	-	288,000
Net loss	<u>(13,565,000)</u>	<u>(6,643,000)</u>
Basic and diluted net loss per share of common stock	\$ (0.38)	\$ (0.22)
Weighted average number of shares of common stock outstanding, basic and diluted	<u>35,469,638</u>	<u>30,289,730</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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HARROW, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Revenues:				
Product sales, net	\$ 31,809,000	\$ 21,575,000	\$ 81,804,000	\$ 63,433,000
Other revenues	2,456,000	1,248,000	12,034,000	4,833,000
Total revenues	<u>34,265,000</u>	<u>22,823,000</u>	<u>93,838,000</u>	<u>68,266,000</u>
Cost of sales	(10,067,000)	(6,721,000)	(28,338,000)	(19,218,000)
Gross profit	<u>24,198,000</u>	<u>16,102,000</u>	<u>65,500,000</u>	<u>49,048,000</u>
Operating expenses:				
Selling, general and administrative	21,033,000	15,421,000	56,878,000	43,004,000
Research and development	1,421,000	775,000	3,316,000	2,347,000
Total operating expenses	<u>22,454,000</u>	<u>16,196,000</u>	<u>60,194,000</u>	<u>45,351,000</u>
Income (loss) from operations	<u>1,744,000</u>	<u>(94,000)</u>	<u>5,306,000</u>	<u>3,697,000</u>
Other (expense) income:				
Interest expense, net	(5,749,000)	(1,800,000)	(16,200,000)	(5,386,000)
Equity in losses of unconsolidated entities	-	(3,504,000)	-	(9,036,000)
Investment gain (loss) from Eton Pharmaceuticals	1,348,000	(1,031,000)	2,676,000	(4,341,000)
Loss on extinguishment of debt	-	-	(5,465,000)	-
Other expense, net	(195,000)	-	(344,000)	-
Total other expense, net	<u>(4,596,000)</u>	<u>(6,335,000)</u>	<u>(19,333,000)</u>	<u>(18,763,000)</u>
Loss before income taxes	<u>(2,852,000)</u>	<u>(6,429,000)</u>	<u>(14,027,000)</u>	<u>(15,066,000)</u>
Income tax expense	(1,539,000)	(35,000)	(1,236,000)	(75,000)
Net loss attributable to Harrow, Inc.	<u>\$ (4,391,000)</u>	<u>\$ (6,464,000)</u>	<u>\$ (15,263,000)</u>	<u>\$ (15,141,000)</u>
Basic and diluted net loss per share of common stock	<u>\$ (0.13)</u>	<u>\$ (0.24)</u>	<u>\$ (0.48)</u>	<u>\$ (0.55)</u>
Weighted average number of shares of common stock outstanding, basic and diluted	<u>34,255,197</u>	<u>27,349,642</u>	<u>31,689,947</u>	<u>27,293,756</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

HARROW, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the periods ended September 30, 2023 Three Months Ended March 31, 2024 and 2022 2023

	Total						Total		
	Common Stock		Additional Paid-in Capital		Accumulated Deficit	Harrow, Inc. Stockholders' Equity	Noncontrolling Interest Equity	Total Stockholders' Equity	Common Stock
	Shares	Par Value	Shares	Par Value	Deficit	Equity	Equity	Shares	Par Value
Balance at December 31, 2021	26,902,763	\$ 27,000	\$ 106,666,000	\$ (95,407,000)	\$ 11,286,000	\$ (355,000)	\$ 10,931,000		
Balance at December 31, 2022								29,901,530	\$ 30,000
Issuance of common stock in connection with:									\$ 137,058,000
Exercise of consultant stock-based options	4,054	-	-	-	-	-	-		
Exercise of employee stock-based options	92,261	-	7,000	-	7,000	-	7,000	97,542	-
Vesting of RSUs	185,000	1,000	(1,000)	-	-	-	-	111,000	-
Shares withheld related to net share settlement of equity awards	(109,771)	(1,000)	(875,000)	-	(876,000)	-	(876,000)	(53,702)	-
Stock-based compensation expense	-	-	5,941,000	-	5,941,000	-	5,941,000	-	-
Net loss	-	-	-	(15,141,000)	(15,141,000)	-	(15,141,000)	-	-
Balance at September 30, 2022	27,074,307	\$ 27,000	\$ 111,738,000	\$ (110,548,000)	\$ 1,217,000	\$ (355,000)	\$ 862,000		
Balance at December 31, 2022	29,901,530	\$ 30,000	\$ 137,058,000	\$ (109,493,000)	\$ 27,595,000	\$ (355,000)	\$ 27,240,000		
Issuance of common stock in connection with:									
Public offering, net of offering costs	3,887,324	4,000	64,516,000	-	64,520,000	-	64,520,000		

Exercise of consultant stock-based options	10,000	-	85,000	-	85,000	-	85,000
Exercise of employee stock-based options	219,246	-	270,000	-	270,000	-	270,000
Vesting of RSUs and PSUs	1,810,673	2,000	(2,000)	-	-	-	-
Shares withheld related to net share settlement of equity awards	(711,152)	(1,000)	(12,970,000)	-	(12,971,000)	-	(12,971,000)
Stock-based compensation expense	-	-	11,521,000	-	11,521,000	-	11,521,000
Net loss	-	-	-	(15,263,000)	(15,263,000)	-	(15,263,000)
Balance at September 30, 2023	35,117,621	\$ 35,000	\$ 200,478,000	\$ (124,756,000)	\$ 75,757,000	\$ (355,000)	\$ 75,402,000
Balance at March 31, 2023							30,056,370 \$ 30,000 \$ 137,9

	Harrow, Inc.							Common Stock			Additional Paid-in Capital			
	Common Stock		Additional Paid-in Capital		Stockholders' Equity		Noncontrolling Interest Equity		Total Stockholders' Equity					
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Stockholders' Equity	Interest Equity	Stockholders' Equity	Shares	Par Value	Stockholders' Equity				
Balance at June 30, 2022	27,069,978	\$ 27,000	\$ 109,806,000	\$ (104,084,000)	\$ 5,749,000	\$ (355,000)	\$ 5,394,000							
Balance at December 31, 2023								35,168,260	\$ 35,000	\$ 204,6				
Balance								35,168,260	\$ 35,000	\$ 204,6				
Issuance of common stock in connection with:														
Exercise of consultant stock-based options	4,054	-	-	-	-	-	-							
Exercise of employee stock-based options	275	-	-	-	-	-	-	46,175	-	-				
Stock-based compensation expense	-	-	1,932,000	-	1,932,000	-	-	1,932,000						
Net loss	-	-	-	(6,464,000)	(6,464,000)	-	-	(6,464,000)						

Balance at September 30, 2022	27,074,307	\$ 27,000	\$ 111,738,000	\$ (110,548,000)	\$ 1,217,000	\$ (355,000)	\$ 862,000	
Balance at June 30, 2023	30,276,938	\$ 30,000	\$ 142,742,000	\$ (120,365,000)	\$ 22,407,000	\$ (355,000)	\$ 22,052,000	
Issuance of common stock in connection with:								
Public offering, net of offering costs	3,887,324	4,000	64,516,000	-	64,520,000	-	64,520,000	
Exercise of employee stock-based options	2,430	-	18,000	-	18,000	-	18,000	
Vesting of PSUs	1,567,913	2,000	(2,000)	-	-	-	-	
Vesting of RSUs						275,000	-	
Shares withheld related to net share settlement of equity awards	(616,984)	(1,000)	(11,272,000)	-	(11,273,000)	-	(11,273,000)	
Stock-based compensation expense	-	-	4,476,000	-	4,476,000	-	4,476,000	
Net loss	-	-	-	(4,391,000)	(4,391,000)	-	(4,391,000)	
Balance at September 30, 2023	35,117,621	\$ 35,000	\$ 200,478,000	\$ (124,756,000)	\$ 75,757,000	\$ (355,000)	\$ 75,402,000	
Balance at March 31, 2024						35,380,955	\$ 35,000	\$ 207,955
Balance						<u>35,380,955</u>	<u>\$ 35,000</u>	<u>\$ 207,955</u>

The accompanying notes are an integral part of these unaudited condensed financial statements

HARROW, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	2023	2022	For the Three Months Ended March 31,	
	For the Nine Months Ended September 30,	2022		
	2023	2022	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:				
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	\$ (15,263,000)	\$ (15,141,000)	\$ (13,565,000)	\$ (6,643,000)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Depreciation and amortization of property, plant and equipment, and software development costs	1,095,000	1,090,000		
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization of property, plant and equipment and software development costs			432,000	292,000
Amortization of intangible assets	7,634,000	1,200,000	2,554,000	2,207,000
Amortization of operating lease right-of-use assets	541,000	435,000	194,000	177,000
Provision for credit losses	68,000	36,000		
(Recovery of) provision for credit losses			(85,000)	20,000
Amortization of debt issuance costs and debt discount	2,568,000	585,000	976,000	761,000
Investment (gain) loss from investment in Eton	(2,676,000)	4,341,000		
Equity in losses of unconsolidated entities	-	9,036,000		
Investment loss (gain) from investment in Eton			1,248,000	(2,042,000)
Loss on extinguishment of debt	5,465,000	-		5,465,000
Loss on disposal of intangible assets	22,000	-		
Stock-based compensation	11,521,000	5,941,000	4,169,000	1,633,000
Deferred income tax				(288,000)
Changes in assets and liabilities:				
Accounts receivable	(12,287,000)	(2,309,000)	8,396,000	(5,882,000)
Inventories	(2,383,000)	(1,066,000)	57,000	(2,552,000)
Prepaid expenses and other current assets	(4,079,000)	(716,000)	321,000	7,000
Accounts payable and accrued expenses	1,584,000	1,534,000		
Accounts payable, accrued expenses, accrued rebates and copay assistance			(8,939,000)	(212,000)
Accrued payroll and related liabilities	1,294,000	352,000	(423,000)	(1,111,000)
Deferred revenue and customer deposits	40,000	99,000	37,000	(46,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(4,856,000)	5,417,000		
CASH FLOWS FROM INVESTING ACTIVITIES:				
NET CASH USED IN OPERATING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES			(4,628,000)	(8,214,000)
Investment in patent and trademark assets	-	(19,000)	(18,000)	-
Purchase of product NDAs, marketing authorizations and patents	(151,084,000)	-		
Purchase of product NDAs and related patents				(130,474,000)
Purchases of property, plant and equipment	(1,266,000)	(1,719,000)	(92,000)	(496,000)
NET CASH USED IN INVESTING ACTIVITIES	(152,350,000)	(1,738,000)	(110,000)	(130,970,000)
CASH FLOWS FROM FINANCING ACTIVITIES:				
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from 11.875% notes payable, net of costs	4,961,000	-		4,961,000
Proceeds from Oaktree Loan, net of costs	73,552,000	-		61,585,000
Payment of payroll taxes upon vesting of PSUs, RSUs and exercise of stock options	(12,971,000)	(876,000)	(1,157,000)	(661,000)

Proceeds from exercise of stock options	355,000	7,000	348,000	148,000
Proceeds from B. Riley senior secured note, net of costs	55,879,000	-	-	55,879,000
Repayment of B. Riley senior secured note	(59,750,000)	-	-	(59,750,000)
Proceeds from public offering of common stock, net of costs	64,520,000	-	(18,000)	
Payments on finance lease obligations	-			
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	126,546,000	(887,000)		
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES			(809,000)	62,162,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(30,660,000)	2,792,000	(5,547,000)	(77,022,000)
CASH AND CASH EQUIVALENTS, beginning of period	96,270,000	42,167,000		
CASH AND CASH EQUIVALENTS, end of period	\$ 65,610,000	\$ 44,959,000		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD			74,085,000	96,270,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD			\$ 68,538,000	\$ 19,248,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	\$ -	\$ 75,000	\$ -	\$ -
Cash paid for interest	\$ 12,279,000	\$ 4,851,000	\$ 5,340,000	\$ 3,371,000
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Reclassification of deferred financing costs	\$ 1,950,000	\$ -	\$ -	\$ 1,950,000
Accrual of exit fee related to Oaktree Loan	\$ 2,713,000	\$ -	\$ -	\$ 2,275,000
Insurance premium financed	\$ 1,321,000	\$ 906,000		
Purchase of intangible asset included in accounts payable and accrued expenses	\$ -	\$ 5,000,000		
Purchase of property, plant and equipment included in accounts payable and accrued expenses	\$ 11,000	\$ 86,000	\$ 89,000	\$ 61,000
Right-of-use assets obtained in exchange for new operating lease obligations	\$ -	\$ 2,188,000	\$ 377,000	\$ -
Income taxes owed for exercise of options			\$ -	\$ 189,000
Insurance premium financed			\$ 450,000	\$ -

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

HARROW, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company and Background

Harrow, Inc. (together with its consolidated subsidiaries, unless the context indicates or otherwise requires, the "Company" or "Harrow") is a leading eyecare pharmaceutical company engaged in the discovery, development, and commercialization of innovative ophthalmic pharmaceutical products for the U.S. market. Harrow helps U.S. eyecare professionals preserve the gift of sight by making its comprehensive portfolio of prescription and non-prescription pharmaceutical products accessible and affordable to millions of Americans each year. The Company owns commercial rights to one of the largest portfolios of branded ophthalmic pharmaceutical products in the U.S. that are marketed under its Harrow name. The Company also owns and operates ImprimisRx, one of the nation's leading ophthalmology-focused pharmaceutical-compounding businesses.

The Company owns non-controlling equity interests in Surface Ophthalmics, Inc. ("Surface") and Melt Pharmaceuticals, Inc. ("Melt"), both companies that began as subsidiaries of Harrow. Harrow also owns royalty rights in various drug candidates being developed by Surface and Melt.

Effective September 29, 2023, the Company changed its corporate name from Harrow Health, Inc. to Harrow, Inc. pursuant to a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware.

Basis of Presentation

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of the results that may be expected for the year ending **December 31, 2023** **December 31, 2024** or for any other period. For further information, refer to the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries.

Harrow consolidates entities in which it has a controlling financial interest. The Company assesses control under the variable interest entity ("VIE") model to determine whether the Company is the primary beneficiary of that entity. The Company consolidates (i) entities in which it holds and/or controls, directly or indirectly, more than 50% of the voting rights, and (ii) VIEs for which the Company is deemed to be the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following represents an update for the three and nine months ended **September 30, 2023** **March 31, 2024** to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

Risks, Uncertainties and Liquidity

The Company is subject to certain regulatory standards, approvals, guidelines and inspections which could impact the Company's ability to make, dispense, and sell certain products. If the Company was required to cease compounding and selling certain products as a result of regulatory guidelines or inspections, this may have a material impact on the Company's financial condition, liquidity and results of operations.

Credit Losses

The Company estimates and records a provision for its expected credit losses related to its financial instruments, including its trade receivables. Management considers historical collection rates, the current financial status of the Company's customers, macroeconomic factors, and other industry-specific factors when evaluating for current expected credit losses. Forward-looking information is also considered in the evaluation of current expected credit losses. However, because of the short time to the expected receipt of accounts receivable, management believes that the carrying value, net of expected losses, approximates fair value and therefore, relies more on historical and current analysis of such financial instruments, including its trade receivables.

To determine the provision for credit losses for accounts receivable, the Company has disaggregated its accounts receivable by class of customer at the business component level, as management determined that risk profile of the Company's customers is consistent based on the type and industry in which they operate, mainly in the pharmaceuticals industry. Each business component is analyzed for estimated credit losses individually. In doing so, the Company establishes a historical loss matrix, based on the previous collections of accounts receivable by the age of such receivables, and evaluates the current and forecasted financial position of its customers, as available. Further, the Company considers macroeconomic factors and the status of the pharmaceuticals industry to estimate if there are current expected credit losses within its trade receivables based on the trends of the Company's expectation of the future status of such economic and industry-specific factors. Also, specific allowance amounts are established based on review of outstanding invoices to record the appropriate provision for customers that have a higher probability of default.

The accounts receivable balance on the Company's condensed consolidated balance sheet as of September 30, 2023 was \$18,468,000, net of \$108,000 of allowances. The following table provides a roll-forward of the allowance for credit losses that is deducted from the amortized cost basis of accounts receivable to present the net amount expected to be collected at September 30, 2023:

Balance at January 1, 2023	\$ 73,000
Change in expected credit losses	68,000
Write-offs, net of recoveries	(33,000)
Balance at September 30, 2023	\$ 108,000

Business Combinations and Asset Acquisitions

The Company evaluates acquisitions of assets and other similar transactions to assess whether the transaction should be accounted for as a business combination or asset acquisition by first applying a screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is met, the transaction is accounted for as an asset acquisition. If the screen is not met, further determination is required as to whether the Company has acquired inputs, process, and output, which would meet the requirements of a business. If determined to be a business combination, the Company accounts for the transaction under the acquisition method of accounting as indicated in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

ASC 805, *Business Combinations*, requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including any contingent assets and liabilities, and any non-controlling interest in the acquiree based on the fair value estimates as of the date of acquisition. The Company recognizes and measures goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

The consideration for the Company's business acquisitions may include future payments that are contingent upon the occurrence of a particular event or events. The obligation for such contingent consideration payments are recorded at fair value on the acquisition date. The contingent consideration obligations are then evaluated each reporting period. Changes in the fair value of contingent consideration, other than changes due to payments, would be recognized as a gain or loss and recorded in the condensed consolidated statement of operations.

