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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019

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: 001-38738

ETON PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**37-1858472**
(State of incorporation)	**(I.R.S. Employer Identification Number)**

21925 W. Field Parkway, Suite 235
Deer Park, Illinois 60010-7208
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (847) 787-7361

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
		Emerging growth company	[X]

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. [X]

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

As of July 31, 2019, Eton Pharmaceuticals, Inc. had outstanding 17,763,045 shares of common stock, $0.001 par value.

Eton Pharmaceuticals, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Eton Pharmaceuticals, Inc.
Condensed Balance Sheets
(in thousands, except share and per share amounts)

	June 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 14,947	$ 26,735
Prepaid expenses & other current assets	1,808	767
Total current assets	**16,755**	**27,502**
Property and equipment, net	1,223	773
Operating lease right-of-use assets, net	222	—
Other long-term assets, net	44	52
Total assets	**$ 18,244**	**$ 28,327**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 883	$ 1,421
Accrued liabilities	576	603
Total current liabilities	**1,459**	**2,024**
Operating lease liabilities, net of current portion	86	—
Total liabilities	**1,545**	**2,024**
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, $0.001 par value; 50,000,000 shares authorized as of June 30, 2019 and December 31, 2018; 17,763,045 and 17,607,928 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	18	18
Additional paid-in capital	73,208	72,153
Accumulated deficit	(56,527)	(45,868)
Total stockholders' equity	**16,699**	**26,303**
Total liabilities and stockholders' equity	**$ 18,244**	**$ 28,327**

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

Eton Pharmaceuticals, Inc.
Condensed Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Revenue	**$ —**	**$ —**	**$ 500**	**$ —**
Operating expenses:				
Research and development	1,439	1,707	7,904	2,981
General and administrative	1,910	990	3,499	2,680
Total operating expenses	**3,349**	**2,697**	**11,403**	**5,661**
Loss from operations	**(3,349)**	**(2,697)**	**(10,903)**	**(5,661)**
Other income (expense):				
Interest and other income, net	100	28	244	57
Change in fair value of warrant liability	—	(413)	—	(496)
Loss before income tax expense	**(3,249)**	**(3,082)**	**(10,659)**	**(6,100)**
Income tax expense	—	—	—	—
Net loss	**(3,249)**	**(3,082)**	**(10,659)**	**(6,100)**
Accrued dividends on redeemable convertible preferred stock	—	(304)	—	(600)
Deemed dividends for accretion of redeemable convertible preferred stock issuance costs	—	(418)	—	(828)
Net loss attributable to common stockholders	**$ (3,249)**	**$ (3,804)**	**$ (10,659)**	**$ (7,528)**
Net loss per share attributable to common stockholders, basic and diluted	**$ (0.18)**	**$ (0.79)**	**$ (0.61)**	**$ (1.80)**
Weighted average number of common shares outstanding, basic and diluted	17,733	4,786	17,618	4,172

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

Eton Pharmaceuticals, Inc.
Condensed Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
For the three months ended June 30, 2019 and 2018
(in thousands, except share amounts)
(Unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balances at March 31, 2019	—	$ —	**17,627,928**	**$ 18**	**$ 72,502**	**$ (53,278)**	**$ 19,242**
Stock-based compensation	—	—	—	—	505	—	505
Stock option exercises	—	—	70,000	—	73	—	73
Employee stock purchase plan	—	—	23,083	—	128	—	128
Stock warrant exercises	—	—	42,034	—	—	—	—
Net loss	—	—	—	—	—	(3,249)	(3,249)
Balances at June 30, 2019	—	$ —	**17,763,045**	**$ 18**	**$ 73,208**	**$ (56,527)**	**$ 16,699**

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balances at March 31, 2018	**6,685,082**	**$ 19,710**	**6,218,980**	**$ 6**	**$ 2,809**	**$ (12,363)**	**$ (9,548)**
Stock-based compensation	—	—	—	—	416	—	416
Accrued dividends on redeemable convertible preferred stock	—	304	—	—	—	(304)	(304)
Deemed dividends for accretion of redeemable convertible preferred stock issuance costs	—	418	—	—	—	(418)	(418)
Net loss	—	—	—	—	—	(3,082)	(3,082)
Balances at June 30, 2018	**6,685,082**	**$ 20,432**	**6,218,980**	**$ 6**	**$ 3,225**	**$ (16,167)**	**$ (12,936)**