If determined to be an asset acquisition, the Company accounts for the transaction under ASC 805-50, *Business Combinations – Related Issues*, which requires the acquiring entity in an asset acquisition to recognize assets acquired and liabilities assumed based on the cost to the acquiring entity or a relative fair value basis, which includes transaction costs in addition to consideration given. No gain or loss is recognized as of the date of acquisition unless the fair value of non-cash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's financial statements. Consideration transferred that is non-cash will be measured based on either the cost (which shall be measured based on the fair value of the consideration given) or the fair value of the assets acquired, and liabilities assumed, whichever is more clearly evident and more reliably measurable. Goodwill is not recognized in an asset acquisition and any excess consideration transferred over the fair value of the net assets acquired is allocated to the identifiable assets based on relative fair values.

Fair Value Measurements

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The established fair value hierarchy prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Applies to assets or liabilities for which there are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.
- Level 2: Applies to assets or liabilities for which there are significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Applies to assets or liabilities for which there are significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. For example, Level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method.

At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company measured its investment in Eton Pharmaceuticals, Inc. ("Eton") on a recurring basis. The Company's investment in Eton is classified as Level 1 as the fair value is determined using quoted market prices in active markets for the same securities. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the fair market value of the Company's investment in Eton was **\$8,265,000** **7,433,000** and **\$5,589,000** **8,681,000**, respectively. The Company sold its remaining interest in April 2024 (see Note 16).

The Company's 2026 Notes (as defined in Note **13|11**) are carried at face value, including the unamortized premium, less unamortized debt issuance costs, the 2027 Notes (as described in Note **13|11**) are carried at face value less unamortized debt issuance costs, and the Oaktree Loan (as defined in Note **13|11**) is carried at face value less the original issue discount and unamortized debt issuance costs on the condensed consolidated balance sheets and the Company presents fair value for disclosure purposes only. The 2026 Notes and 2027 Notes are classified as Level 1 instruments as the fair value is determined using quoted market prices in active markets for the same securities. The Oaktree Loan is classified as a Level 2 instrument and its fair value is determined through an income approach that considers collateral coverage, yield calibration, yield analysis and any adjustments to implied yield associated with the Company's fundamental measures.

The following table presents the estimated fair values and the carrying values:

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2026 Notes	\$ 73,020,000	\$ 71,760,000	\$ 72,436,000	\$ 71,550,000	\$ 73,413,000	\$ 73,560,000	\$ 73,218,000	\$ 70,260,000
2027 Notes	\$ 37,234,000	\$ 41,297,000	\$ 31,738,000	\$ 35,112,000	\$ 37,591,000	\$ 41,860,000	\$ 37,413,000	\$ 40,363,000
Oaktree Loan	\$ 71,932,000	\$ 75,973,000	\$ -	\$ -	\$ 73,144,000	\$ 76,725,000	\$ 72,541,000	\$ 76,627,000

The Company's other financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, accrued payroll and related liabilities, deferred revenue and customer deposits and operating lease liabilities. The carrying amount of these financial instruments, except for operating lease liabilities, approximates fair value due to the short-term maturities of these instruments. Based on borrowing rates currently available to the Company, the carrying value of the operating lease liabilities approximate their respective fair values.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted average number of common and common equivalent shares, such as stock options, restricted stock units ("RSUs"), performance stock units ("PSUs"), and warrants, outstanding during the period. Common equivalent shares (using the treasury stock method) from stock options, unvested RSUs, unvested PSUs and warrants were ~~4,588,982~~ 4,318,057 and ~~5,622,997~~ 4,750,340 at ~~September 30, 2023~~ March 31, 2024 and ~~2022~~ 2023, respectively, and are excluded in the calculation of diluted net loss per common share for the periods presented, because the effect is anti-dilutive. Included in the basic and diluted net loss per share calculation were RSUs awarded to directors that had vested, but the issuance and delivery of the shares are deferred until the director resigns. The number of shares underlying vested RSUs at ~~September 30, 2023~~ March 31, 2024 and ~~2022~~ 2023 was ~~244,352~~ 223,928 and ~~303,454~~ 336,264, respectively.

The following table shows the computation of basic net loss per share of common stock for the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022**; **2023: STOCK**

	2023	2022	2023	2022	2024	2023
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Numerator – net loss	\$ (4,391,000)	\$ (6,464,000)	\$ (15,263,000)	\$ (15,141,000)	\$ (13,565,000)	\$ (6,643,000)
Denominator – weighted average number of shares outstanding, basic and diluted	34,255,197	27,349,642	31,689,947	27,293,756	35,469,638	30,289,730
Net loss per share, basic and diluted	\$ (0.13)	\$ (0.24)	\$ (0.48)	\$ (0.55)	\$ (0.38)	\$ (0.22)

Income Taxes

The Company's effective tax rate was (8.81)(0.11)% and (0.50) 4.16% for the **nine** three months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively. The Company's effective tax rate for the **nine** three months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** differs from the U.S. federal statutory tax rate of 21% due to state taxes, permanent book-tax differences related to Internal Revenue Code of 1986, as amended ("IRC"), Section 162(m) excess officer compensation limitation and share-based compensation and the change in valuation allowance.

The Company's effective tax rate was (53.96)% and (0.54)% for the three months ended **September 30, 2023**, and **2022**, respectively. The Company's effective tax rate for the three months ended **September 30, 2023**, and **2022** differs from the U.S. federal statutory tax rate of 21% due to state taxes, permanent book-tax differences related to IRC Section 162(m) excess officer compensation limitation and share-based compensation and change in valuation allowance.

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, there were no unrecognized tax benefits included in the condensed consolidated balance sheets that would, if recognized, affect the effective tax rate.

Investment in Eton Pharmaceuticals, Inc.

As of September 30, 2023, the Company owned 1,982,000 shares of Eton common stock (representing less than 10% of the equity interests of Eton as of such date). At September 30, 2023, the fair market value of Eton's common stock was \$4.17 per share. In accordance with ASC 321, *Investments — Equity Securities*, the Company recorded unrealized holding gains (losses) from its Eton common stock position of \$1,348,000 and \$2,676,000 during the three and nine months ended September 30, 2023, respectively, and \$(1,031,000) and \$(4,341,000) during the same periods in 2022, respectively, related to the change in fair market value of its investment in Eton during the measurement period. As of September 30, 2023, the fair market value of the Company's investment in Eton was \$8,265,000.

Investment in Melt Pharmaceuticals, Inc. – Related Party

As of September 30, 2023, the Company owns 3,500,000 shares of common stock and 2,334,256 shares of preferred stock of Melt (representing in aggregate approximately 36.46% of the Melt's equity interests of Melt as of such date, March 31, 2024). The Company analyzes its investment in Melt and related agreements on a regular basis to evaluate its position of variable interests in Melt. The Company has determined that it does not have the ability to control Melt, however it has the ability to exercise significant influence over the operating and financial decisions of Melt and uses the equity method of accounting for this investment. Under this method, the Company recognizes its portion of earnings and losses in Melt in its condensed consolidated financial statements and adjusts the carrying amount of its investment in Melt accordingly. Any intra-entity profits and losses are eliminated. During the year ended December 31, 2021, the Company reduced the carrying value of its common stock investment in Melt to \$0 as

On a result of the Company recording its share of equity losses in Melt since its deconsolidation in 2019. As of September 30, 2023, and at the time of entering into the Melt Loan Agreement (see Note 5), the Company owned 100% of Melt's indebtedness. Following the reduction of quarterly basis, management assesses whether there are any indicators that the carrying value of the Company's common stock investment equity method investments may be other than temporarily impaired. Indicators include financial condition, operating performance, and near-term prospects of the investee. To the extent indicators suggest that a loss in Melt to \$0 value may have occurred, the Company began recording 100% will evaluate both quantitative and qualitative factors to determine if the loss in value is other than temporary. If a potential loss in value is determined to be other than temporary, the Company will recognize an impairment loss based on the estimated fair value of the equity method losses of Melt, based on investments. The Company has no other investments other than its ownership of Melt's total indebtedness. In addition, the Company treats interest paid in kind on the Melt Loan Agreement as an in-substance capital contribution common stock and reduces its investment preferred stock positions in Melt accordingly, rather than recording interest income. The Company has and no other requirements to advance funds to Melt.

The following table summarizes the Company's investments in Melt as of September 30, 2023 March 31, 2024:

	Cost					Share of Equity Method			In-substance Capital			Net Carrying			Cost	Share of Equity Method			Net Carrying		
	Basis		Losses		Interest		Contributions		Value		Basis		Losses			Basis		Losses		Value	
	Common stock	\$ 5,810,000	\$ (5,810,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,810,000	\$ (5,810,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Note receivable	\$ 13,500,000	\$ (13,500,000)	\$ 4,265,000	\$ (4,265,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,397,000	\$ (18,397,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Preferred stock	\$ 19,310,000	\$ (19,310,000)	\$ 4,265,000	\$ (4,265,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,207,000	\$ (24,207,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		

See Note 5 for more information and related party disclosure regarding Melt.

Investment in Surface Ophthalmics, Inc. – Related Party

As of September 30, 2023, the Company owned 3,500,000 common shares of Surface (representing approximately 20% of the equity interests of Surface as of such date) and uses the equity method of accounting for this investment, as management has determined that the Company has the ability to exercise significant influence over the operating and financial decisions of Surface. Under this method, the Company recognizes earnings and losses in Surface in its condensed consolidated financial statements and adjusts the carrying amount of its investment in Surface accordingly. The Company's share of earnings and losses are based on the Company's ownership interest of Surface. Any intra-entity profits and losses are eliminated. During the year ended December 31, 2021, the Company reduced its common stock investment in Surface to \$0 as a result of the Company recording its share of equity losses of Surface. The Company has no other investments in Surface and no other requirements to advance funds to Surface.

The following table summarizes the Company's investment in Surface as of September 30, 2023:

	Cost Basis	Share of Equity Method Losses	Net Carrying Value
Common stock	\$ 5,320,000	\$ (5,320,000)	\$ -

See Note 6 for more information and related party disclosure regarding Surface.

Recently Adopted Accounting Pronouncements

In September 2016, FASB issued Accounting Standards Update ("ASU") 2016-13, *Measurement of Credit Losses on Financial Instruments*. This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates on certain types of financial instruments, including trade receivables. In addition, new disclosures are required. The ASU, as subsequently amended, is effective for the Company for the fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 on January 1, 2023. Based on the composition of the Company's accounts receivable, investment portfolio, and other financial assets, including current market conditions and historical credit loss activity, the adoption of this standard did not have a material impact on the Company's consolidated financial statements or disclosures. Specifically, the Company's estimate of expected credit losses as of September 30, 2023, using its expected credit loss evaluation process described above, resulted in no adjustments to the provision for credit losses and no cumulative-effect adjustment to accumulated deficit on the adoption date of the standard.

Accounting Guidance Issued but Not Adopted at **September 30, 2023** **March 31, 2024**

In August 2023, FASB the Financial Accounting Standards Board ("FASB") issued ASU Accounting Standards Update ("ASU") 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, which applies to the formation of entities that meet the definition of a joint venture (or a corporate joint venture) and requires joint ventures to initially measure all contributions received upon formation at fair value. The new guidance does not impact accounting by the venturers. The new guidance is applicable to joint venture entities with a formation date on or after January 1, 2025 on a prospective basis. Joint ventures formed prior to the effective date may elect to apply the new guidance retrospectively back to their original formation date. **We** The Company will apply the guidance in ASU 2023-05 prospectively to any future arrangements meeting the definition of a joint venture.

In October 2023, FASB issued ASU 2023-06, *Disclosure Improvements—Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. This ASU modifies the disclosure or presentation requirements of a variety of topics in the codification by aligning them with the SEC's regulations. The amendments to the various topics should be applied prospectively, and the effective date for the Company for each amendment will be determined based on the effective date of the SEC's removal of the related disclosure from Regulation S-X or Regulation S-K. If the SEC has not removed the applicable requirement by June 30, 2027, then the related amendment in ASU 2023-06 will be removed from the codification and will not become effective. Early adoption of this ASU is prohibited. The Company does not expect the amendments in this ASU to have a material impact on the disclosures or presentation in its consolidated financial statements.

In November 2023, FASB issued ASU 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures*, which enhances the disclosures required for operating segments in the Company's annual and interim consolidated financial statements. ASU 2023-07 is effective for the Company in our annual reporting for fiscal 2024 and for interim period reporting beginning in fiscal 2025 on a retrospective basis, with all required disclosures to be made for all prior periods presented in the consolidated financial statements. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2023-07 on its consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*, which enhances the disclosures required for income taxes in the Company's annual consolidated financial statements. Notably, this ASU requires entities to disclose specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. ASU 2023-09 is effective for the Company in its annual reporting for fiscal year 2025 on a prospective basis. Early adoption and retrospective reporting are permitted. The Company is currently evaluating the impact of ASU 2023-09 on its consolidated financial statements.

Reclassifications

Certain prior period items and amounts have been reclassified to conform to the classifications used to prepare the condensed consolidated financial statements for the current period. These reclassifications had no material impact on the Company's condensed consolidated financial position, results of operations, or cash flows as previously reported.

NOTE 3. REVENUES

The Company accounts for contracts with customers in accordance with ASC 606, *Revenue Revenues from Contracts with Customers*. The Company has three primary streams of revenue: (1) product revenues, including revenue recognized from sales of products through its pharmacy and outsourcing facility and sales of branded products to wholesalers through a third-party logistics ("3PL") partner, (2) revenue recognized from a commission agreement with a third party, transfer of acquired product sales and profits in 2023, and (3) revenue recognized from intellectual property licenses and asset purchase agreements, related arrangements.

Product Revenues

The Company sells prescription medications directly through its pharmacy, outsourcing facility and 3PL partner. Revenue from the Company's pharmacy services includes: (i) the portion of the price the client pays directly to the Company, net of any volume-related or other discounts paid back to the client, (ii) the price paid to the Company by individuals, and (iii) customer copayments made directly to the pharmacy network. Sales taxes are not included in revenue. Following the core principles of ASC 606, the Company has identified the following:

1. *Identify the contract(s) with a customer:* A contract is deemed to exist when the customer places an order through receipt of a prescription, via an online order or via receipt of a purchase order from a customer. For branded products, orders are received through the Company's 3PL partner, and the customer takes title of the products via formal purchase orders placed and fulfilled.

2. *Identify the performance obligations in the contract:* Obligations for fulfillment of the Company's contracts consist of delivering the product to customers at their specified destination. For shipping and handling activities under ASC 606, if the customer takes control of the goods after shipment, shipping and handling activities would always be considered a fulfillment activity and not treated as a separate performance obligation. If the customer takes control of the goods before shipment, entities must make an accounting policy election to treat shipping and handling activities as either a fulfillment cost or as a separate performance obligation. The Company has elected to treat its shipping and handling activities as a fulfillment cost.
3. *Determine the transaction price:* The transaction price is based on an amount that reflects the consideration to which the Company expects to be entitled, net of accruals for estimated rebates, wholesaler chargebacks, discounts, **copay assistance** and other deductions (collectively, sales deductions) and an estimate for returns and replacements established at the time of sale. The Company utilizes the services of a third-party professional services firm to estimate rebates and chargebacks associated with sales of its branded products. The transfer of promised goods is satisfied within a year, and therefore there are no significant financing components. There is no non-cash consideration related to product sales.
4. *Allocate the transaction price to the performance obligations in the contract:* Because there is only one performance obligation for product sales, no allocation is necessary.
5. *Recognize revenue when (or as) the entity satisfies a performance obligation:* Revenue from products is recognized upon transfer of control of a product to a customer. This generally occurs upon shipment unless contractual terms with a customer state that transfer of control occurs at delivery.

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Commission Revenues

The Company had entered into an agreement whereby it was paid a fee calculated based on sales the Company generates from a pharmaceutical product that is owned by a third party. The revenue earned from this arrangement was recognized, at which point there was no future performance obligation required by the Company and no consequential continuing involvement on the Company's part to recognize the associated revenue.

Revenues From Transfer of Acquired Product Sales and Profits

The Company has entered into agreements whereby it purchased the exclusive commercial rights to assets associated with certain ophthalmic products from other pharmaceutical companies (the "Sellers"). During a temporary, transition period, the Sellers continue to manufacture and market these products and transfer the net profit from the sale of the products to the Company. The revenue recognized by the Company from the transfer of net profit was recognized at the time profit from the product sales were calculated by the Sellers and confirmed by the Company, typically on a monthly basis, at which point there is no future performance obligation required by the Company and no consequential continuing involvement on the Company's part to recognize the associated revenue. On a quarterly basis, the Sellers invoice the Company for all credits and reimbursements ("Chargebacks") made to customers related to the products. The Company uses historical actual experience to estimate Chargebacks associated with the net sales and profit transferred. The estimated Chargebacks are recorded as a reduction in revenues from transfer of acquired product sales and profits in the Company's **condensed** consolidated statements of operations, and recorded as a reduction to accounts receivable in the **condensed** consolidated balance sheets, at the time the revenue is recognized.

Intellectual Property License and Related Arrangements Revenues

The As of March 31, 2024, the Company currently holds five intellectual property licenses and related agreements arrangements pursuant to which the Company has agreed to license or sell to a customer with the right to access the Company's intellectual property. License arrangements may consist of non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive license rights to patented or patent pending compounds, technology access fees, and various performance or sales milestones. These arrangements can be multiple-element arrangements, the revenue of which is recognized at the point in time that the performance obligation is met.

Non-refundable fees that are not contingent on any future performance by the Company and require no consequential continuing involvement on the part of the Company are recognized as revenue when the license term commences and the licensed data, technology, compounded drug preparation and/or other deliverables are delivered. Such deliverables may include physical quantities of compounded drug preparations, design of the compounded drug preparations and structure-activity relationships, the conceptual framework and mechanism of action, and rights to the patents or patent applications for such compounded drug preparations. The Company defers recognition of non-refundable fees if it has continuing performance obligations without which the technology, right, product or service conveyed in conjunction with the non-refundable fee has no utility to the licensee and that are separate and independent of the Company's performance under the other elements of the arrangement. In addition, if the Company's continued involvement is required, through research and development services that are related to its proprietary know-how and expertise of the delivered technology or can only be performed by the Company, then such non-refundable fees are deferred and recognized over the period of continuing involvement. Guaranteed minimum annual royalties are recognized on a straight-line basis over the applicable term.

Revenue disaggregated by revenue source for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 consisted of the following:

	2023		2022		2023		2022		2024		2023	
	For the Three Months Ended				For the Nine Months Ended				For the Three Months Ended		March 31,	
	September 30,		September 30,		September 30,		September 30,		2024	2023	March 31,	
	2023	2022	2023	2022	2023	2022	2023	2022	2024	2023	2024	2023
Product sales, net	\$ 31,809,000	\$ 21,575,000	\$ 81,804,000	\$ 63,433,000	\$ 34,508,000	\$ 20,453,000						
Commission revenues	-	1,044,000	-	3,576,000								
Transfer of acquired product sales/profit	2,456,000	204,000	12,034,000	1,257,000								
Other revenues (including transfer of acquired product sales/profit)					79,000	5,650,000						
Total revenues	\$ 34,265,000	\$ 22,823,000	\$ 93,838,000	\$ 68,266,000	\$ 34,587,000	\$ 26,103,000						

Deferred revenue and customer deposits at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were \$153,000 112,000 and \$113,000 75,000, respectively. All deferred revenue and customer deposit amounts at December 31, 2022 December 31, 2023 were recognized as revenue during the nine three months ended September 30, 2023 March 31, 2024.

NOTE 4. RECENT PRODUCT ACQUISITIONS, LICENSES AND DIVESTITUTES

Acquisition of VEVYE™ U.S. and Canadian Commercial Rights

In July 2023, the Company acquired commercial rights of VEVYE (cyclosporine ophthalmic solution) 0.1%, an ophthalmic drug product, for the U.S. and Canadian markets (the "VEVYE Acquisition"). The Company acquired the commercial rights to VEVYE by entering into a license agreement with Novaliq GmbH ("Novaliq"). As consideration, the Company made initial payments to Novaliq totaling \$8,000,000 and will pay low double-digit royalties on net sales of VEVYE along with potential commercial milestone payments.

The Company accounted for the VEVYE Acquisition as an acquisition of assets and capitalized the initial payments of \$8,000,000 and costs of \$70,000 associated with the transaction.

Acquisition of Certain U.S. and Canadian Commercial Rights to Santen and Eyeance Products

In July 2023, the Company entered into an Asset Purchase Agreement with Eyeance Pharmaceuticals, LLC and a License Agreement with Santen S.A.S. (collectively, the "Santen Agreements"), each a subsidiary of Santen Pharmaceuticals Co., Ltd. (collectively, "Santen"). Pursuant to the Santen Agreements, the Company acquired the exclusive commercial rights to assets associated with the following ophthalmic products (collectively, the "Santen Products"): FLAREX, NATACYN, ZERVIA, VERKAZIA and FRESHKOTE in the US, and VERKAZIA and CATIONORM PLUS in Canada.

The transactions pursuant to the Santen Agreements are referred to in these notes as the "Santen Products Acquisition."

Under the terms of the Santen Agreements, the Company made an initial one-time payment of \$8,000,000. In addition, the Santen Agreements provide for various one-time contingent milestone payments associated with certain manufacturing-related events as well as low-double digit royalty payments on net sales of VERKAZIA and high-single digit royalty payments on net sales of CATIONORM PLUS. Under the Santen Agreements, the Company also assumed certain obligations associated with other third parties that require mid-single digit royalties on sales of FRESHKOTE and ZERVIA. Immediately following the closing and subject to certain conditions, prior to the transfer of the Santen Products new drug applications ("NDAs") and other marketing authorizations to the Company, Santen continued to sell the Santen Products on the Company's behalf and transfer the net profit from the sale of the Santen Products to the Company. See Note 18 regarding the transfer of certain marketing authorizations of the Santen Products.

The assets acquired in the Santen Products Acquisition are identifiable intangible asset groups in similar asset classes and all directly related to the product NDAs and marketing authorizations acquired. The developed technology is within one major intangible asset class. No workforce/employees were included in the Santen Products Acquisition and the Company is required to utilize its own business inputs/processes to transfer and commercialize the Santen Products.

The Company incurred \$139,000 in costs associated with the Santen Products Acquisition, and including such acquisition costs, the payment of \$8,000,000 at closing and a near term milestone of \$500,000. The total purchase price of the Santen Products Acquisition was \$8,639,000 and was accounted for as an asset acquisition. At the time of the Santen Products Acquisition and as of September 30, 2023, the remaining contingent consideration due was not considered probable and reasonably estimable and therefore, no amount was included in the purchase price of the Santen Products Acquisition. At the time the contingent consideration due becomes probable and reasonably estimable the additional consideration, if any, paid will be allocated to all of the assets on a pro rata basis based on their initial estimated fair values as a percent of the total purchase price.

Acquisition of ILEVRO, NEVANAC, VIGAMOX, MAXIDEX, and TRIESENCE

In December 2022, the Company entered into an Asset Purchase Agreement (the "Fab 5 APA") with Novartis Technology, LLC and Novartis Innovative Therapies AG (together, "Novartis"), pursuant to which the Company agreed to purchase from Novartis the exclusive commercial rights to assets associated with the following ophthalmic products (collectively the "Fab 5 Products") in the U.S. (the "Fab 5 Acquisition"): ILEVRO, NEVANAC, VIGAMOX, MAXIDEX, and TRIESENCE.

Under the terms of the Fab 5 APA, the Company made a one-time payment of \$130,000,000 at closing in January 2023, with up to another \$45,000,000 due in a milestone payment related to the timing of the commercial availability of TRIESENCE. Pursuant to the Fab 5 APA and various ancillary agreements, immediately following the closing and subject to certain conditions and prior to the transfer of the Fab 5 Products NDAs to the Company, Novartis will continue to sell the Fab 5 Products on the Company's behalf and transfer the net profit from the sale of the Fab 5 Products to the Company. Novartis has agreed to supply certain Fab 5 Products to the Company for a period of time after the NDAs are transferred and to assist with technology transfer of the Fab 5 Products manufacturing to other third-party manufacturers, if needed.

The assets acquired in the Fab 5 Acquisition are identifiable intangible asset groups in similar asset classes and all directly related to the five product NDAs acquired. The developed technology is within one major intangible asset class. No workforce/employees were included in the Fab 5 Acquisition and the Company is required to utilize its own business inputs/processes to transfer and commercialize the Fab 5 Products and NDAs.

The Company incurred \$558,000 in costs associated with the Fab 5 Acquisition and including such acquisition costs and the payment of \$130,000,000 at closing. The total purchase price of the Fab 5 Acquisition was \$130,558,000 and was accounted for as an asset acquisition. At the time of the Fab 5 Acquisition and as of September 30, 2023, the contingent consideration due related to the commercial availability of TRIESENCE was not considered probable and reasonably estimable and, therefore, no amount was included in the purchase price of the Fab 5 Acquisition. At the time the contingent consideration due related to the commercial availability of TRIESENCE becomes probable and reasonably estimable the additional consideration, if any, paid will be allocated to all of the assets on a pro rata basis based on their initial estimated fair values as a percent of the total purchase price. The Company does not consider any amounts related to TRIESENCE to be in-process research and development (IPR&D) as considered within the scope of ASC 730, *Research and Development*.

Divestiture of Non-Ophthalmic Assets

In October 2022, wholly-owned subsidiaries of the Company (collectively, "Imprimis") entered into an Asset Purchase Agreement (the "RPC Agreement") with Innovation Compounding Pharmacy, LLC (the "Buyer"). Under the terms of the RPC Agreement, Imprimis agreed to sell substantially all of its assets associated with its non-ophthalmology related compounding product line, including but not limited to, certain intellectual property rights, customer lists, databases, and formulations (the "RPC Assets"). The Buyer agreed to make offers of employment to nine of the Company's employees that were responsible for the sales activities associated with the RPC Assets. Under the terms of the RPC Agreement, the Buyer paid Imprimis an aggregate cash amount of \$6,000,000 in October 2022. In addition, the Buyer is obligated to pay up to \$4,500,000 to Imprimis based on mutually agreed upon revenue milestones during the calendar year 2023 (the "Contingent Amount"). During the year ended December 31, 2022, no amount related to the Contingent Amount was recognized by the Company. The Company will recognize a gain related to the Contingent Amount if/when the contingency (in this case, revenue thresholds for 2023) become likely and reasonably estimable.

In connection with the RPC Agreement, Imprimis entered into a separate transition services agreement (the "RPC TSA") with the Buyer related to providing ongoing services associated with the RPC Assets, such as procuring and dispensing prescription orders, providing accounting and billing services and collecting accounts receivable. Imprimis provided transition services to the Buyer for approximately nine months following the effective date of the RPC Agreement and expects to wind down transition services in subsequent periods. The Company collected and will continue to collect cash on behalf of the Buyer for revenue generated by sales of RPC Assets from October 2022 through the transition period and the Company is obligated to transfer cash generated by such sales to the Buyer. The Company's condensed consolidated balance sheet as of September 30, 2023 includes accounts receivable of \$59,000 for cash to be collected on behalf of the Buyer for sales of RPC Assets sold through September 30, 2023.

There were no amount due from the Buyer for reimbursement of services performed under the RPC TSA as of September 30, 2023. The receivable amount of \$59,000 was additionally recorded within accrued expenses on the condensed consolidated balance sheet as of September 30, 2023, and represents a payable to the Buyer. The Company recorded a loss from the RPC TSA and disposition and sale of certain related assets and unusable inventory of \$159,000 and \$330,000 during the three and nine months ended September 30, 2023, respectively, which is presented in other expense, net on the condensed consolidated statements of operations.

NOTE 5. INVESTMENT IN, AND NOTE RECEIVABLE FROM MELT PHARMACEUTICALS, INC. - RELATED PARTY TRANSACTIONS

In December 2018, the Company entered into an **asset purchase agreement** Asset Purchase Agreement with Melt (the "Melt APA") with Melt. Pursuant to the terms of the Melt APA, Melt was assigned certain intellectual property and related rights from the Company to develop, formulate, make, sell, and sub-license certain Company conscious sedation and analgesia related formulations (collectively, the "Melt Products"). Under the terms of the Melt APA, Melt is required to make mid-single digit royalty payments to the Company on net sales of the Melt Products while any patent rights remain outstanding, as well as other conditions.

In February 2019, the Company entered into a Management **Service Services** Agreement with Melt (the "Melt MSA"), whereby the Company provided to Melt certain administrative services and support, including bookkeeping, web services and human resources related activities, and Melt was required to pay the Company a monthly amount of \$10,000. The Melt MSA was terminated effective July 1, 2023. During the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, the Company recorded \$0 and \$89,000, and \$30,000 and \$100,000 \$59,000, respectively, due from Melt for reimbursable expenses and amounts payable pursuant to the Melt MSA, which are included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company was due \$228,000 and \$139,000, respectively, from Melt for reimbursable expenses and amounts due under the Melt MSA. The Company made a cash advance to Melt of \$500,000 MSA and Melt repaid the \$500,000 cash advance during the nine months ended September 30, 2023.

During the nine months ended September 30, 2023, In March 2024, Melt sold approximately 2,000,000 shares of completed its Series B Preferred Stock and financing which raised over \$17,000,000 in gross proceeds from third party investors. of approximately \$23,900,000.

The Company's Chief Executive Officer, Mark L. Baum, was previously a member of the Melt board of directors until his resignation during the year ended December 31, 2021. Mr. Baum re-joined the Melt board of directors in January 2023. At the time Mr. Baum re-joined, the Melt board of directors consisted of five members, including Mr. Baum, who is the only representative of the Company on Melt's board of directors.

The unaudited condensed results of operations information of Melt is summarized below:

	For the Three Months Ended March 31,	
	2024	2023
	\$	\$
Revenues, net	\$ -	\$ -
Loss from operations	\$ (2,036,000)	\$ (1,352,000)
Net loss	\$ (1,893,000)	\$ (1,858,000)

	For the Nine Months Ended September 30,	
	2023	2022
	\$	\$
Revenues, net	\$ -	\$ -
Loss from operations	\$ (3,663,000)	\$ (9,064,000)
Net loss	\$ (5,407,000)	\$ (10,562,000)

The unaudited condensed balance sheet information of Melt is summarized below:

	At September 30, 2023	At December 31, 2022
Current assets	\$ 13,011,000	\$ 655,000
Non-current assets	31,000	107,000
Total assets	\$ 13,042,000	\$ 762,000
 Total liabilities	 \$ 20,733,000	 \$ 19,056,000
Total preferred stock and stockholders' deficit	(7,691,000)	(18,294,000)
Total liabilities and stockholders' deficit	\$ 13,042,000	\$ 762,000

Melt Note Receivable

On September 1, 2021, the Company entered into a loan and security agreement in the principal amount of \$13,500,000 (the "Melt Loan Agreement"), as lender, with Melt, as borrower. Amounts borrowed under the Melt Loan Agreement bear interest at 12.50% per annum, which interest can be paid in-kind at the option of Melt until the maturity date. The Melt Loan Agreement permits Melt to pay interest only on the principal amount loaned thereunder through the term and all amounts owed were previously due and payable on September 1, 2022. In April 2022, the Company entered into a First Amendment and in September 2022, a Second Amendment (together, the "Amendments") to the Melt Loan Agreement. The Amendments (i) extended the maturity date of the Melt Loan Agreement to September 1, 2023, which can be extended further to September 1, 2026 upon Melt completing a qualifying financing of a minimum amount of \$10,000,000 from third-party investors, (ii) added conditions related to minimum cash amounts following a qualifying financing, and (iii) clarified the definition of material adverse effects. Melt may elect to prepay all, but not less than all, of the amounts owed prior to the maturity date at any time without penalty.

Melt has granted the Company a security interest in substantially all of its personal property, rights and assets, including intellectual property rights, to secure the payment of all amounts owed under the Melt Loan Agreement. The Melt Loan Agreement contains customary representations, warranties and covenants, including covenants by Melt limiting additional indebtedness, liens, mergers and acquisitions, dispositions, investments, distributions, subordinated debt, and transactions with affiliates. The Melt Loan Agreement includes customary events of default, and upon the occurrence of an event of default (subject to cure periods for certain events of default), all amounts owed by Melt thereunder may be declared immediately due and payable by the Company, and the interest rate on the loan may be increased by 3% per annum. The Melt Loan Agreement is currently in default due to non-payment on September 1, 2023. The Company and Melt are involved in ongoing discussions to resolve the default.

In connection with the Melt Loan Agreement, the Company and Melt entered into a Right of First Refusal Agreement providing the Company with the right, but not the obligation, to match any offer received by Melt associated with the commercial rights to any of Melt's drug candidates for a period of five years following the effective date of the Melt Loan Agreement.

The net funds received by Melt excluded \$908,000 owed to the Company for reimbursable expenses and amounts due under the Melt MSA prior to the effective date of the note receivable. As of September 30, 2023 and December 31, 2022, aggregate principal and accrued interest payable to the Company pursuant to the Melt Loan Agreement amounted to \$17,765,000 and \$15,984,000, respectively. In accordance with ASC 323, *Investments – Equity Method and Joint Ventures*, the carrying amount of the note receivable has been reduced by the Company's allocated share of Melt's losses based on its ownership of Melt's total indebtedness (see Note 2).

	At March 31, 2024	At December 31, 2023
Current assets	\$ 14,277,000	\$ 13,404,000
Non-current assets	-	-
Total assets	<u>14,277,000</u>	<u>13,404,000</u>
 Total liabilities	 \$ 3,524,000	 \$ 3,922,000
Total preferred stock and stockholders' equity	10,753,000	9,482,000
Total liabilities and stockholders' equity	<u>14,277,000</u>	<u>13,404,000</u>

NOTE 6.5. INVESTMENT IN SURFACE OPHTHALMICS, INC. - RELATED PARTY TRANSACTIONS

The Company entered into an asset purchase and license agreement with Surface in 2017 and amended it in April 2018 (together, the "Surface License Agreements"). Pursuant to the terms of the Surface License Agreements, the Company assigned and licensed to Surface certain intellectual property and related rights associated with Surface's drug candidates (collectively, the "Surface Products"). Surface is required to make mid-single digit royalty payments to the Company on net sales of the Surface Products while any patent rights remain outstanding.

As of September 30, 2023, the Company owned 3,500,000 shares of Surface common stock. Perry J. Sternberg, a director of the Company, is a director of Surface. Mark L. Baum, who is the Company's Chief Executive Officer, was previously a member of the Surface board of directors and resigned from his position as a director of Surface on March 31, 2023.