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

Eton Pharmaceuticals, Inc.
Condensed Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
For the six months ended June 30, 2019 and 2018
(in thousands, except share amounts)
(Unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balances at December 31, 2018	—	$ —	**17,607,928**	**$ 18**	**$ 72,153**	**$ (45,868)**	**$ 26,303**
Stock-based compensation	—	—	—	—	850	—	850
Stock option exercises	—	—	90,000	—	77	—	77
Employee stock purchase plan	—	—	23,083	—	128	—	128
Stock warrant exercises	—	—	42,034	—	—	—	—
Net loss	—	—	—	—	—	(10,659)	(10,659)
Balances at June 30, 2019	—	$ —	**17,763,045**	**$ 18**	**$ 73,208**	**$ (56,527)**	**$ 16,699**

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balances at December 31, 2017	**6,685,082**	**$ 19,004**	**6,000,000**	**$ 6**	**$ 1,759**	**$ (8,639)**	**$ (6,874)**
Stock-based compensation	—	—	218,980	—	1,466	—	1,466
Accrued dividends on redeemable convertible preferred stock	—	600	—	—	—	(600)	(600)
Deemed dividends for accretion of redeemable convertible preferred stock issuance costs	—	828	—	—	—	(828)	(828)
Net loss	—	—	—	—	—	(6,100)	(6,100)
Balances at June 30, 2018	**6,685,082**	**$ 20,432**	**6,218,980**	**$ 6**	**$ 3,225**	**$ (16,167)**	**$ (12,936)**

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

Eton Pharmaceuticals, Inc.
Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities		
Net loss	$ (10,659)	$ (6,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	850	1,466
Depreciation and amortization	178	23
Change in fair value of warrant liability	—	496
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,052)	(304)
Accounts payable	(69)	329
Accrued liabilities	(211)	12
Net cash used in operating activities	**(10,963)**	**(4,078)**
Cash used in investing activities		
Purchases of property and equipment	**(1,030)**	**(132)**
Cash flows from financing activities		
Proceeds from employee stock purchase plan and stock option exercises	205	—
Net cash provided by financing activities	**205**	—
Change in cash and cash equivalents	**(11,788)**	**(4,210)**
Cash and cash equivalents at beginning of period	26,735	13,156
Cash and cash equivalents at end of period	$ 14,947	$ 8,946
Supplemental disclosures of cash flow information		
Cash paid for interest	$ —	$ —
Cash paid for income taxes	$ —	$ —
Supplemental disclosures of non-cash investing and financing activities:		
Accrued dividends on redeemable convertible preferred stock	$ —	$ 600
Deemed dividends for accretion of redeemable convertible preferred stock issuance costs	$ —	$ 828

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

Eton Pharmaceuticals, Inc.
Notes to Condensed Financial Statements
(in thousands, except share and per share amounts)
(Unaudited)

Note 1 — Company Overview

Eton Pharmaceuticals, Inc. ("Eton" or the "Company") was incorporated as a Delaware corporation on April 27, 2017 and was initially set up as a wholly owned subsidiary of Harrow Health, Inc. or "Harrow" (fka Imprimis Pharmaceuticals, Inc.)

Eton raised $20,055 in start-up capital through the sale of its Series A redeemable convertible preferred stock ("Series A Preferred") in June 2017, and a separate management team was then established for Eton with its corporate offices located in Deer Park, Illinois. Eton is a specialty pharmaceutical company focused on developing and commercializing prescription drug products utilizing the U.S. Food and Drug Administration's (the "FDA") 505(b)(2) regulatory pathway. The Company's business model is to develop proprietary innovative product candidates that offer commercial and/or functional advantages to currently available alternatives.

In November 2018, the Company completed an initial public offering (the "IPO"), selling 4,140,000 shares of its common stock at an offering price of $6.00 per share, including the underwriter's exercise in full of its option to purchase additional shares. The Company received net proceeds of $21,960, after deducting underwriting discounts and commissions and offering-related expenses.

Note 2 — Liquidity Considerations

As of June 30, 2019, the Company had an accumulated deficit of $56,527 and for the six months ended June 30, 2019, the Company had net cash used in operating activities of $10,963.

To date, the Company has generated limited revenues and does not anticipate generating significant revenues unless and until it successfully completes development and obtains regulatory approval for one or more of its product candidates. The Company has incurred negative cash flows from operating activities since its inception in 2017. The Company currently believes its existing cash and cash equivalents of $14,947 will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next twelve months from the date of issuance of these financial statements. This estimate is based on the Company's current assumptions, including assumptions relating to its ability to manage its spending. The Company could use its available capital resources sooner than currently expected. Accordingly, the Company could seek to obtain additional capital through equity financings, the sale of debt or other arrangements. However, there can be no assurance that the Company will be able to raise additional capital if needed or under acceptable terms, if at all. The sale of additional equity may dilute existing stockholders and newly issued shares may contain senior rights and preferences compared to currently outstanding common shares. Issued debt securities may contain covenants and limit the Company's ability to pay dividends or make other distributions to stockholders. If the Company is delayed in completing its product development and obtaining regulatory approval for its product candidates and is unable to obtain such additional financing, operations would need to be scaled back or discontinued.

Note 3 — Summary of Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Unaudited Interim Financial Information

The accompanying interim condensed financial statements are unaudited and have been prepared on the same basis as the audited financial statements and, in the opinion of management, reflect all adjustments necessary for the fair presentation of the Company's financial position as of June 30, 2019 and the results of its operations and its cash flows for the periods ended June 30, 2019 and 2018. The financial data and other information disclosed in these notes related to the three and six-month periods ended June 30, 2019 and 2018 are also unaudited. The results for the six-month period ended June 30, 2019 are not necessarily indicative of results to be expected for the year ending December 31, 2019, any other interim periods or any future year or period.

Note 3 — Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions reflected in these condensed financial statements include, but are not limited to, the accrual of research and development expenses and the valuation of common stock, stock options, warrants and derivative instruments. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates or assumptions.

Segment Information

The Company operates the business on the basis of a single reportable segment, which is the business of developing and commercializing prescription drug products. The Company's chief operating decision-maker is the Chief Executive Officer ("CEO"), who evaluates the Company as a single operating segment.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. All cash and cash equivalents are held in U.S. financial institutions. Cash equivalents consist of an interest-bearing checking account. From time to time, amounts deposited exceed federally insured limits. The Company believes the associated credit risk to be minimal.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed utilizing the straight-line method based on the following estimated useful lives. Computer software and hardware is depreciated over three years. Equipment, furniture and fixtures is depreciated over five years. Leasehold improvements are amortized over their estimated useful lives or the remaining lease term, whichever is shorter. Construction in progress is capitalized but not depreciated until it is placed into service.

Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the Company's statements of operations for the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment has been recognized since the Company's inception in 2017.

Classification and Accretion of Redeemable Convertible Preferred Stock

Prior to the Company's IPO in November 2018, the Company had classified the Series A Preferred outside of stockholders' equity (deficit) because the shares contained certain redemption features that were not solely within the control of the Company. The carrying value of the Series A Preferred was accreted to its redemption value from the date of issuance through November 15, 2018, the date of the IPO. In conjunction with the IPO, the Series A Preferred, including accrued and unpaid dividends, automatically converted to shares of the Company's common stock (see Note 6).

Note 3 — Summary of Significant Accounting Policies (continued)

Revenue Recognition for Contracts with Customers

The Company intends to generate its future revenues from direct sales of its products in development which typically require advance review and approval by the FDA. Additionally, the Company anticipates it will receive revenues from product licensing agreements where it has contracted for milestone payments and royalties from products it has developed or for which it has acquired the rights to a product developed by a third party.

The Company accounts for contracts with its customers in accordance with Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Arrangements that include rights to additional goods or services that are exercisable at a customer's discretion are generally considered options. The Company assesses whether these options provide a material right to the customer and, if so, they are considered performance obligations. The exercise of a material right is accounted for as a contract modification for accounting purposes.

The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) each performance obligation is satisfied at a point in time or over time, and if over time this is based on the use of an output or input method. Any amounts received prior to revenue recognition will recorded as deferred revenue. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date will be classified as current portion of deferred revenue in the Company's balance sheets. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as long-term deferred revenue, net of current portion.

Milestone Payments – If a commercial contract arrangement includes development and regulatory milestone payments, the Company will evaluate whether the milestone conditions have been achieved and if it is probable that a significant revenue reversal would not occur before recognizing the associated revenue. Milestone payments that are not within the Company's control or the licensee's control, such as regulatory approvals, are generally not considered probable of being achieved until those approvals are received.