The unaudited condensed results of operations information of Surface is summarized below:

	For the Nine Months Ended September 30,	
	2023	2022
Revenues, net	\$ -	\$ -
Loss from operations	(4,723,000)	(5,338,000)
Net loss	(4,463,000)	(5,338,000)

The unaudited condensed balance sheet information of Surface is summarized below:

	At September 30, 2023	At December 31, 2022
Current assets	\$ 11,140,000	\$ 15,350,000
Non-current assets	780,000	652,000
Total assets	<u><u>\$ 11,920,000</u></u>	<u><u>\$ 16,002,000</u></u>
 Total liabilities	 \$ 1,392,000	 \$ 1,586,000
Total preferred stock and stockholders' equity	10,528,000	14,416,000
Total liabilities and stockholders' equity	<u><u>\$ 11,920,000</u></u>	<u><u>\$ 16,002,000</u></u>

NOTE 7. INVENTORIES

Inventories are comprised of finished compounded formulations, over-the-counter and prescription retail pharmacy products, branded pharmaceutical products, including those held at the Company's 3PL partner, related laboratory supplies and active pharmaceutical ingredients. The composition of inventories as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was as follows:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Raw materials	\$ 5,289,000	\$ 3,707,000	\$ 5,470,000	\$ 5,477,000
Work in progress	113,000	38,000	140,000	54,000
Finished goods	3,522,000	2,796,000	5,200,000	5,336,000
Total inventories	<u><u>\$ 8,924,000</u></u>	<u><u>\$ 6,541,000</u></u>	<u><u>\$ 10,810,000</u></u>	<u><u>\$ 10,867,000</u></u>

NOTE 8.6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Prepaid insurance	\$ 1,817,000	\$ 858,000	\$ 766,000	\$ 1,241,000
Prepaid computer software licenses and related expenses	768,000	1,165,000	1,462,000	1,613,000
Due from Melt Pharmaceuticals	228,000	139,000		
Other prepaid expenses	1,766,000	937,000	2,350,000	906,000
Prepaid Prescription Drug User fees	4,314,000	394,000		
Receivable due from Melt			228,000	228,000
Prepaid FY 2024 Prescription Drug User ("PDUFA") fees			2,292,000	3,438,000
Deferred Oaktree Loan commitment fee			468,000	409,000
Deposits and other current assets	118,000	118,000	2,151,000	1,753,000
Total prepaid expenses and other current assets	<u><u>\$ 9,011,000</u></u>	<u><u>\$ 3,611,000</u></u>	<u><u>\$ 9,717,000</u></u>	<u><u>\$ 9,588,000</u></u>

NOTE 9.7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Property, plant and equipment, net:				
Computer hardware	\$ 1,228,000	\$ 979,000	\$ 1,323,000	\$ 1,322,000
Furniture and equipment	915,000	860,000	942,000	936,000
Lab and pharmacy equipment	4,636,000	4,259,000	4,690,000	4,564,000
Leasehold improvements	6,654,000	6,449,000	6,802,000	6,771,000
	13,433,000	12,547,000	13,757,000	13,593,000
Accumulated depreciation	(9,804,000)	(9,061,000)	(10,368,000)	(10,072,000)
	<u><u>\$ 3,629,000</u></u>	<u><u>\$ 3,486,000</u></u>	<u><u>\$ 3,389,000</u></u>	<u><u>\$ 3,521,000</u></u>

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, depreciation related to the property, plant and equipment was \$290,000 296,000 and \$743,000 225,000, respectively, compared to \$171,000 and \$928,000 during the same periods in 2022, respectively.

NOTE 10.8. CAPITALIZED SOFTWARE COSTS

Capitalized software costs at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** consisted of the following:

CAPITALIZED SOFTWARE COSTS

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Capitalized software costs				
Capitalized internal-use software development costs	\$ 2,746,000	\$ 1,413,000	\$ 2,780,000	\$ 2,780,000
Acquired third-party software license for internal-use	159,000	159,000	159,000	159,000
Total gross capitalized software for internal-use	2,905,000	1,572,000	2,939,000	2,939,000
Accumulated amortization	(1,145,000)	(793,000)	(1,404,000)	(1,268,000)
Capitalized internal-use software in process	391,000	1,333,000	484,000	467,000
	\$ 2,151,000	\$ 2,112,000	\$ 2,019,000	\$ 2,138,000

The Company recorded amortization expense of \$115,000 and \$352,000 related to capitalized software costs during the three and nine months ended September 30, 2023, respectively, and of \$76,000 and \$162,000 during the same periods in 2022, respectively.

NOTE 11.9. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at **September 30, 2023** **March 31, 2024** consisted of the following:

Amortization Periods (in years)	Cost	Accumulated Amortization	Net		C:
			Amortization Periods (in years)	Cost	
Patents	17-19	\$ 980,000	610,000	\$ (226,000)	-
Licenses	7-20	100,000	50,000	(30,000)	(22,000)
Trademarks	Indefinite	268,000	217,000	-	-
Acquired NDAs ("NDAs")	4-15	170,353,000	(8,889,000)	13,830,000	-
Customer relationships	3-15	596,000	(498,000)	526,000	-
Trade name	5	75,000	(5,000)	-	-
Non-competition clause	3-4	50,000	(50,000)	-	-
State pharmacy licenses	25	8,000	(7,000)	-	-
		\$ 172,430,000	\$ 171,959,000	\$ (9,705,000)	\$ 14,589,000
					\$ (22,000)

Amortization expense for intangible assets for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** was as follows:

	2023	2022	2023	2022
	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Patents	\$ 22,000	\$ 22,000	\$ 65,000	\$ 0
Licenses	2,000	2,000	7,000	0
Acquired NDAs	2,551,000	341,000	7,526,000	1,021,000
Customer relationships	9,000	33,000	36,000	9,000
	\$ 2,584,000	\$ 398,000	\$ 7,634,000	\$ 1,021,000

Estimated future amortization expense for the Company's intangible assets at **September 30, 2023** **March 31, 2024** was as follows:

Remainder of 2023		\$
2024	Remainder of 2024	
2025		
2026		
2027	2028	
Thereafter		\$

There were no changes to the carrying value of the Company's goodwill during the three and nine months ended **September 30, 2023** **March 31, 2023**

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NOTE 12, 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** consisted of the following:

	September 30, 2023	March 31, 2024
Accounts payable	\$ 6,025,000	\$
Income tax payable	1,221,000	\$
Accrued insurance premium	1,321,000	\$
Accrued IHEEZO milestone payments	-	\$
Accrued litigation settlements	49,000	\$
Accrued RPC transition payments (see Note 4)	59,000	\$
Accrued managed care commercial rebates	2,118,000	\$
Accrued interest (see Note 13)	1,979,000	\$
Accrued exit fee for note payable (see Note 13)	2,713,000	\$
Total accounts payable and accrued expenses	\$ 15,485,000	\$
Less: current portion	(12,772,000)	\$
Non-current total accrued expenses	\$ 2,713,000	\$
Accounts payable	\$ 12,567,000	\$
Accrued insurance premium	450,000	\$
Other accrued payments	106,000	\$
Accrued interest (see Note 11)	2,006,000	\$
Accrued exit fee for Oaktree Loan (see Note 11)	2,713,000	\$
Total accounts payable and accrued expenses	\$ 17,842,000	\$
Less: current portion	(15,129,000)	\$
Non-current total accrued expenses	\$ 2,713,000	\$

The Company financed all insurance policies for the policy terms of August 17, 2022 August 2023 through August 16, 2023 and August 14, 2024. The financing agreements have an interest rate of 4.13% and 7.48% per annum respectively, and require eight monthly payments of \$169,000 \$150,000, respectively, of which we have three payments remaining as of March 31, 2024.

NOTE 13, 11. DEBT

Oaktree Loan Due 2026

In March 2023, the Company entered into a Credit Agreement and Guaranty, (the "Oaktree Loan") with Oaktree Fund Administration, LLC, as (together, "Oaktree"), providing for a senior secured term loan facility to the Company with a principal amount of up to \$100,000,000. Upon Company drew a principal amount of \$65,000,000 ("Tranche A") from. In July 2023, the Company drew an additional principal amount of \$1 Amendment to the Oaktree Loan and used (the "Oaktree Amendment"). Under the net proceeds Oaktree Amendment, the overall credit facility is to repay all amounts owed by the Company pursuant to the Loan and Security Agreement the Company previously entered into with B. J. December 14, 2022 (the "B. Riley Loan") – see subheading *B. Riley Loan and Security Agreement – Paid in Full* within this Note 13. \$112,50 amount of up to \$35,000,000 available under the Oaktree Loan ("Tranche B") will be made available to the Company upon the commencement of Tranche B is was not drawn by the Company on or before March 27, 2024, the amount available under Tranche B will be decreased to \$30,000,000. The Oaktree Loan is secured by nearly all of the assets, including intellectual property, of While undrawn, the Company and its material sub required to pay a maturity date of January 19, 2026 and carries an interest rate commitment fee related to the Tranche B amount equal to the Sec 6.5% per annum, (totaling 11.90% at September 30, 2023). From proceeds, the Company paid fees, and offering payable quarterly. This fee is re the Oaktree Loan was issued at an original issue discount of \$3,415,000, in aggregate. The Oaktree Loan also carries an exit fee equal to 3.5% owed other current assets and the Company accrued \$2,275,000 related to the exit fee. The original issue discount, fees and expenses (including on a straight-line basis over the term of the Oaktree Loan using the effective interest rate method. The Oaktree Loan requires quarterly interest principal, interest and fees due on the maturity date, January 19, 2026.

In July 2023, the Company entered into the First Amendment to Credit Agreement and Guaranty and Consent (the "Oaktree Amendment") to the Credit Agreement. Under the Oaktree Amendment, the overall credit facility size was increased from \$100,000,000 to \$112,500,000, and the Company made other changes related to the Oaktree Amendment. Upon satisfaction of certain conditions to funding, the Company drew down a principal amount of \$12,500,000 (the "Loan Increase") associated with the Santen Products Acquisition and for other working capital and general corporate purposes. No other material changes to the Credit Agreement were made under the Oaktree Amendment. Following entry into the Oaktree Amendment and the funding of the Loan Increase upon closing of the Santen Products Acquisition, the Company drew down a total principal loan amount of \$77,500,000 under the Oaktree Loan and an additional principal loan amount of up to \$35,000,000 upon the commercialization of TRISENCE. The Oaktree Loan exit fee was increased from \$2,275,000 to \$2,713,000 pursuant to the Oaktree Amendment. The Oaktree Loan contains customary guarantees and covenants, including financial covenants related to minimum liquidity and minimum net revenue. The Company was in compliance with these covenants. As of the end of the fiscal quarter ending December 31, 2024, if the Company's Total Leverage Ratio (the ratio of total debt to total equity) is greater than or equal to five times, but less than seven times, the Company will be required to issue to Oaktree warrants to purchase common stock, and if the Total Leverage Ratio is greater than or equal to seven times, the Company will be required to issue to Oaktree warrants to purchase shares of the Company's common stock (equaling 750,000 shares in aggregate). If the Total Leverage Ratio as of the end of the fiscal quarter ends in five times, no warrants will be issued to Oaktree. Based on current projections, the Company does not expect to issue any warrants related to the Oaktree Amendment.

Interest expense related to the Oaktree Loan totaled \$2,995,000 for the three months ended September 30, 2023, and \$5,660,000 for the nine months ended September 30, 2023, respectively, and included the amortization of debt issuance costs and discount of \$567,000 and \$1,093,000, respectively. HROWM 11.875% Senior Notes Due 2027

In December 2022 and in January 2023, the Company closed an offering of \$35,000,000 and \$5,250,000, respectively, aggregate principal amount of senior notes due in December 2027 (the "2027 Notes"). The 2027 Notes were sold to investors at a par value of \$25.00 per 2027 Note, and the offering resulted in gross proceeds to the Company of approximately \$36,699,000 after deducting underwriting discounts and commissions and other offering expenses of \$3,551,000. The 2027 Notes are senior unsecured obligations of the Company and rank equally in right of payment with all of the Company's other existing indebtedness, except that the 2027 Notes are subordinated in right of payment to all of the Company's existing and future senior indebtedness that is subordinated to all existing and future indebtedness of the Company's subsidiaries, including trade payables. The 2027 Notes bear interest at the rate of 11.875% per year, payable quarterly in arrears on January 31, April 30, July 31 and October 31 of each year, commencing on January 31, 2023. The final principal amount of the 2027 Notes is payable quarterly in arrears on January 31, April 30, July 31 and October 31 of each year, commencing on January 31, 2027.

At any time prior to December 31, 2024, the Company may, at its option, redeem the 2027 Notes, in whole at any time or in part from time to time, at a price of 100% of the principal amount of the 2027 Notes to be redeemed, plus a make-whole amount, if any, plus accrued and unpaid interest to, but excluding, the date of redemption. The Company may redeem the 2027 Notes for cash in whole or in part at any time at its option (i) on or after December 31, 2024 and prior to December 31, 2025, at a price of \$25.50 per note, plus accrued and unpaid interest to, but excluding, the date of redemption, (ii) on or after December 31, 2025 and prior to December 31, 2026, at a price of \$25.25 per note, plus accrued and unpaid interest to, but excluding, the date of redemption, and (iii) on or after December 31, 2026 and prior to the maturity date of the 2027 Notes, at a price of \$25.00 per note, plus accrued and unpaid interest to, but excluding, the date of redemption. In addition, the Company is required to redeem the 2027 Notes in whole or in part, at the price of \$25.50 per note, plus accrued and unpaid interest to, but excluding, the date of redemption, upon occurrence of certain events, including a Material Change, as defined in the Second Supplemental Indenture. The 2027 Notes trade on the Nasdaq Stock Market LLC under the symbol "HROWM". Interest expense related to the 2027 Notes totaled \$1,375,000 for the three months ended September 30, 2023, and \$4,141,000 for the nine months ended September 30, 2023, respectively, and included the amortization of debt issuance costs and debt discount of \$180,000 and \$556,000, respectively. Our Chief Executive Officer, Mark L. Baum, Chief Financial Officer, Andrew R. Boll, and former directors R. Lawrence Van Horn and Dr. R. purchased \$950,000 in principal amount of the 2027 Notes at the time of their offering.

HROWL – 8.625% Senior Notes Due 2026

In April and September 2021, the Company closed offerings (including an offering over-allotment exercise in May 2021) of \$50,000,000^{75,000} 8.625% senior notes due April 2026 and in May 2021 issued an additional \$5,000,000 of such notes pursuant to the full exercise of the underwritten notes (collectively, the “April (the “2026 Notes”). The April Notes were sold to investors at a par value of \$125.00 per April Note and the offering of the Company of approximately \$51,909,000 after deducting underwriting discounts and commissions and other offering expenses of \$3,091,000. In the issuance of the April Notes, the Company sold an additional \$20,000,000 aggregate principal amount of such notes (the “September Notes,” and the “2026 Notes”), at a price of \$25.75 per September Note, with interest of \$278,000 on the September Notes being accrued from April 20, 2021. The September offering resulted in net proceeds to the Company of approximately \$19,164,000 after deducting underwriting discounts and expenses of \$1,158,000 and a premium on note issuance of \$322,000. The September Notes are treated as a single series with the April Notes, April Notes, dated as of April 20, 2021, and have the same terms as the April Notes (other than the initial offering price and issue date). The obligations of the Company and rank equally in right of payment with all of our other existing and future senior unsecured and unsubordinated notes effectively subordinated in right of payment to all of the Company’s existing and future secured indebtedness and structurally subordinated to all of the Company’s subsidiaries, including trade payables. The 2026 Notes bear interest at a rate of 8.625% per annum. Interest on the 2026 Notes is payable January 31, April 30, July 31 and October 31 of each year, commencing on July 31, 2021. The 2026 Notes will mature on April 30, 2026. The interest is calculated on a semi-annual basis and is being amortized as interest expense, net of the amortization of the premium on note issuance, over the term of the 2026 Notes using the straight-line method.

Prior to February 1, 2026, the Company may, at its option, redeem the 2026 Notes, in whole at any time or in part from time to time, at a redemption price equal to the principal amount of the 2026 Notes to be redeemed, plus a make-whole amount, if any, plus accrued and unpaid interest to, but excluding, the date of redemption. The Company may redeem the 2026 Notes for cash in whole or in part at any time at our option on or after February 1, 2026 and prior to maturity, at a price equal to 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the date of redemption. On and after any redemption date, interest will cease to accrue on the 2026 Notes. The 2026 Notes will trade on the Nasdaq Stock Market LLC under the symbol “HROWL”.

Interest expense related to the 2026 Notes totaled \$1,814,000^{1,812,000} and \$5,436,000 and \$1,814,000 and \$5,436,000^{1,810,000} for the period from September 30, 2023^{March 31, 2024} and 2022²⁰²³, respectively, and included amortization of debt issuance costs and discounts of \$197,000^{\$585,000} for the three and nine months ended September 30, 2023 and 2022, respectively.

B. Riley Loan and Security Agreement – Paid in Full

On December 14, 2022 (the “Effective Date”), the Company entered into a Loan and Security Agreement (the “BR Loan”) with B. Riley FBR, Inc. as administrative agent for the lenders. The BR Loan provided for a loan facility of up to \$100,000,000 to the Company with a maturity date of December 14, 2025 (the “Maturity Date”), at an interest rate of 10.875% per annum.

The BR Loan was secured by an intellectual property security agreement entered into in connection with the BR Loan, and by all assets of the Company. The outstanding balance of the BR Loan was due in full on the Maturity Date. The BR Loan provided for voluntary prepayment subject to no prior funding or the prepayment or repayment occurred (other than as a result of acceleration of the BR Loan) on or prior to the date that was 90 days up to 3.00% of the amount of the BR Loan based on other payment dates.

In January 2023, \$59,750,000 of principal amount was funded pursuant to the BR Loan simultaneously with the consummation of the Fab 5. In 2023, the Company repaid all amounts owed under the BR Loan, in connection with the Oaktree Loan, and no exit or prepayment fees were paid. The BR Loan pursuant to a side letter agreement among the parties.

Interest expense related to the BR Loan totaled \$1,565,000 for the nine months ended September 30, 2023, and included amortization of debt of \$356,000 and \$5,465,000 related to the early extinguishment of debt associated with the BR Loan.

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A summary of the Company's debt at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** is described as follows:

	September 30,	December 31,
	2023	2022
8.625% Senior Notes, due April 2026	\$ 75,000,000	\$ 75,000,000
11.875% Senior Notes, due December 2027	40,250,000	35,000,000
Oaktree Loan, due January 2026	77,500,000	110,000,000
	<hr/>	<hr/>
Less: Unamortized debt issuance costs	192,750,000	(5,826,000)
	<hr/>	<hr/>
	\$ 182,186,000	\$ 104,174,000

For the three **and nine** months ended **September 30, 2023**, **March 31, 2024** and **2023**, the total effective interest rate of the Company's debt was **8.88%** and **8.96%** for the same periods in the prior year, respectively.