Royalties – For arrangements that include sales-based royalties, including milestone payments based on a level of sales, which are the result of a customer-vendor relationship and for which the license is deemed to be the predominant item to which the royalties relate, the Company will recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied or partially satisfied. To date, the Company has not recognized any royalty revenue resulting from any of its licensing arrangements.

Significant Financing Component – In determining the transaction price, the Company will adjust consideration for the effects of the time value of money if the expected period between payment by the licensees and the transfer of the promised goods or services to the licensees will be more than one year.

Note 3 — Summary of Significant Accounting Policies (continued)

Research and Development Expenses

Research and development ("R&D") expenses include both internal R&D activities and external contracted services. Internal R&D activity expenses include salaries, benefits and stock-based compensation and other costs to support the Company's R&D operations. External contracted services include product development efforts including certain product licensor milestone payments, clinical trial activities, manufacturing and control-related activities and regulatory costs. R&D expenses are charged to operations as incurred. The Company reviews and accrues R&D expenses based on services performed and relies upon estimates of those costs applicable to the stage of completion of each project. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from the Company's estimates.

Upfront payments and milestone payments made for the licensing of technology are expensed as R&D in the period in which they are incurred. Nonrefundable advance payments for goods or services to be received in the future for use in R&D activities are recorded as prepaid expenses and are expensed as the related goods are delivered or the services are performed.

Earnings (Loss) Per 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 Series A Preferred, unvested restricted stock, stock options and warrants, outstanding during the period. Common stock equivalents are excluded from the computation where their inclusion would be anti-dilutive. No such adjustments were made for the three-month or six-month periods ended June 30, 2019 or 2018 as the Company reported a net loss for these periods and including the effects of common stock equivalents in the diluted EPS calculation would have been antidilutive (see Note 10).

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of ASC 718 Compensation — Stock Compensation. The guidance under ASC 718 requires companies to estimate the fair value of the stock-based compensation awards on the date of grant and record expense over the related service periods, which are generally the vesting period of the equity awards. The Company estimates the fair value of stock-based option awards using the Black-Scholes-Merton option-pricing model ("BSM"). The BSM requires the input of subjective assumptions, including the expected stock price volatility, the calculation of expected term, forfeitures and the fair value of the underlying common stock on the date of grant, among other inputs. The risk-free interest rate was determined from the implied yields for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options or warrants. Dividends on common stock are assumed to be zero for the BSM valuation of the stock options. The expected term of stock options granted is based on vesting periods and the contractual life of the options. Expected volatilities are based on comparable companies' historical volatility along with a limited weighting included for the Company's own volatility subsequent to its IPO, which management believes represents the most accurate basis for estimating expected future volatility under the current conditions. The Company accounts for forfeitures as they occur.

Prior to the IPO, the fair value of the shares of the Company's common stock underlying its stock-based awards was determined by its board of directors, with input from management. Because there had been no public market for the Company's common stock prior to the IPO, the board of directors had determined the fair value of the common stock on the grant-date of the stock-based award by considering a number of objective and subjective factors, including enterprise valuations of its common stock performed by an unrelated third-party specialist, valuations of comparable companies, sales of its convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of the capital stock, and general and industry-specific economic outlook. Since the IPO in November 2018, the Company has used the closing stock price on the date of grant for the fair value of the common stock.

Note 3 — Summary of Significant Accounting Policies (continued)

Fair Value Measurements

We measure certain of our assets and liabilities at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 — Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 — Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

Fair value measurements are classified based on the lowest level of input that is significant to the measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of the assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values stated below takes into account the market for the Company's financials, assets and liabilities, the associated credit risk and other factors as required. The Company considers active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The carrying amounts of cash and cash equivalents, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these instruments.

The fair values of the Company's warrant liability at inception and for subsequent mark-to-market fair value measurements were based on management's valuation model and expectations with respect to the method and timing of settlement. The Company had determined that the warrant liability fair values were classified as Level 3 measurements within the fair value hierarchy. At the date of the Company's IPO in November 2018, the fair value was reclassified to additional paid-in-capital as the final number of shares for the warrants previously reflected as a liability became fixed.

Impact of New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02 (Topic 842) – Leases ("ASC 842"), which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements for substantially all leases with terms more than twelve months to be recognized as assets and liabilities on the balance sheet. Recognition, measurement and presentation of expenses depends upon classification as a finance or operating lease. The Company adopted ASC 842 effective January 1, 2019 utilizing the modified retrospective approach such that prior year financial statements were not recast under the new standard. The adoption of ASU 2016-02 did not have a material effect on the Company's financial condition from the recognition of the lease rights and obligations as assets and liabilities or its results of operations and cash flows. See Note 12 for additional information regarding the new standard and its impact on the Company's financial statements.

(in thousands, except share and per share amounts)

Note 4 — Revenues

Prior to 2019, the Company did not have any revenues. The Company's revenues of $500 for the six months ended June 30, 2019 resulted from the sale of its EM-100 product rights to Bausch Health Ireland Limited ("Bausch") per an Asset Purchase Agreement dated February 18, 2019 (the "Asset Purchase Agreement"). Pursuant to the Asset Purchase Agreement, Bausch paid the Company an upfront payment of $500 and Bausch is required to pay the Company commercial milestone payments of up to $2,500 upon the first commercial sale of the EM-100 product. In addition, Bausch is required to pay the Company a royalty on net sales for a period of 10 years from the date of the first commercial sale of the EM-100 product in the United States.

Note 5 – Property and Equipment

Property and equipment consist of the following:

	June 30, 2019	December 31, 2018
Computer hardware and software	$ 170	$ 93
Furniture and fixtures	115	98
Equipment	964	99
Leasehold improvements	147	53
Construction in progress	—	492
	1,396	835
Less: accumulated depreciation	(173)	(62)
Property and equipment, net	$ 1,223	$ 773

Depreciation expense for the six-month periods ended June 30, 2019 and 2018 was $111 and $18, respectively.

Note 6 — Redeemable Convertible Preferred Stock — Series A

The Company has 10,000,000 authorized shares of $0.001 par value preferred stock as per its Amended and Restated Certificate of Incorporation. In June 2017, the Company issued 6,685,082 shares of Series A Preferred at a price of $3.00 per share, and all shares remained outstanding until the Company's IPO in November 2018. The gross proceeds were $20,055 from the Series A Preferred stock offering. The Series A Preferred shares, including accrued and unpaid dividends, automatically converted to the Company's common shares at the date of the IPO.

As a result of the Series A Preferred having a possible cash redemption feature in the event that an IPO or alternate financing was not completed by December 31, 2018, the Series A Preferred was classified as temporary equity and not included as part of Company's stockholders' equity (deficit) prior to the November 2018 IPO. In accordance with that classification, $2,534 of issuance costs associated with the Series A Preferred offering were being ratably accreted as a deemed dividend using the effective interest method through the expected redemption date.

The Series A Preferred automatically converted to common stock upon completion of the IPO in November 2018. The conversion share calculation was based on the $3.00 initial issue price for the Series A Preferred plus accrued and unpaid dividends, and automatically converted into shares of the Company's common stock using a stated divisor conversion price equal to 50% of the IPO price to the public which was $6.00 per share. In accordance with relevant accounting literature, since the terms of the conversion option did not permit the Company to compute the additional number of shares that it would need to issue upon conversion of the Series A Preferred when the contingent event occurred, the Company recorded the beneficial conversion amount of $21,747 as a deemed dividend at the date of the IPO in November 2018.

(in thousands, except share and per share amounts)

Note 7 — Common Stock

The Company has 50,000,000 authorized shares of $0.001 par value common stock as per its Amended and Restated Certificate of Incorporation. During the six months ended June 30, 2019, the Company issued 90,000 shares of its common stock for stock option exercises, 23,083 shares for awards under its Employee Stock Purchase Plan (see Note 9) and 42,034 shares for the exercise of stock warrants.

Note 8 — Common Stock Warrants

In May 2017, the Company issued a warrant to purchase 600,000 shares of its common stock to consultants for business strategy and intellectual property advisory services. The warrant vested at issuance in May 2017 and has a $0.01 exercise price per warrant share and expires five years from the date of issuance.