At **September 30, 2023** **March 31, 2024**, future minimum payments under the Company's debt were as follows:

	A
Remainder of 2023	\$
2024	Remainder of 2024
2025	\$
2026	\$
2027	\$
Total minimum payments	\$
Less: amount representing interest payments	\$
Notes payable, gross principal amount due	\$
Less: unamortized debt issuance costs, net of premium	\$
Notes payable, net of unamortized debt issuance costs	\$

NOTE 14. 12. LEASES

The Company leases office and laboratory space under non-cancelable operating leases listed below. These lease agreements have remaining terms of 1 to 10 years and contain various clauses for renewal at the Company's option.

- An operating lease for 5,789 square feet of office space in Carlsbad, California, which commenced in January 2022 and will expire in January 2027.
- An operating lease for **35,326** **38,153** square feet of lab, warehouse and office space in Ledgewood, New Jersey that expires in July 2027, with two additional five-year periods. This includes an amendment, which was made effective July 2020, that extended the term of the original lease by one year, a second amendment entered into in May 2021 that extended the term of the lease to July 2027 and added 8,913 square footage to the lease, and another amendment entered into in January 2024 that added 2,861 square feet of space.

- An operating lease for 5,500 square feet of office space in Nashville, Tennessee, which commenced in January 2020 and will expire in December 2025. The Company does not intend to exercise its option to extend the term of this lease.
- An operating lease for 11,552 square feet of lab and office space in Nashville, Tennessee, which commenced in September 2022 and will expire in September 2027.
- In March 2024, we entered in a new operating lease for 17,625 square feet of office space in Nashville, Tennessee which is expected to commence in April 2024 and expire in March 2032. The lease has a fixed term of 10 years (target expiration date of June 30, 2032) with an option to extend the term for two additional five-year terms. Once occupied, the space will be used for research and development activities and will serve as the Company's new corporate headquarters. Any operating lease right-of-use assets and liabilities related to this lease will be recorded in the Company's financial statements as of March 31, 2024.

At **September 30, 2023** **March 31, 2024**, the weighted average incremental borrowing rate and the weighted average remaining lease term for the Company were **6.60** **6.61** % and **10.54** **11.26** years, respectively.

During the three and nine months ended September 30, 2023, **March 31, 2024** and **2023**, cash paid for amounts included for the operating lease was \$**921,000** **306,000**, respectively, and \$249,000 and \$622,000 during the same periods in 2022, respectively. During the three and nine months ended **September 30, 2024** and **2022, 2023**, the Company recorded operating lease expense of \$**309,000** **319,000** and \$926,000 and \$309,000 and \$809,000, respectively, for general and administrative expenses.

Future lease payments under operating leases as of September 30, 2023 March 31, 2024 were as follows:

Year	Operating lease obligations, net of current portion
Remainder of 2023	\$
2024	
	Remainder of 2024
2025	
2026	
2027	
2028	
Thereafter	
Total minimum lease payments	\$
Less: amount representing interest payments	\$
Total operating lease obligations	\$
Less: current portion, operating lease obligations	\$
Operating lease obligations, net of current portion	\$

NOTE 15. 13. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

In July 2023, the Company closed a public offering of shares of its common stock at an offering price of \$17.75 per share (the “Offering”). The Company sold 3,680,000 shares of its common stock in the Offering, resulting in the Company receiving aggregate net proceeds of \$64,520,000, after deducting underwriting discounts and offering expenses of \$4,480,000.

In July 2023, the Company settled 1,567,913 outstanding PSUs as a result of the achievement of the total stockholder returns (“TSR”) targets set (“PSU Agreements”) previously issued to members of the Company’s management team in 2021 (the “2021 Awards”). The 2021 Awards were required that the Company achieve and maintain certain levels of TSR ranging from 50% to 175% per share during the five-year period following the aggregate of: (i) the percent increase of the closing price of the Company’s common stock from July 22, 2021; and (ii) any dividends or like stock in the PSU Agreements. In connection with the settlement of the 2021 Awards, an aggregate of 616,984 shares of the Company’s common stock tax obligations totaling \$11,273,000.

During the **nine** three months ended **September 30, 2023** **March 31, 2024**, the Company issued 131,760 shares of its common stock underlying providing services to the Company. The RSUs had previously vested, including 13,123 RSUs during the nine months ended September 30, 2023, shares were deferred until the director ceased providing services to the Company.

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During the nine months ended September 30, 2023, the Company issued 61,934 46,175 shares of common stock and received proceeds of \$3,000,000 options to purchase 61,934 46,175 shares of common stock with exercise prices ranging from \$1.70 6.75 to \$8.50 8.75 per share.

During the nine months ended September 30, 2023 March 31, 2024, the Company issued 62,367 45,000 shares of common stock to Michael J. Executive Officer, upon the cashless exercise of options to purchase 180,000 shares at an exercise price of \$8.99 per share. The Company withheld 17,384 shares as consideration for the cashless exercise and an additional 40,466 shares for payroll tax obligations totaling \$849,000.

During the nine months ended September 30, 2023, the Company issued 55,558 shares of common stock RSUs granted in February 2021 to Andrew R. Financial Officer, upon the cashless exercise of options to purchase vested, and 90,000 26,520 shares at an exercise price of \$6.00 per share. The Company withheld 25,521 shares as consideration for the cashless exercise and an additional 8,921 shares for payroll tax obligations totaling \$189,000.

During the nine months ended September 30, 2023, upon vesting of 23,000 RSUs granted in January 2020 to Andrew R. Boll, the Company's Chief Executive Officer, the Company issued vested, and 9,602 18,480 shares of common stock withheld for payroll tax withholding totaling \$19,000 638,000.

During the nine months ended September 30, 2023 March 31, 2024, upon vesting of 88,000 150,000 RSUs granted in January 2020 February 2021 to the Company's Chief Executive Officer, the Company issued vested, and 52,821 90,164 shares of the Company's common stock were issued to Mr. E. E. common stock withheld for payroll tax withholdings totaling \$519,000 638,000.

During the nine months ended September 30, 2023 March 31, 2024, 43,130 30,000 RSUs granted in February 2021 to John Saharek, the Company's Chief Executive Officer, the Company issued vested, and 17,384 shares of the Company's common stock were issued to Mr. Saharek, net of 12,616 shares of common stock withheld for payroll tax withholdings totaling \$187,000.

During the three months ended March 31, 2024, 50,000 RSUs granted in February 2021 to employees, vested, and 32,452 shares of the Company's common stock withheld for payroll tax withholdings totaling \$187,000.

During the three months ended March 31, 2024, 8,389 shares of the Company's common stock underlying RSUs issued to directors vested, but shares were deferred until the applicable director ceased providing services to the Company.

Stock Option Plan

On September 17, 2007, the Company's Board of Directors and stockholders adopted the Company's 2007 Incentive Stock and Awards Plan, which was effective November 5, 2008, February 26, 2012, July 18, 2012, May 2, 2013 and September 27, 2013 (as amended, the "2007 Plan"). The 2007 Plan reac... we can no longer issue additional awards under this plan; plan, however, options previously issued under the 2007 Plan will remain outstanding until maturity or are otherwise cancelled/forfeited. On September 13, 2017 June 13, 2017, the Company's Board of Directors and stockholders adopted the Stock and Awards Plan which was subsequently amended on September 3, 2021 June 3, 2021 (as amended, the "2017 Plan" and together with the 2007 Plan, the "Plans"). The 2017 Plan provides for the issuance of a maximum of 6,000,000 shares of the Company's common stock for the purpose of attracting and retaining directors, officers, consultants, advisors and employees whose services are considered essential to the Company's success. The 2017 Plan also provides for the issuance of restricted stock, restricted stock units and restricted stock. The Plans are administered by the Compensation Committee of the Company's Board of Directors. The Company had no future issuances under the 2017 Plan at September 30, 2023 March 31, 2024.

Stock Options

A summary of stock option activity under the Plans for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding – January 1, 2023	3,027,701	\$ 5.90	
Options granted	95,500	\$ 19.54	
Options exercised	(331,934)	\$ 7.55	
Options cancelled/forfeited	(76,175)	\$ 6.85	
Options outstanding – September 30, 2023	2,715,092	\$ 6.15	
Options exercisable	2,436,946	\$ 5.51	
Options vested and expected to vest	2,676,550	\$ 6.06	
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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding – January 1, 2024	2,711,317	\$ 6.25	
Options granted	51,500	\$ 9.81	
Options exercised	(46,175)	\$ 7.54	
Options cancelled/forfeited	(48,626)	\$ 12.22	
Options outstanding – March 31, 2024	<u>2,668,016</u>	<u>\$ 6.19</u>	
Options exercisable	<u>2,404,897</u>	<u>\$ 5.55</u>	
Options vested and expected to vest	<u>2,631,881</u>	<u>\$ 6.10</u>	

The aggregate intrinsic value in the table above represents the total pre-tax amount of the proceeds, net of exercise price, which would have been received by option holders had exercised and immediately sold all shares underlying options with an exercise price lower than the market price on September 30, 2023, the closing price of the Company's common stock of \$14.37 / 13.23 on that date.

During the **nine** three months ended **September 30, 2023** / **March 31, 2024**, the Company granted stock options to certain employees. The stock options have a term equal to the current market price of the Company's common stock, as reported by the securities exchange on which the common stock is listed, and have contractual terms of ten years. Vesting terms for options granted to employees during the **nine** three months ended **September 30, 2023** / **March 31, 2024** are as follows: 25% of the shares subject to the option vest and become exercisable on the first anniversary of the grant date and the remaining shares will vest and become exercisable quarterly in equal installments thereafter over three years. Certain option awards provide for accelerated vesting (as defined in the Plans) and in the event of certain modifications to the option award agreement.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The expected term of the options was determined in accordance with the "simplified approach," as the Company has limited, relevant, historical data on employee exercise and termination behavior. The expected risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option. The financial statement effect of forfeitures is estimated at the time of grant and revised, if necessary, if the actual effect differs from the estimated effect. For employees and directors, the Company assigns a forfeiture factor of 10%. These factors could change in the future, which would affect the compensation expense in future periods. Utilizing these assumptions, the fair value is determined at the date of grant.

The table below illustrates the fair value per share determined using the Black-Scholes-Merton option pricing model with the following assumptions:

	2023
Weighted-average fair value of options granted	\$ 11.89
Expected terms (in years)	5.50-6.11
Expected volatility	68-70%
Risk-free interest rate	3.59-4.14%
Dividend yield	-

The following table summarizes information about stock options outstanding and exercisable at **September 30, 2023** **March 31, 2024**:

Range of Exercise Prices	Options Outstanding			Options Exercisable			Options Outstanding		
	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Outstanding
					Weighted Average Exercise Price				
\$1.47 - \$1.73	295,852	4.20	\$ 1.72	295,852	\$ 1.72	295,852	3.71	\$	
\$2.23	285,000	3.34	\$ 2.23	285,000	\$ 2.23	285,000	2.84	\$	
\$2.40 - \$2.60	24,068	3.27	\$ 2.58	24,068	\$ 2.58	24,068	2.77	\$	
\$3.95	310,000	2.50	\$ 3.95	310,000	\$ 3.95	310,000	2.00	\$	
\$4.08 - \$5.72	123,225	4.67	\$ 5.28	115,475	\$ 5.25				
\$4.49 - \$5.72						100,225	5.22	\$	
\$6.30	285,000	5.39	\$ 6.30	285,000	\$ 6.30	285,000	4.89	\$	
\$6.75 - \$7.26	105,062	8.32	\$ 6.96	33,720	\$ 6.96	62,500	8.24	\$	
\$7.30	274,500	6.26	\$ 7.30	274,500	\$ 7.30	274,500	5.76	\$	
\$7.37 - \$7.79	238,712	4.43	\$ 7.53	170,155	\$ 7.50	204,261	4.14	\$	
\$7.87 - \$25.86	773,673	3.28	\$ 9.43	643,176	\$ 7.89	826,610	3.30	\$	
\$1.47 - \$25.86	<u>2,715,092</u>	4.18	\$ 6.15	<u>2,436,946</u>	\$ 5.51	<u>2,668,016</u>	3.82	\$	

As of **September 30, 2023** **March 31, 2024**, there was approximately **\$1,781,000** **1,815,000** of total unrecognized compensation expense relate under the Plans. That expense is expected to be recognized over the weighted-average remaining vesting period of **2.82** **2.81** years. The stock options was **\$154,000** **126,000** and **\$617,000** **341,000** during the three and nine months ended September 30, 2023, respectively, March 31, 2024 the same periods in 2022, 2023, respectively.

The intrinsic value of options exercised during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was **\$4,399,000** **139,000**.

Restricted Stock Units

RSU awards are granted subject to certain vesting requirements and other restrictions, including time-based performance and market-based vesting of the RSUs, which has been determined based upon the market value of the Company's common stock on the grant date, is expensed over the vesting period.

During the nine months ended September 30, 2023, the Company's board of directors were granted an aggregate 41,301 time-based vesting RSUs, which vest in equal quarterly installments over one year.

A summary of the Company's RSU activity and related information for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** is as follows:

	Number of Shares	Weighted Average Date Fair Value
RSUs unvested - January 1, 2023	493,806	\$
RSUs unvested - January 1, 2024		
RSUs granted	54,424	\$
RSUs vested	(167,253)	\$
RSUs cancelled/forfeited	(75,000)	\$
RSUs unvested - September 30, 2023	305,977	\$
RSUs unvested - March 31, 2024		

As of **September 30, 2023** **March 31, 2024**, the total unrecognized compensation expense related to unvested RSUs was approximately **\$1,041,000** **\$1,041,000** recognized over a weighted-average period of **0.40** **0.2** years, based on estimated and actual vesting schedules of the applicable RSUs. The unrecognized compensation expense related to unvested RSUs was **\$374,000** **\$405,000** and **\$789,000** **\$29,000**, respectively, as of **September 30, 2023** **March 31, 2024** and **2023** was **\$374,000** **\$405,000** and **\$789,000** **\$29,000**, respectively, as of **September 30, 2023** **March 31, 2024** and **2023** was **\$374,000** **\$405,000** and **\$789,000** **\$29,000**, respectively, during the same periods in 2022, respectively.

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Performance Stock Units

In April 2023, the Company granted an aggregate of 1,567,913 PSUs to members of its senior management including Mark Baum, Chief Executive Officer, and John Saharek, Chief Financial Officer, which are subject to the satisfaction of certain market-based and continued service-based vesting conditions. The vesting of the 2023 PSUs require (i) a minimum of a two-year service period, and (ii) during a five-year term, the achievement and maintenance of price targets ranging between \$25.00 to \$50.00 per share, separated into four separate tranches as described further in the table below.

Tranche	Number of Shares
Tranche 1	223,988
Tranche 2	335,981
Tranche 3	447,975
Tranche 4	559,969

* Target Share Price assumes that no dividends or like distributions are made to stockholders of the Company. If such distributions are made, the Target Share Price will decrease accordingly, to the benefit of the employee, to account for the dividend/distribution as a part of the Target Share Price.

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The aggregate fair value of the 2023 PSUs was \$29,106,000 using a Monte Carlo Simulation with a five-year life, 65% volatility and a risk free rate of 2.00% is being amortized over a two-year derived service period.

A summary of the Company's PSU activity and related information for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** is as follows:

	Number of Shares	Weighted Average Date Fair Value
PSUs unvested – January 1, 2023	1,567,913	\$
PSUs unvested – January 1, 2024	1,567,913	\$
PSUs granted	1,567,913	\$
PSUs vested	(1,567,913)	\$
PSUs cancelled/forfeited	-	\$
PSUs unvested – September 30, 2023	1,567,913	\$
PSUs unvested – March 31, 2024	1,567,913	\$

As of **September 30, 2023** **March 31, 2024**, the total unrecognized compensation expense related to unvested PSUs was approximately \$21,829,000 and \$21,829,000, respectively. This expense is being recognized over a weighted-average period of **1.51** **1.01** years, based on estimated and actual vesting schedules of the applicable PSUs. The total unrecognized compensation expense related to unvested PSUs as of **September 30, 2023** **March 31, 2024** and 2023 was \$3,948,000, \$3,638,000 and \$10,115,000, \$12,263,000 and \$3,792,000 during the same periods in 2022, respectively.

Stock-Based Compensation Summary

The Company recorded stock-based compensation related to equity instruments granted to employees, directors and consultants as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended March 31,
	2023	2022	2023
Employees – selling, general and administrative	\$ 3,784,000	\$ 1,611,000	\$ 9,715,000
Employees – research and development	475,000	163,000	1,225,000
Directors – selling, general and administrative	200,000	125,000	520,000
Consultants – selling, general and administrative	17,000	33,000	50,000
Total	\$ 4,476,000	\$ 1,932,000	\$ 11,520,000
			For the Three Months Ended December 31, 2024
Employees - selling, general and administrative			\$ 3,525,000
Employees – research and development			439,000
Directors - selling, general and administrative			188,000
Consultants - selling, general and administrative			17,000
Total			\$ 4,169,000

NOTE **16, 14. COMMITMENTS AND CONTINGENCIES**

Legal

General and Other

In the ordinary course of business, the Company is involved in various legal proceedings, government investigations and other matters that are currently pending against the Company. These proceedings and other matters are difficult to predict. The Company describes legal proceedings and other matters that are/were significant or that it believes could become material in the future.

The Company records accruals for loss contingencies to the extent that it concludes it is probable that a liability has been incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings and other matters that could cause an increase in the liability that has been accrued previously.