In conjunction with the closing of the Series A Preferred offering in June 2017 (see Note 6), the Company issued a warrant to purchase 649,409 shares of its common stock to the placement agent at an exercise price of $3.00 per share, provided, however, upon the conversion of the Series A Preferred to common stock, the warrant adjusted to entitle the holder to purchase shares of common stock equal to 10.0% of the shares of common stock issuable upon conversion of the Series A Preferred (excluding 191,000 shares of Series A Preferred that were purchased by insiders) and the exercise price would adjust to the conversion price of the Series A Preferred. This warrant vested at issuance in June 2017. The Company used the BSM to value the warrant and the fair value at the date of issuance was $479. The fair value assumptions included an expected term of five years, expected volatility of 85%, a risk-free interest rate of 2.9% and estimate of the conversion rate.

These warrants were classified as warrant liability on the Company's balance sheets prior to the IPO in November 2018 as the number of shares of common stock issuable upon the exercise of this warrant was not fixed as it could vary by a factor of 1.000 to 1.333 shares of common stock per warrant share in accordance with the IPO price, and the Company had considered the warrant to be a derivative instrument. The $479 amount was recorded as a component of the issuance costs for the Series A Preferred in June 2017, and subsequent changes in the fair value of this warrant were recorded as a component of other income and expense. As of June 30, 2018, the fair value of the warrant was $1,016 and the $496 increase in fair value during the six months ended June 30, 2018 was recorded as a component of other income and expense. For the three months ended June 30, 2018, the $413 increase in fair value for the warrants was recorded as a component of other income and expense.

In connection with the IPO, the number of shares issuable upon the exercise of these warrants became fixed at 704,184 shares which eliminated the fair value adjustment after that date. At the IPO date, the warrant liability was reclassified to additional paid-in-capital. In June 2019, 67,734 of these warrant shares were exercised on a cashless basis which resulted in the Company issuing 42,034 shares of its common stock.

During November 2018, in connection with the IPO, the Company issued warrants for 414,000 shares of its common stock to the placement agent at an exercise price of $7.50 per share.

The outstanding warrants are summarized in the table below.

Description of Warrants	No. of Shares	Exercise Price
Business Advisory Warrants	600,000	$ 0.01
Placement Agent Warrants - Series A Preferred	636,450	$ 3.00
Placement Agent Warrants - IPO	414,000	$ 7.50
Total	**1,650,450**	**$ 3.04 (Avg)**

The holders of these warrants or their permitted transferees, are entitled to rights with respect to the registration under the Securities Act of 1933, as amended (the "Securities Act") their shares that are converted to common stock, including demand registration rights and piggyback registration rights. These rights are provided under the terms of a registration rights agreement between the Company and the investors.

Note 9 — Share-Based Payment Awards

The Company's board of directors and stockholders approved the Eton Pharmaceuticals, Inc. 2017 Equity Incentive Plan in May 2017 (the "2017 Plan"), which authorized the issuance of up to 5,000,000 shares of the Company's common stock. In conjunction with the Company's IPO in November 2018, the Company's stockholders and board of directors approved the 2018 Equity Incentive Plan (the "2018 Plan") which succeeded the 2017 Plan. The Company has granted restricted stock awards ("RSAs"), stock options and restricted stock units ("RSUs") for its common stock under the 2017 Plan and 2018 Plan as detailed in the tables below. There were 872,837 shares available for future issuance under the 2018 Plan as of June 30, 2019.

Shares that are expired, terminated, surrendered or canceled without having been fully exercised will be available for future awards under the 2018 Plan. In addition, the 2018 Plan provides that commencing January 1, 2019 and through January 1, 2028, the share reserve will be increased by 4% of the total number of shares outstanding as of the preceding December 31, subject to a reduction at the discretion of the Company's board of directors. On January 1, 2019, the share reserve was increased by 704,317 shares based on the 17,607,928 shares of common stock outstanding at December 31, 2018. The exercise price for stock options granted is not less than the fair value of common stock as determined by the board of directors as of the date of grant. Prior to the IPO, the Company's board of directors valued the Company's common stock, taking into consideration its most recently available valuation of common stock performed by third parties as well as additional factors which might have changed since the date of the most recent contemporaneous valuation through the date of grant. Following the IPO, the Company uses the closing stock price on the date of grant as the exercise price.

On January 1, 2018, the Company issued 54,745 restricted shares of its common stock to each of its four outside directors (218,980 total shares). The restricted shares issued to the outside directors vested 25% at each quarter-end in 2018 and were 100% vested at December 31, 2018.