The Company's legal proceedings involve various aspects of its business and a variety of claims, some of which present novel factual allegations. Typically, a number of the matters pending against the Company are at early stages of the legal process, which in complex proceedings of the Company can last for several years. While it is not possible to accurately predict or determine the eventual outcomes of matters that have not concluded, an adverse outcome of any matter (whether discussed in this footnote or not) currently pending may have a material adverse effect on the Company's condensed consolidated financial position or cash flows.

Ocular Science, Inc. et. al

In July 2021, ImprimisRx, LLC, a subsidiary of the Company, filed a lawsuit against Ocular Science, Inc. and OSRX, Inc. (together, “OSRX Southern District of California, asserting claims for copyright infringement, trademark infringement, unfair competition and false advertising (I damages from OSRX. Since July 2021, the complaint has been amended and OSRX added counterclaims alleging ImprimisRx, LLC is vi advertising. Both parties are seeking damages from the other. The Company expects the trial to take place in **August 2024**.

Product and Professional Liability

Product and professional liability litigation represents an inherent risk to all firms in the pharmaceutical and pharmacy industry. We utilize traditional methods with regard to our product and professional liability claims. Such insurance coverage at any given time reflects current market conditions, including the policy is written.

Indemnities

In addition to the indemnification provisions contained in the Company's governing charter documents, the Company generally enters into separate agreements with each of the Company's directors and officers. These agreements require the Company, among other things, to indemnify the director or officer for liabilities, such as attorneys' fees, judgments, fines and settlements, paid by the individual in connection with any action, suit or proceeding arising out of service as the Company's director or officer, other than liabilities arising from willful misconduct or conduct that is knowingly fraudulent or dishonest. The Company indemnifies Oaktree for certain claims. Several of the Company's asset purchases and losses associated with license representations, warranties, covenants and confidentiality provisions, and also contain mutual indemnification obligations related primarily to the Loan. The Company also indemnifies its lessors in connection with its facility leases for certain claims arising from the use of the property. The Company does not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not recorded any liabilities in connection with these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying condensed consolidated balance sheet.

Klarity License Agreement – Related Party

The Company entered into a license agreement in April 2017, as amended in April 2018 (the "Klarity License Agreement"), with Richard L. Lindstrom, its Board of Directors. Pursuant to the terms of the Klarity License Agreement, the Company licensed certain intellectual property and related rights to formulate, make, sell, and sub-license the topical ophthalmic solution Klarity designed to protect and rehabilitate the ocular surface (the "Klarity Product"). Under the terms of the Klarity License Agreement, the Company is required to make royalty payments to Dr. Lindstrom ranging from 3% to 6% of net sales of the Klarity Product based on the final formulation of the Klarity Product sold. In addition, the Company is required to make certain milestone payments to Dr. Lindstrom including (i) a second payment of \$50,000 following the first \$50,000 in net sales of the Klarity Product, (ii) a third payment of \$50,000 following the first \$100,000 in net sales of the Klarity Product. All of the above referenced milestone payments were payable at the Company's restricted common stock. Payments totaling \$0 and \$146,000 were made during the three and nine months ended September 30, 2022, respectively, compared to \$77,000 and \$199,000 during the same periods in 2022, respectively. Royalty expenses were \$71,000 and \$220,000 during the three and nine months ended September 30, 2022, respectively, compared to \$67,000 and \$244,000 during the same periods in 2022, respectively, and were included in accounts payable to Dr. Lindstrom.

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Injectable Asset Purchase Agreement – Related Party

In December 2019, the Company entered into an asset purchase agreement (the "Lindstrom APA") with Dr. Lindstrom, a former member of its terms of the Lindstrom APA, the Company acquired certain intellectual property and related rights from Dr. Lindstrom to develop, formulate ophthalmic injectable product (the "Lindstrom Product").

Under the terms of the Lindstrom APA, the Company is required to make royalty payments to Dr. Lindstrom ranging from 2% to 3% of formulation and patent protection of the Lindstrom Product sold. In addition, the Company is required to make certain milestone payments to payment of \$33,000 that was due upon execution of the Lindstrom APA. Dr. Lindstrom was paid \$0 and \$17,000 in cash during the three and 2023, respectively, and \$8,000 and \$23,000 during the same periods in 2022, respectively. The Company incurred \$9,000 and \$26,000 for royalty APA during the three and nine months ended September 30, 2023, respectively, and \$9,000 and \$24,000 during the same periods in 2022, respectively.

Other Asset Purchase, License and Related Agreements

FDA Approved Product Acquisitions

In recent years, the Company has acquired commercial and product rights to various FDA approved ophthalmic medications and products through and/or other related agreements. In general, in exchange for product and commercial rights these agreements provide the counterparties with certain payments typically related to certain annual sales amounts and manufacturing events, and in certain cases, per unit transfer prices and royalties. During the three months ended March 31, 2024 and 2023, \$274,000 and \$0 were incurred under these agreements as royalty expenses, respectively. \$5,000,000 related to upfront and milestone payments under these agreements during the three months ended March 31, 2024 and 2023, respectively. remaining contingent consideration payable pursuant to these agreements were not considered probable and reasonably estimable and therefore these contingent obligations during the three months ended March 31, 2024. At the time contingent consideration payable becomes probable and consideration, if any, paid will be allocated to the assets based on their initial estimated fair values as a percent of the total purchase price.

Formulation Acquisitions

The Company has acquired and sourced intellectual property rights related to certain proprietary innovations from certain inventors, innovators ("Inventors") through multiple asset purchase agreements license agreements, strategic agreements and commission license agreements. In general, Inventors will cooperate with the Company in obtaining patent protection for the acquired intellectual property and that the Company will use research, develop and commercialize a product based on the acquired intellectual property. In addition, the Company has acquired a right of first property and drug development opportunities presented by these Inventors.

In consideration for the acquisition of the these intellectual property rights, the Company is obligated to make payments to the Inventors at milestones, generally consisting of: (1) a payment payable within 30 to 45 days after the issuance of the first patent in the United States at property (if any); (2) a payment payable within 30 days after the Company files the first investigational new drug application ("IND") with the ("FDA") for the first product arising from the acquired intellectual property (if any); (3) for certain of the Inventors, a payment payable within first new drug application with the FDA for the first product arising from the acquired intellectual property (if any); and (4) certain royalty received by the Company in connection with the sale or licensing of any product based on the acquired intellectual property (if any), after Company's development costs associated with such product. If, following five years after the date of the applicable asset purchase agreement, the Inventors, has not filed an IND or, for the remaining Inventors, has not initiated a study where data is derived, or (b) has failed to generate revenue from any product based on the acquired intellectual property, the Inventors may terminate the applicable asset purchase agreement and request that the technology to the Inventors. During the three and nine months ended September 30, 2023, March 31, 2024 and 2023, \$220,000, \$180,000 and \$70,000 were incurred under these agreements as royalty expenses, respectively, and \$185,000 and \$695,000 during the same periods in 2022, respectively.

Sintetica Agreement

In July 2021, the Company entered into a License and Supply Agreement (the "Sintetica Agreement") with Sintetica S.A. ("Sintetica"), pursuant to which Sintetica granted the Company the exclusive license and marketing rights to its patented ophthalmic drug candidate ("IHEEZO") in the U.S. and Canada.

Pursuant to the Sintetica Agreement, the Company agreed to pay Sintetica a per unit transfer price to supply IHEEZO, along with a per unit royalty to pay Sintetica up to \$18,000,000 in one-time milestone payments including a \$5,000,000 payment (the "Upfront Payment") that was due under the Sintetica Agreement and the balance of payments due upon achievement of certain regulatory and commercial milestones. Under the terms of the Sintetica Agreement, the Company was responsible for regulatory filings for IHEEZO in the U.S. As of September 30, 2023, the Company had paid all milestone amounts due under the Sintetica Agreement, and the remaining commercial milestones were previously capitalized as an intangible asset. In August 2023, the Company amended the Sintetica Agreement to accrue amounts for commercial related milestones associated with sales of IHEEZO in exchange for a \$550,000 reduction in the milestone payment. In the amendment, the Company reduced the intangible asset value associated with IHEEZO by \$550,000 and paid the remaining commercial milestones in three and nine months ended September 30, 2023.

Subject to certain limitations, the Sintetica Agreement has a ten-year term, and allows for a ten-year extension if certain sales thresholds are met.

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Wakamoto Agreement

In August 2021, the Company entered into a License Agreement and a Basic Sale and Purchase Agreement (together, the "Wakamoto Agreement"), pursuant to which Wakamoto granted the Company the exclusive license and marketing rights to its ophthalmic drug and Canada.

Pursuant to the Wakamoto Agreements, Wakamoto will supply MAQ-100 to the Company, and the Company will pay Wakamoto a per unit fee. In addition, the Company is required to pay Wakamoto various one-time milestone payments totaling up to \$2,000,000 upon the achievement of certain milestones. Under the terms of the Wakamoto Agreements, the Company will be responsible for MAQ-100 in the U.S. and Canada. Through September 30, 2023, no amounts have been paid or accrued under the Wakamoto Agreements. Subject to certain limitations, the term of the Wakamoto Agreements is for five years from the date of the FDA's market approval of MAQ-100 period if certain unit sales thresholds are met.

Eyepoint Commercial Alliance Agreement – Terminated

In August 2020, the Company, through its wholly owned subsidiary ImprimisRx, LLC, entered into a Commercial Alliance Agreement (the "Dexycu Agreement") with Eyepoint Pharmaceuticals, Inc. ("Eyepoint"), pursuant to which Eyepoint granted the Company the non-exclusive right to co-promote DEXYCU® (dexmedetomidine hydrochloride ophthalmic solution 0.007% ("DEXYCU")) for the treatment of post-operative inflammation following ocular surgery in the United States. Pursuant to the Dexycu Agreement, the Company will receive a royalty fee calculated based on the quarterly sales of DEXYCU in excess of predefined volumes to specific customers of the Company in the U.S. Under the Dexycu Agreement, the Company agreed to use commercially reasonable efforts to promote and market DEXYCU in the U.S.

Pursuant to a mutual termination agreement entered into on October 7, 2022, the Dexycu Agreement terminated on January 1, 2023. Following the implementation of the Prospective Payment System (HOPPS) rule proposed by the Centers for Medicare & Medicaid Services (CMS) in July of 2022, which did not become effective until January 1, 2023, the Company entered into a Mutual Termination Agreement (the "Termination Agreement") on October 7, 2022, pursuant to which Eyepoint and the Company agreed (a) that the Company would continue to support the sale of DEXYCU in the U.S. consistent with the Company's level of effort during the January through September 2022 period, (b) to decrease the required minimum quarterly unit demand for the fourth quarter of 2022, and (c) to terminate the Dexycu Agreement, along with ancillary letter agreements, effective January 1, 2023. During the three and nine months ended September 30, 2022, the Company recorded \$1,044,000 and \$3,576,000, respectively, in commissions related to the Dexycu Agreement.

Sales and Marketing Agreements

The Company had entered various sales and marketing agreements with certain organizations to provide exclusive and non-exclusive sales and Harrow in select geographies in the U.S. in connection with the Company's ophthalmic pharmaceutical compounded formulations or related prod

Under the terms of the sales and marketing agreements, the Company was generally required to make commission payments equal to 10%^{10%} above and beyond the initial existing sales amounts. In addition, the Company was required to make periodic milestone payments to certain organ restricted common stock if net sales in the assigned territory reach certain future levels by the end of their terms. Commission expenses of \$0 these agreements for commission expenses during the three and nine months ended September 30, 2023, respectively, March 31, 2024 and \$1, same periods in 2022, 2023, respectively.

Contract Manufacturing

The Company had entered into manufacturing agreements with respect to third-party contract manufacturers for its FDA approved pharmaceutical manufacturing agreements require minimum annual order amounts. The Company has committed to pay approximately \$2,728,000 related to co the year ending December 31, 2024.

NOTE 17, 15. SEGMENTS AND CONCENTRATIONS

The Company operates its business on the basis of a single reportable segment, which is the business of discovery, development, and commercial therapies. The Company's chief operating decision-maker is the Chief Executive Officer, who evaluates the Company as a single operating segme

The Company has had one and two products that each accounted for more than 10% of total revenues during the three and nine months ended had two March 31, 2024 and three products that each accounted for more than 10% of total revenues during the three and nine months ended Sep These products collectively accounted for 32^{11%} and 35^{36%} of revenues during the three and nine months ended September 30, 2023, respect 33% during the same periods in 2022, 2023, respectively.

As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, accounts receivable from a single customer account accounts receivable, respectively. For the three and nine months ended **September 30, 2023** **March 31, 2024**, revenues from a single customer acc revenues, respectively. **revenues**. For the three and nine months ended **September 30, 2022** **March 31, 2023**, no customer exceeded 10% of total re

The Company receives its active pharmaceutical ingredients from three main suppliers. These suppliers collectively accounted for 96% an ingredient purchases during the three and nine months ended **September 30, 2023** **March 31, 2024**, respectively, and 52% and **66** 90% durin respectively, 2023.

NOTE 18, 16. SUBSEQUENT EVENTS

The Company has performed an evaluation of events occurring subsequent to **September 30, 2023** **March 31, 2024** through the filing date of th Based on its evaluation, no events other than those described below need to be disclosed.

In November 2023, **April 2024**, the Company issued **125** 1,481 shares of common stock and received proceeds of **\$1,000** 11,000 upon the exerc shares of common stock with exercise price of **prices between \$6.75** 10.62 and **\$12.72** per share.

In October 2023, **April 2024**, the Company transferred sold all 1,982,000 shares of common stock it held of Eton in a block trade at a gross price trading expenses and commissions of approximately \$436,000, the NDAs and marketing authorizations for all Company received net proceeds Products in the U.S. The Company expects Santen to transfer the Canadian marketing authorizations for VERKAZIA and CATIONORM PLUS t

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"). Our financial statements have been prepared and, unless otherwise stated, the information derived therefrom as presented in this discussion and analysis are in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our company. You should read this Quarterly Report and our other reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and December 31, 2023 and subsequent reports filed with the SEC for greater detail. As used in this discussion and analysis, unless the context indicates otherwise, the terms the "Company," "Harrow," "we," "us" and "our" refer to our consolidated subsidiaries, consisting of including ImprimisRx, LLC, ImprimisRx NJ, LLC dba ImprimisRx, Imprimis NJOF, LLC, Harrow IP, LLC, ImprimisRx NJ, LLC and Imprimis NJOF, LLC collectively referred to as "Harrow".

In addition to historical information, the following discussion contains forward-looking statements regarding future events and our future performance. These forward-looking statements are based on current expectations and are subject to certain risks and uncertainties. Actual results may differ from those expressed or implied by these forward-looking statements. These forward-looking statements involve risks and uncertainties and reflect only our current views, expectations and beliefs with respect to events and our future performance. If risks or uncertainties materialize or assumptions prove incorrect, actual results or events could differ significantly from those expressed or implied by such forward-looking statements. Risks that could cause actual results to differ from those expressed or implied by the forward-looking statements include, among others, risks related to: liquidity or results of operations; our ability to successfully implement our business plan, develop and commercialize products and proprietary formulations in a timely manner or at all; identify and acquire additional products, manage our pharmacy operation necessary to operate our business, recruit and retain qualified personnel, manage any growth we may experience and successfully realize the value of our assets and any other acquisitions and collaborative arrangements we may pursue; competition from pharmaceutical companies, outsourcing facilities and business conditions, including inflation and supply chain challenges; regulatory and legal risks and uncertainties related to our pharmaceutical business in general; physician interest in and market acceptance of our current and any future formulations and compounding products; and risks and uncertainties described under the heading "Risk Factors" in Part II, Item 1A of this Quarterly Report and in our other filings with the SEC. We disclaim any obligation to update any forward-looking statement for any reason.

Overview

We are a leading eyecare pharmaceutical company engaged in the discovery, development, and commercialization of innovative ophthalmic products for the U.S. market. Harrow helps U.S. eyecare professionals preserve the gift of sight by making its comprehensive portfolio of prescription and non-prescription products accessible and affordable to millions of Americans each year. We own commercial rights to one of the largest portfolios of branded ophthalmic products in North America, all of which are marketed under the Harrow name. We also own and operate ImprimisRx, one of the nation's leading pharmaceutical-compounding businesses. In addition, we have a non-controlling equity interest in Surface Ophthalmics, Inc. ("Surface") and two other companies that began as subsidiaries of Harrow and were subsequently carved-out of our corporate structure and are no longer included in our financial statements. We also own royalty rights in certain drug candidates being developed by Surface and Melt.

Factors Affecting Our Performance

We believe the primary factors affecting our performance are our ability to increase revenues of our branded pharmaceutical products, price and certain non-proprietary products, grow and gain operating efficiencies in our operations, potential regulatory-related restrictions, optimize options for our drug products, and continue to pursue development and commercialization opportunities for certain of our ophthalmology and other products commercially available. We believe we have built a tangible and intangible infrastructure that will allow us to scale revenues efficiently in these activities will require significant costs and other resources, which we may not have or be able to obtain from operations or other sources. See below.

Recent Developments

The following describes certain developments in 2023 and 2024 to date that are important to understand our financial condition and results of operations. See the unaudited condensed consolidated financial statements included in this Quarterly Report for additional information about each of these developments.

IHEEZO Reimbursement, Launch and Studies

Apotex - Canadian Out-License

In February 2023, we announced that we entered into a license and supply agreement with Apotex Inc. ("Apotex"). Under the terms of the agreement, Apotex will have the exclusive rights and marketing authorizations of the following products in the Canadian market from Harrow: VERKAZIA (cyclosporine ophthalmic solution) 0.05% and VERKAZIA PLUS. Apotex was also granted a license for products Apotex will pursue approval for in Canada: VEVYE (cyclosporine ophthalmic solution) 0.05% and ZERVIA (cetirizine ophthalmic solution) 0.24% (with VERKAZIA and Cationorm Plus, collectively, "the Apotex Products"). In exchange, Apotex will make payments to Harrow for milestones related to manufacturing arrangements, regulatory and commercial achievement, and a percentage of the net sales of the Apotex Products.