During the third quarter of 2017, the Company issued 25,000 RSU's to each of its four outside directors (100,000 total share units). The RSU's issued to the outside directors vested 25% at each subsequent quarter-end in 2017 and 2018 and were 100% vested at June 30, 2018. The associated 100,000 shares of the Company's common stock will not be issued until the individual director retires from service from the Company's board of directors. The Company has not issued any additional RSU's.

To date, all stock options issued have been non-qualified stock options, and the exercise prices were set at the fair value for the shares at the dates of grant. Options typically have a ten-year life, except for options to purchase 50,000 shares of the Company's common stock granted to product consultants that expire within five years if the Company is not able to file certain product submissions to the FDA prior to the five-year expiration date. Furthermore, these option awards to the Company's product consultants do not vest unless certain product submissions are made to the FDA, and accordingly, the Company has not recorded any expense for these contingently vesting option awards to its product consultants.

For the three months ended June 30, 2019 and 2018, the Company's total stock-based compensation expense was $505 and $416, respectively. Of these amounts, $421 and $400 was recorded in general and administrative expenses, respectively, and $84 and $16 was recorded in research and development expenses, respectively.

For the six months ended June 30, 2019 and 2018, the Company's total stock-based compensation expense was $850 and $1,466, respectively. Of these amounts, $690 and $1,434 was recorded in general and administrative expenses, respectively, and $160 and $32 was recorded in research and development expenses, respectively.

(in thousands, except share and per share amounts)

Note 9 — Share-Based Payment Awards (continued)

A summary of stock option activity is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding as of December 31, 2018	**1,295,000**	$ 1.78	**8.3**	**$ 5,627**
Issued	717,500	7.44		
Exercised	(90,000)	0.86		
Forfeited/Cancelled	—	—		
Options outstanding as of June 30, 2019	**1,922,500**	$ 3.94	**8.6**	**$ 7,646**
Options exercisable at June 30, 2019	505,417	$ 1.82	7.5	$ 3,075
Options vested and expected to vest at June 30, 2019	1,872,500	$ 4.00	8.7	$ 7,320

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company's common stock for those stock options that had strike prices lower than the fair value of the Company's common stock.

The assumptions used to calculate the fair value of options granted during the six months ended June 30, 2019 under the BSM were as follows:

	June 30, 2019
Expected dividends	—%
Expected volatility	90%
Risk-free interest rate	1.9-2.5%
Expected term	5.6 – 6.3 years
Weighted average fair value	$ 5.54

Expected Term — The Company has opted to use the "simplified method" for estimating the expected term of options granted to employees and directors, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option (generally 10 years). The expected term of options granted to non-employees equals the contractual life of the options.

Expected Volatility — Due to the Company's limited operating history and a lack of Company-specific historical and implied volatility data, the Company had based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. During 2019, the Company has continued this methodology plus given some limited weighting to its own volatility in the periods subsequent to its November 2018 IPO. The historical volatility data was computed using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards.

Risk-Free Interest Rate — The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of the Company's stock options.

Expected Dividend — The Company has not issued any dividends in its history and does not expect to issue dividends over the life of the options and therefore has estimated the dividend yield to be zero.

(in thousands, except share and per share amounts)

Note 9 — Share-Based Payment Awards (continued)

Fair Value of Common Stock — Prior to the Company's IPO in November 2018, the fair value of the shares of common stock underlying the stock-based awards was determined by the board of directors, with input from management. Because there was no public market for the Company's common stock, the board of directors determined the fair value of the common stock on the grant-date of the stock-based award by considering a number of objective and subjective factors, including enterprise valuations of the Company's common stock performed by an unrelated third-party specialist, valuations of comparable companies, sales of the Company's Series A Preferred to unrelated third parties, operating and financial performance, the lack of liquidity of the Company's capital stock, and general and industry-specific economic outlook. The board of directors intended all options granted to be exercisable at a price per share not less than the estimated per share fair value of common stock underlying those options on the date of grant. Following the IPO, the Company uses the closing stock price on the date of grant for the fair value of the common stock.

A summary of activity for the RSAs is as follows:

Restricted Stock Awards	**Number of shares**
Unvested as of December 31, 2018	**312,500**
Issued	—
Vested	(312,500)
Forfeited/Cancelled	—
Unvested as of June 30, 2019	—

There were no RSAs issued during the six months ended June 30, 2019. The fair value of the RSAs vested during the six months ended June 30, 2019 was $66.