IHEEZO Reimbursement

In January 2024, we met with the Centers for Medicare & Medicaid Services ("CMS") to discuss the issuance of a permanent, product specific J-code effective under the Healthcare Procedure Coding System (HCPCS) on April 1, 2023, which physicians can use for reimbursement purposes of the product. The U.S. Food and Drug Administration ("FDA") has approved IHEEZO for use in surgeries performed in hospital outpatient departments or ambulatory surgical centers. CMS has issued a permanent pass-through reimbursement under Medicare, provided they meet certain criteria, including a "not insignificant" cost criterion. Pass-through status is determined by calculating the minimum fee that a manufacturer may charge for the drug. Under current regulations of CMS, pass-through status applies to the packaged payment rate for the surgical procedure under Medicare Part B, which consists of Medicare reimbursement for a physician's fee measured from the date Medicare makes a request for payment to its first pass-through payment for the product. Following the three-year pass-through period, IHEEZO will be incorporated into the cataract bundled payment system, which could significantly reduce the pricing for that product. Temporary pass-through status was awarded by CMS and made effective in April 2023.

We are also working to ensure our continued access to the Medicare market for the ambulatory surgery center (ASC), hospital and outpatient office use market for IHEEZO. In this regard, we are designing and intend to execute, during 2024, clinical studies to build data sets that could be used by CMS to extend our temporary pass-through period for IHEEZO in ASCs and HOPDs. We are also meeting with CMS to discuss CMS policy which has historically not allowed for the separate billing of anesthesia services in the physician's office. We intend to request During 2024 CMS to clarify that J-Code 2403, IHEEZO's permanent J-Code, is appropriate to be billed for the anesthesia product itself (i.e., IHEEZO in our case setting). In March 2024, we received communication from a representative at CMS that the inclusion of J-Code 2403 in CMS's April 2024 quarterly sales prices (ASP) of some Medicare Part B-covered drugs and biologicals confirms that IHEEZO is separately payable in the physician office setting.

In February 2024, we made a request to CMS to consider increasing the beginning Medically Unlikely Edits ("MUE") for IHEEZO. The request was made because the limitation of April 2023, we initiated one MUE only allowed a regional single IHEEZO administration (equal to one single vial launch billed), while many ophthalmologists perform bilateral ocular procedures, which would require two vials of IHEEZO (chloroprocaine HC 0.5%). In April 2023, our full commercial launch of IHEEZO occurred, with two vials to be used. On March 20, 2024, the product being highlighted by our commercial team at the American Society of Cataract and Refractive Surgery Annual Meeting.

Recently we sponsored an in-vivo (in human) study to compare the effects of IHEEZO with povidone-iodine (PVI) compared to a 1:1000 solution with PVI. The primary intent of the study is to show that IHEEZO does not act as a "barrier" to PVI, which had otherwise been shown to be effective. Findings Company received communication from the study are positive showing National Correct Coding Initiative (NCCI) program of CMS similar barrier risk CMS decided to tetracaine (e.g., a non-gel anesthetic) increase the MUE for IHEEZO's J-Code (J2403) from 1 to 2. While not effective until July 2024, the product being highlighted by our commercial team at the American Society of Cataract and Refractive Surgery Annual Meeting.

Acquisition of ILEVRO, NEVANAC, VIGAMOX, MAXIDEX and TRIESENCE VEVYU U.S. Launch

In December 2022, January 2024, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with Novartis TechnoTherapies AG (together, "Novartis"), pursuant to which the Company agreed to purchase from Novartis the exclusive commercial rights to ophthalmic products (collectively the "Fab 5 Products") in the U.S. (the "Fab 5 Acquisition");

- ILEVRO (nepafenac ophthalmic suspension) 0.3%, a non-steroidal, anti-inflammatory eye drop indicated for pain and inflammation associated with dry eye syndrome.
 - NEVANAC (nepafenac ophthalmic suspension) 0.1%, a non-steroidal, anti-inflammatory eye drop indicated for pain and inflammation associated with dry eye syndrome.
 - VIGAMOX (moxifloxacin hydrochloride ophthalmic solution) 0.5%, a fluoroquinolone antibiotic eye drop for the treatment of bacterial strains of organisms.
 - MAXIDEX (dexamethasone ophthalmic suspension) 0.1%, a steroid eye drop for steroid-responsive inflammatory conditions of the palpebral and anterior segment of the globe.
 - TRIESENCE (triamcinolone acetonide injectable suspension) 40 mg/ml, a steroid injection for the treatment of certain ophthalmic diseases following vitrectomy.

We closed the Fab 5 Acquisition on January 20, 2023. Under the terms of the Purchase Agreement, we made a one-time payment of another \$45,000,000 due in a milestone payment related to the timing of the commercial availability of TRIESCENCE. Pursuant to the Purchase agreements, immediately following the closing and subject to certain conditions, for a period that lasted approximately nine months, and prior to new drug applications (the “NDAs”) to us, Novartis continued to sell the Products on our behalf and transferred the net profit from the sale of the to supply certain Products to the Company for a period of time after the NDAs are transferred to us and to assist with technology transfer of third-party manufacturers, if needed.

On April 28, 2023, we transferred the NDAs for ILEVRO, NEVANAC and MAXIDEX. In July 2023, we transferred the NDA TRIESENCE is expected to transfer upon around the timing of its commercial availability.

Oaktree Credit and Guaranty Agreement

On March 27, 2023, we entered into a Credit Agreement and Guaranty (the "Oaktree Loan") with Oaktree Fund Administration, Lenders (together, "Oaktree"), providing for a loan to us with a principal amount of up to \$100,000,000. Upon entering into the Oaktree Loan, we used \$65,000,000 from the Oaktree Loan and used the net proceeds to repay all amounts owed by us pursuant to the BR Loan (as defined below). No interest, fees or other charges were paid on the BR Loan, and no exit or prepayment fees were paid as a result of the payoff of the BR Loan. The additional principal loan amount of up to \$35,000,000 (the "Tranche B") will be made available to the Company upon the commercialization of TRISENCE.

On July 18, 2023, we entered into the First Amendment to Credit Agreement and Guaranty and Consent (the "Oaktree Amendment"). Under the Oaktree Amendment, the overall credit facility size was increased from \$100,000,000 to \$112,500,000, and we made other changes related to the satisfaction of certain conditions to funding, we drew down a principal amount of \$12,500,000 (the "Loan Increase") on August 1, 2023 to be associated with the Santen Products Acquisition and for other working capital and general corporate purposes. No other material changes to the Oaktree Amendment. Following entry into the Oaktree Amendment and the funding of the Loan Increase upon closing of the Santen Products total principal loan amount of \$77,500,000 under the Oaktree Loan and an additional Tranche B loan amount of up to \$35,000,000 upon commercialization of TRIESENCE, provided, that if Tranche B is not drawn by the Company on or before March 27, 2024, the amount available is \$30,000,000.

The Oaktree Loan is secured by nearly all of the assets, including intellectual property, of the Company and its material subsidiaries. It is due on January 19, 2026 and carries an interest rate equal to the Secured Overnight Financing Rate plus 6.5% per annum. The Oaktree Loan requires quarterly principal payments of \$100,000. There is no amortization of the principal amount or excess cash flow sweeps during the term of the Oaktree Loan.

HROWM – Senior Notes Offering

In December 2022, the Company entered into an underwriting agreement with B. Riley Securities, Inc., as representative of the **s** pursuant to which we agreed to sell \$35,000,000 aggregate principal amount of 11.875% Senior Notes due 2027 (the “2027 Notes”) plus up to **s** principal amount of 2027 Notes pursuant to the option to purchase additional 2027 Notes. In January 2023, the underwriters exercised the **s** \$5,250,000 aggregate principal amount of 2027 Notes.

Acquisition of VEVYE™ U.S. and Canadian Commercial Rights

In July 2023, we acquired commercial rights of launched VEVYE (cyclosporine ophthalmic solution) 0.1%, an ophthalmic drug product (the “VEVYE Acquisition”). VEVYE, which is dispensed topically in a unique ten microliter per one drop and is labeled for twice-daily cyclosporine-based product indicated for water-free cyclosporine dissolved in a semifluorinated alkane approved to treat both the treatment of b disease (DED). VEVYE was approved on May 30, 2023 by the FDA. We acquired the commercial rights to VEVYE by entering into a license (“Novaliq”). As consideration, we made initial payments to Novaliq totaling \$8,000,000 and will pay low double-digit royalties on net sales and commercial milestone payments.

Acquisition of Certain U.S. and Canadian Commercial Rights to Santen and Eyevance Products

In July 2023, we entered into an Asset Purchase Agreement with Eyevance Pharmaceuticals, LLC and a License Agreement with Santen Agreements”), each a subsidiary of Santen Pharmaceuticals Co., Ltd. (collectively, “Santen”). Pursuant to the Santen Agreements, we acquired assets associated with the following ophthalmic products (collectively, the “Santen Products”):

In the U.S.:

- FLAREX® (fluorometholone acetate ophthalmic suspension) 0.1%, a corticosteroid prepared as a sterile topical ophthalmic suspension for steroid-responsive inflammatory conditions of the palpebral and bulbar conjunctiva, cornea, and anterior segment of the eye.
- NATACYN® (natamycin ophthalmic suspension) 5%, a sterile, antifungal drug for the treatment of fungal blepharitis, conjunctivitis, organisms, including Fusarium solani keratitis.
- TOBRADEX® ST (tobramycin and dexamethasone ophthalmic suspension) 0.3%/0.05%, a topical antibiotic and corticosteroid for inflammatory ocular conditions for which a corticosteroid is indicated and where superficial bacterial ocular infection or a risk of bacterial infection is present.
- ZERVIADE® (cetirizine ophthalmic solution) 0.24%, a histamine-1 (H1) receptor antagonist indicated for treatment of ocular itching associated with seasonal allergic conjunctivitis.
- FRESHKOTE®, a preservative-free formulation for temporary relief of symptoms of dry eye.

In the U.S. We partnered with various entities including PhilRx, Apollo Care and Canada:

- VERKAZIA® (cyclosporine ophthalmic emulsion) 0.1%, an orphan designated drug that is a calcineurin inhibitor immunosuppressant indicated for the treatment of keratoconjunctivitis.
- CATIONORM® PLUS, a preservative-free formulation for dry eye or allergy relief.

The transactions pursuant to PARx Solutions to the Santen Agreements are referred to in this Quarterly Report as the “Santen Products A patient access program for VEVYE.

Under the terms of the Santen Agreements, we made an initial one-time payment of \$8,000,000. In addition, the Santen Agreements provide for payments associated with certain manufacturing-related events as well as low-double digit royalty payments on net sales of VERKAZIA and high double digit royalty payments on net sales of CATIONORM PLUS. Under the Santen Agreements, we also assumed certain obligations associated with other third parties including FRESHKOTE and ZERVIATE. Immediately following the closing and subject to certain conditions, prior to the transfer of the Santen Product authorizations to us, Santen continued to sell the Santen Products on our behalf and transfer the net profit from the sale of the Santen Products to us. We expect the transfer of the U.S. NDAs and rights of the Santen Products, and expect Santen to transfer the Canadian marketing authorizations of VERKAZIA to us by March 31, 2024.

Common Stock Offering

In July 2023, we closed a public offering of shares of our common stock at an offering price of \$17.75 per share (the "Offering"). We sold 3,645,200 shares of our common stock in the Offering, resulting in us receiving aggregate net proceeds of \$64,520,000, after deducting underwriting discounts and commissions of \$4,480,000.

B. Riley Loan and Security Agreement – Paid

On December 14, 2022, we entered into a Loan and Security Agreement (the "BR Loan") with B. Riley Commercial Capital, LLC, as from time to time party thereto. The proceeds of the Loan were used to finance the Fab 5 Acquisition.

The BR Loan provided for a loan facility of up to \$100,000,000 to the Company with a maturity date of December 14, 2025, at an interest rate of 10.00%. The BR Loan was secured by an intellectual property security agreement and by all assets of the Company and its material subsidiaries. In January 2023, we repaid the BR Loan simultaneously with the consummation of the Fab 5 Acquisition, and subsequently paid back the BR Loan in March 2023 at the rate of 10.00%. No remaining amounts are due under the BR Loan, and no exit or prepayment fees were paid as a result of the payoff of the BR Loan.

Results of Operations

The following period-to-period comparisons of our financial results for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 are not necessarily indicative of results for any future period.

Revenues

Our revenues include amounts recorded from sales of proprietary compounded formulations, sales of branded products to wholesalers that are not necessarily indicative of results for any future period.

The following presents our revenues for the three and nine months ended September 30, 2023 March 31, 2024 and 2022:

	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2023	2022	\$ Variance	September 30, 2023	2022
Product sales, net	\$ 31,809,000	\$ 21,575,000	\$ 10,234,000	\$ 81,804,000	\$ 654,000
Commission revenues	-	1,044,000	(1,044,000)	-	-
Transfer of profits/sales	2,456,000	204,000	2,252,000	12,034,000	1,896,000
Total revenues	\$ 34,265,000	\$ 22,823,000	\$ 11,442,000	\$ 93,838,000	\$ 6,272,000
For the Three Months Ended					
March 31,					
Product sales, net	\$ 34,508,000	\$ 20,456,000	\$ 5,652,000	\$ 26,103,000	\$ 5,652,000
Other revenues	79,000	5,652,000	73,398,000	5,652,000	5,652,000
Total revenues	\$ 34,587,000	\$ 20,456,000	\$ 5,652,000	\$ 26,103,000	\$ 5,652,000

The increase in revenues between periods was related to an increase in sales of our branded ophthalmology products, as well as an increase in sales of our non-ophthalmology compounded products. The Company recorded \$5,650,000 in revenues associated with the transfer of profits of recently acquired products sales and profits related to the transfer of profits ("NDAs") had not yet transferred to the Fab 5 Acquisition and Santen Products Acquisition. This increase in 2023 was offset slightly by a decrease in sales of DEXYCU® (which agreement terminated January 1, 2023) and a decrease in sales from our non-ophthalmology compounded products in the fourth quarter of 2022. During the three and nine months ended September 30, 2023 March 31, 2024, revenues including transfer of profits from branded products totaled \$14,496,000 and \$33,863,000, respectively, as compared to \$13,868,000, compared to \$654,000 and \$1,896,000 \$6,272,000 in transfer of profits during the same periods period in the prior year, respectively.

year.

Cost of Sales

Our cost of sales includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, storage, royalties, shipping and handling costs, manufacturing equipment and tenant improvements depreciation, the write-off of obsolete inventories, NDAs, and other related expenses.

The following presents our cost of sales for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Cost of sales	<u>\$ 10,067,000</u>	<u>\$ 6,721,000</u>	<u>\$ 3,346,000</u>	<u>\$ 28,338,000</u>		
For the Three Months Ended March 31,						
Cost of sales	<u>\$ 10,553,000</u>	<u>\$ 8,271,000</u>	<u>\$ 2,282,000</u>	<u>\$ 24,774,000</u>	<u>\$ 20,292,000</u>	<u>\$ 4,482,000</u>

The increase in our cost of sales was largely attributable to the amortization of acquired product NDAs and product licenses which totalled the three and nine months ended September 30, 2023, respectively, compared to \$341,000 and \$1,023,000 during the prior year periods, respectively. The increase in cost of sales was also driven by increased direct and indirect costs associated with production of our products.

Gross Profit and Margin

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			For the Three Months Ended March 31, 2024
	2023	2022	Variance	2023	2022	Variance	
	<u>\$ 24,198,000</u>	<u>\$ 16,102,000</u>	<u>\$ 8,096,000</u>	<u>\$ 65,500,000</u>	<u>\$ 49,048,000</u>	<u>\$ 16,452,000</u>	
Gross profit							<u>\$ 24,034,000</u>
Gross margin	70.62 %	70.55 %	0.07 %	69.80 %	71.85 %	(2.05) %	69.49 %

The decrease in gross margin between the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was primarily driven by acquired NDAs from the Fab 5 Acquisition, beginning an increase in January 2023. sales associated with our branded ophthalmology products, margin profile than our compounded products.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses include personnel costs, including wages and stock-based compensation, corporate facility consulting, insurance, filing, legal and accounting fees and expenses as well as costs associated with our marketing activities and sales of our products and other non-proprietary pharmacy products and formulations.

The following presents our selling, general and administrative expenses for the three and nine months ended **September 30, 2023** **March 31, 2024**

	For the Three Months Ended			For the Nine Months Ended		
	September 30,		\$	September 30,		\$
	2023	2022	Variance	2023	2022	
Selling, general and administrative	\$ 21,033,000	\$ 15,421,000	\$ 5,612,000	\$ 56,878,000	\$ 45,888,000	\$ 11,000,000
For the Three Months Ended						
March 31,						
	2024	2023				
Selling, general and administrative	\$ 28,813,000	\$ 15,888,000	\$ 12,925,000	\$ 84,701,000	\$ 70,788,000	\$ 14,000,000

The increase in selling, general and administrative expenses between periods was primarily attributable to an increase in stock-based compensation expense of \$1,521,000 and \$11,521,000 for the three and nine months ended September 30, 2023, respectively, compared to the prior year periods, including new executive stock units granted in April 2023. Other areas of increased expenses included regulatory enhancements, costs to support the transition of recent product launches, and expenses related to the addition of new employees in sales, marketing and other departments to support current and expected growth, including the acquisition of IHEEZO VEVYE in April December 2023.

In addition, stock-based compensation expense increased by \$2,260,000 for the three months ended March 31, 2024, compared to the prior year increase.

Research and Development Expenses

Our research and development ("R&D") expenses primarily include personnel costs, including wages and stock-based compensation, of intellectual property, investigator-initiated research and evaluations, formulation development, acquired in-process R&D and other costs related assets.

The following presents our research and development expenses for the three and nine months ended September 30, 2023 March 31, 2024.

	For the Three Months Ended September 30,			For the Nine Months Ended March 31,	
	2023	2022	\$ Variance	2023	2024
Research and development	<u>\$ 1,421,000</u>	<u>\$ 775,000</u>	<u>\$ 646,000</u>	<u>\$ 3,316,000</u>	<u>\$ 731,000</u>
	For the Three Months Ended March 31,			For the Nine Months Ended March 31,	
	2024	2023		2023	2024
Research and development	<u>\$ 2,149,000</u>	<u>\$ 731,000</u>	<u>\$ 1,418,000</u>	<u>\$ 3,316,000</u>	<u>\$ 731,000</u>

The increase in R&D expenses between periods was primarily attributable to increased activity related to our expanded branded product development efforts, product launches, clinical and medical support.

Interest Expense, Net

Interest expense, net was \$5,749,000 and \$16,200,000 \$5,415,000 for the three and nine months ended September 30, 2023 March 31, 2024 \$1,800,000 and \$5,386,000 \$4,747,000 for the same periods period in 2022, respectively. 2023. The increase during the periods period ended compared to the same periods period in 2022 2023 was primarily due to the result of an increase in the outstanding principal amount of our debt issuance costs.

Equity in Losses of Unconsolidated Entities

During the three and nine months ended September 30, 2023, we recorded a loss of \$0, related to our share of losses in Melt, compared to the same periods in 2022, respectively, as the Company reduced the carrying value of its investment in Melt to \$0 at the end of 2022. obligations.

Investment (Loss) Gain (Loss) from Eton

During the three and nine months ended September 30, 2023 March 31, 2024, we recorded a gain loss of \$1,348,000 and \$2,676,000, respectively, the change in fair market value of Eton's common stock compared to losses a gain of \$(1,031,000) and \$(4,341,000) \$2,042,000 for 2023, respectively.

Loss on Extinguishment of Debt

During the nine three months ended September 30, 2023 March 31, 2023, we recorded a loss on extinguishment of debt of \$5,465,000. Loan, a loan.

Other Expense, Income, Net

During the three and nine months ended September 30, 2023 March 31, 2024, we recorded other expense, net income of \$195,000 \$26,000 and \$344,000, respectively, related primarily to transition services and write-off of inventories associated with the divestment of our non-operating Nashville.

Tax Expense

During the three and nine months ended September 30, 2023, we recorded income tax expense of \$1,539,000 and \$1,236,000, respectively, compared to \$1,539,000 and \$1,236,000, respectively, during the same periods in 2022, respectively.

Liquidity and Capital Resources

Liquidity

Our cash and cash equivalents on hand at **September 30, 2023** **March 31, 2024** was \$65,610,000, **\$68,538,000**, compared to **\$96,275,000** **December 31, 2023**.

As of the date of this Quarterly Report, we believe that cash and cash equivalents of **\$65,610,000** **\$68,538,000** at September 30, 2023, **proceeds received from the sale of our Eton investment in April 2024**, will be sufficient to sustain our planned level of operations and capital expenditures for the next 12 months. In addition, we may consider the sale of certain assets including, but not limited to, part of, or all of, our investments in Eton, Surface Melt, Melt and any of our consolidated subsidiaries. However, we may pursue acquisitions of revenue generating products, or drug candidates, which may involve large expenditures or we may experience growth more rapidly or on a larger scale than we expect, any of which could result in the company's cash and cash equivalents being used more rapidly than anticipated and could require us to seek additional financing to support our operations.

We expect to use our current cash position and funds generated from our operations and any financing to pursue our business plan of commercializing drug candidates, compounded formulations and technologies, integrating and developing our operations, pursuing potential opportunities arise, including potential acquisitions of additional drug products, drug candidates, and/or assets or technologies, pharmacies, outside manufacturers, and otherwise fund our operations. We may also use our resources to conduct clinical trials or other studies in support of our for which we pursue FDA approval, to pursue additional development programs or to explore other development opportunities.

Net Cash Flow

The following provides detailed information about our net cash flows for the **nine** three months ended **September 30, 2023** **March 31, 2024**

	For the Nine Months Ended
	March 31, 2023
Net cash (used in) provided by operating activities	\$ (4,856,000)
Net cash used in investing activities	(152,350,000)
Net cash provided by (used in) financing activities	126,546,000
Net (decrease) increase in cash and cash equivalents	(30,660,000)
Cash and cash equivalents at beginning of the period	96,270,000
Cash and cash equivalents at end of the period	\$ 65,610,000

	For the Three Months Ended	
	March 31, 2024	
Net cash (used in) provided by:		
Operating activities	\$ (4,628,000)	\$
Investing activities	(110,000)	
Financing activities	(809,000)	
Net change in cash and cash equivalents	(5,547,000)	
Cash and cash equivalents at beginning of the period	74,085,000	
Cash and cash equivalents at end of the period	\$ 68,538,000	\$

Operating Activities

Net cash (used in) provided by used in operating activities during the **nine** three months ended **September 30, 2023** **March 31, 2024** was \$5,417,000 (\$8,214,000) to cash provided by operating activities of \$5,417,000 (\$8,214,000) during the same period in the prior year. The increase decrease in net cash used periods was mainly attributed to an increase in revenues during 2023 and a decrease of \$12,287,000 \$8,396,000 in accounts receivable related to product sales collections during the **nine** three months ended **September 30, 2023** **March 31, 2024** compared to an increase of \$2,309,000 \$5,202,2023. The increase in net cash used in operating activities in 2023 was also attributed impacted due to an increase in inventory level associated with the commercial launch of IHEEZO, product acquisitions and integrations and increased costs of goods sold.

Investing Activities

Net cash used in investing activities during the **nine** three months ended **September 30, 2023** **March 31, 2024** was \$(152,350,000) \$(130,970,000) during the same period in the prior year. Cash used in investing activities in 2023 was primarily associated with related Products Acquisition and VEVYE Acquisition, acquisition of five branded products which closed in January 2023. Cash used in investing activities associated with related to equipment and software purchases.

Financing Activities

Net cash provided by (used in) financing activities during the nine months ended September 30, 2023 and 2022 was \$126,546,000 provided by financing activities during the **nine** three months ended September 30, 2023 **March 31, 2024** and 2023 was primarily related to proceeds from 2027 Notes, the Oaktree Loan \$809,000 and Oaktree Amendment, and the Offering, offset by payment of payroll taxes upon vesting of PSUs issued to employees. \$62,162,000, respectively. Cash used in financing activities during the **nine** three months ended **September 30, 2022** **March 31, 2024** payroll taxes upon vesting of RSUs in exchange for shares withheld from the employee. employees. Cash provided by financing activities during 2023 was primarily related to proceeds received from the sale of the notes and entering into loan arrangements, offset by payment of payroll equity instruments in exchange for shares withheld from employees.

Sources of Capital

Our principal sources of cash consist of cash provided by operating activities, and in 2022 and 2023, proceeds from the sale of the 2027 Loan and Oaktree Amendment. activities. We may also sell some or all of our ownership interests in Surface, Melt or our other subsidiaries, a portion of our Eton common stock.

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subsidiaries.

We may acquire new products, product candidates and/or businesses and, as a result, we may need significant additional capital to support proposed business operations. We may receive additional proceeds from the exercise of stock purchase warrants that are currently outstanding from a variety of sources, including other equity or debt financings, funding from corporate partnerships or licensing arrangements, a transaction. If we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience substantial dilution. Debt securities may have more favorable terms or rights, preferences and privileges senior to those of our existing stockholders. If we raise additional debt on terms that are not favorable to us. If we raise funds by incurring additional debt, we may be required to pay significant interest expense. Earnings or to our equity capitalization may increase. Obtaining commercial loans, assuming they would be available, would increase our liabilities and may impose restrictions on our activities, such as the financial and operating covenants. Further, we may incur substantial costs in pursuing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also incur expenses in connection with certain securities we may issue, such as convertible notes and warrants, which would adversely impact our financial performance.

We may be unable to obtain financing when necessary as a result of, among other things, our performance, general economic condition and pharmaceutical industries, or our operating history, including our past bankruptcy proceedings. In addition, the fact that we have a limited history of the availability or cost to us of future financings. As a result, sufficient funds may not be available when needed from any source or, if available, on terms that are acceptable to us. If we are unable to raise funds to satisfy our capital needs when needed, then we may need to forego pursuit of acquisition opportunities, we may not be able to continue to operate our business pursuant to our business plan, which would require us to modify to a sustainable level by, among other things, delaying, scaling back or eliminating some or all of our ongoing or planned investments in research and development, sales and marketing and other activities, or we may be forced to discontinue our operations entirely.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as they existed on **September 30, 2023**. After evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 2024**, the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period ended **March 31, 2024**, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

See Note **16.14** to our unaudited condensed consolidated financial statements included in this Quarterly Report for information on incorporated into this Item by reference.

Item 1A. Risk Factors

*In addition to the other information contained in this Quarterly Report you should consider the risk factors and the other information for the year ended **December 31, 2022** **December 31, 2023**, including our audited financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” If any such risks actually occur, our business, financial condition, results of operations and future prospects could be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.*

Our sales depend on coverage and reimbursement from government and commercial third-party payers, and pricing and reimbursement proposals to continue to affect, our profitability.

Sales of our branded products depend on the availability and extent of coverage and reimbursement from third-party payers, including governments and private insurance plans. Governments and private payors continue to pursue initiatives to manage drug utilization and contain costs. Further, particularly in the United States, the economic downturn and inflation continue and are likely to increase across the markets we serve. Payors are increasingly focused on the price of drugs and other healthcare costs, together with payor dynamics, have limited, and are likely to continue to limit, our ability to sell products based on their value, which can have a material adverse effect on our business. In the United States, particularly over the past few years, proposals have been introduced and/or signed into law that attempt to lower drug prices. These include legislation promulgated by the IRA that limits prices for certain drugs in Medicare, redesigns Medicare Part D benefits to shift a greater portion of the costs to manufacturers, and enables the U.S. government to negotiate drug prices if drug prices are increased at a rate faster than inflation in addition to rebates imposed on manufacturers associated with drug waste (which is known as the “TRIENCE”). Additional proposals focused on drug pricing continue to be debated, and additional executive orders focused on drug pricing have been adopted and implemented in some form. Government actions or ballot initiatives at the state level also represent a highly active area of policymaking, particularly in the United States, that may pursue proposals that limit drug reimbursement under state-run Medicaid programs based on reference prices or permitting importation of drugs from other countries. Such proposals may also eventually be adopted at the federal level. Relatedly, despite IHEEZO being issued a J-Code for physician-office billing, CMS has an interpretation that it is not allowed for the separate billing of anesthesia services in the physician’s office, which could be viewed in conflict with in-office applications. Because our application for a J-Code for IHEEZO specifically disclosed the likely significant utilization of IHEEZO in the physician’s office setting, along with additional communications to this effect, we intend to request that CMS clarify that J-Code 2403, IHEEZO’s permanent J-Code for anesthesia itself (i.e., IHEEZO in our case) in the physician’s office setting. If CMS disagrees with our position, it is possible the separate reimbursement for IHEEZO will be limited to the surgical setting only (e.g., ASCs).

We cannot predict which or how many policy, regulatory, administrative, or legislative changes may ultimately be or effectively estimated if, enacted and implemented. However, to the extent that payer actions further decrease or modify the coverage or reimbursement available for our products, or if CMS clarifies that J-Code 2403 is not allowed for the separate billing of anesthesia services in the physician’s office, which could be viewed in conflict with in-office applications. Because our application for a J-Code for IHEEZO specifically disclosed the likely significant utilization of IHEEZO in the physician’s office setting, along with additional communications to this effect, we intend to request that CMS clarify that J-Code 2403, IHEEZO’s permanent J-Code for anesthesia itself (i.e., IHEEZO in our case) in the physician’s office setting. If CMS disagrees with our position, it is possible the separate reimbursement for IHEEZO will be limited to the surgical setting only (e.g., ASCs).

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

None.

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Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to the Current Report filed with the Securities and Exchange Commission on September 29, 2023).
3.2	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K of the Company filed with the Securities and Exchange Commission on September 29, 2023).
10.1	First Third Amendment to Credit License and Supply Agreement dated February 6, 2024 between Harrow IP, LLC and Guaranty between the Company and Oaktree Fund Administration, LLC Sintetica S.A. (incorporated herein by reference to Exhibit 10.1 to Form 10-Q 10-K for the year ended December 31, 2023 of the Company filed with the Securities and Exchange Commission on April 10, 2024).
10.2*	Second Amendment to License and Supply Agreement, dated August 4, 2023, between Harrow IP, LLC and Sintetica S.A.
31.1*	Certification of Mark L. Baum, principal executive officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Andrew R. Boll, principal financial and accounting officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the principal executive officer, and Andrew R. Boll, principal financial and accounting officer.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are contained within the document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 , has been filed herewith.

*

Filed herewith.

**

Furnished herewith.

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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 authorized.

Harrow, Inc.

Dated: November 13, 2023 May 13, 2024

By: */s/ Mark L. Bai*

/s/ Mark L. Bai

Mark L. Baur

Chief Executive Officer

(Principal Executive

Andrew R. Bc

Part 1 (Principal Financial Statement)

Chief Financial Officer (Principal Financial Officer)

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SECOND AMENDMENT TO LICENSE AND SUPPLY AGREEMENT

This Second Amendment (the “Second Amendment”) is made and entered into as of the 4th day of August, 2023 (the “Second Amendment Date”) between Sintetica S.A., a Swiss corporation having its principal place of business at Via Penate 5, 6850 Mendrisio, Switzerland, (“Sintetica”) limited liability company having its principal place of business at 102 Woodmont Blvd., Suite 610, Nashville, TN 37205 USA, (“Harrow”). Sintetica and Harrow are referred to herein individually as a “Party” and collectively as the “Parties.”

WHEREAS Sintetica and Harrow previously entered into a License and Supply Agreement with a Signing Date of July 25, 2021, as a “Agreement”;

WHEREAS Harrow wishes to pay Sintetica and Sintetica wishes to receive from Harrow the milestone payments for Milestone Number 1 advance and at a discounted amount; and

WHEREAS, Sintetica and Harrow desire to amend the Agreement as set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and with the parties hereby agree as follows:

1. All capitalized terms used in this Second Amendment but not defined shall have the meanings ascribed to them under the terms of the ~~Agreement~~.
 2. Replace Section 7.2(d) in its entirety with the following:

(d) As of the Second Amendment Effective Date, Harrow has paid to Sintetica and Sintetica has received from Harrow the milestone 7.2(a)(i) and 7.2(a)(ii)(a), and the conditions for payment of Milestone Numbers 7.2(a)(ii)(b) and 7.2(a)(ii)(c) are deemed to have been satisfied. Harrow shall pay to Sintetica an amount equal to four million four hundred fifty thousand dollars (\$4,450,000.00) for full satisfaction of Milestone Numbers 7.2(a)(ii)(b) and 7.2(a)(ii)(c) ("Final Milestone Payment"). Once Sintetica receives the Final Milestone Payment, from Harrow to Sintetica pursuant to Section 7.2.
 3. Replace Section 11.7(v) in its entirety with the following:

(v) Notwithstanding 11.7(iii), for any and all terminations by Sintetica under Section 11.2, or Section 11.3, Section 11.6(a), Section 11.7, due in accordance with Section 7.2(a)(ii)(b) and Section 7.2(a)(ii)(c), if not already paid, shall become immediately due and payable, as if not already paid, set forth in Section 7.2 if Sintetica has already made the PDUFA filing fee payment pursuant to Section 4.2.
 4. Replace Section 11.7(vi) in its entirety with the following:

(vi) Harrow shall have the right to sell or otherwise dispose of any inventory of the Product on hand at the time of such termination payments to Sintetica in accordance with Section 7.2(a)(ii)(b) and Section 7.2(a)(ii)(c) or Section 7.4, if not already paid.
 5. In all other respects, the terms and conditions of the Agreement will remain in full force and effect as written; provided, however, the Second Amendment will control over the terms and conditions of the Agreement to the extent there are any inconsistencies between the ~~Agreement~~.

Page 1 of 2

IN WITNESS WHEREOF, the Parties have executed this Second Amendment as of the Second Amendment Effective Date.
SINTETICA S.A.

By: /s/ Nicola Caronzolo

Name: Nicola Caronzolo

Title: Corporate CEO

SINTETICA S.A.

By: /s/ Luca Casella

Name: Luca Casella

Title: Corporate CFO

HARROW IP LLC

By: /s/ Andrew Boll

Name: Andrew Boll

Title: CFO

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CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark L. Baum, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Harrow, 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 the understanding 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 results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and I have:

 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly where appropriate to the preparation of the required financial statements, whether prepared by us or by others;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes according to generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about whether or not these controls and procedures are effective, based on our evaluation as of the end of the period covered by this report; and
 - d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to 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, if not remedied, could result in material misstatements in our financial statements or affect our 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 financial reporting.

Date: November 13, 2023 May 13, 2024

/s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer
Principal Executive Officer

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Andrew R. Boll, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Harrow, 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 the understanding 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 results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 such controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in the report any change in this registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's management, 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 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 financial reporting.

Date: November 13, 2023 May 13, 2024

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION REQUIRED BY
SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his capacity as the **sp** ("Company"), that, to the best of his knowledge, the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended **September 30**, with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements.

Date: November 13, 2023 May 13, 2024

/s/ Mark L. Baum

Mark L. Baum *Chief Executive Officer*
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2023 May 13, 2024

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer
Chief Financial Officer
Principal Financial and Accounting Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

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