As of June 30, 2019, there was a total of $4,536, $0 and $0 of unrecognized compensation costs related to non-vested stock option awards, RSAs and RSUs, respectively. In the six-month period ended June 30, 2019, there were four stock option exercises for a total of 90,000 shares at an average exercise price of $0.86 per share with an intrinsic value of $599. There were no exercises of stock options during the six months ended June 30, 2018.

In December 2018, the Company's board of directors adopted an initial offering of the Company's common stock under the Company's 2018 Employee Stock Purchase Plan (the "ESPP"). The Company's ESPP provides for an initial reserve of 150,000 shares and this reserve is automatically increased on January 1 of each year by the lesser of 1% of the outstanding common shares at December 31 of the preceding year or 150,000 shares, subject to reduction at the discretion of the Company's board of directors.

The initial offering of the ESPP began on December 17, 2018 and will end on December 10, 2019, unless terminated earlier pursuant to the ESPP. The initial offering consists of two purchase periods, with the first purchase period ending on June 10, 2019 and the second purchase period ending on December 10, 2019. The terms of the ESPP permit employees of the Company to use payroll deductions to purchase stock at a price per share that is at least the lesser of (1) 85% of the fair market value of a share of common stock on the first date of an offering or (2) 85% of the fair market value of a share of common stock on the date of purchase. After the initial offering ends, subsequent twelve-month offering periods will automatically commence over the term of the ESPP on the day that immediately follows the conclusion of the preceding offering, each consisting of two purchase periods approximately six months in duration ending on or around June 10 and December 10 each year.

The weighted average grant date fair value of share awards under the ESPP in the first six months of 2019 was $2.57 per share. Employees contributed $141 via payroll deductions during the six months ended June 30, 2019 and the Company recorded an expense of $75 in the six-month period ended June 30, 2019 related to the ESPP offering period that commenced on December 17, 2018. In June 2019, 23,083 shares of the Company's common stock were issued under the ESPP at $5.53 per share (85% of the Company's $6.50 per share closing price of its common stock on December 17, 2018). The Company collected $128 in proceeds from the issuance of these shares. As of June 30, 2019, the accompanying condensed balance sheet includes $21 in accrued liabilities for remaining employee contributions.

(in thousands, except share and per share amounts)

Note 10 — Basic and Diluted Net Loss per Common Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Common stock equivalents (using the treasury stock and "if converted" method) from stock options, unvested RSAs and RSUs, warrants and convertible preferred stock at June 30, 2019 and 2018 were 3,460,950 and 9,164,685, respectively, and are excluded from the calculation of diluted net loss per share because the effect is anti-dilutive. The decline in common stock equivalents was primarily due to the automatic conversion of the Company's Series A Preferred at the IPO in November 2018. Included in the basic and diluted net loss per share calculation are RSUs awarded to directors that have vested, but the issuance and delivery of the common shares are deferred until the director retires from service as a director.

The following table shows the computation of basic and diluted net loss per common share:

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)
Net loss	$ (3,249)	$ (3,082)
Series A Preferred – dividends (accrued and deemed)	—	(722)
Net loss attributable to common stockholders	**$ (3,249)**	**$ (3,804)**
Weighted average common shares outstanding basic and diluted)	17,733,324	4,785,841
Net loss per common share (basic and diluted)	**$ (0.18)**	**$ (0.79)**

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Net loss	$ (10,659)	$ (6,100)
Series A Preferred – dividends (accrued and deemed)	—	(1,428)
Net loss attributable to common stockholders	**$ (10,659)**	**$ (7,528)**
Weighted average common shares outstanding basic and diluted)	17,618,293	4,171,775
Net loss per common share (basic and diluted)	**$ (0.61)**	**$ (1.80)**

Note 11 — Related Party Transactions

Harrow

Harrow was issued 3,500,000 shares of the Company's common stock at the formation of the Company at the $0.001 par value per share price as the paid-in-capital contribution from Harrow. The Company and Harrow signed licensing agreements for two products developed by Harrow whereby Harrow assigned the product rights to the Company. The Company would pay Harrow a $50 milestone payment upon patent approval for each product and a royalty fee at a rate of six percent on the net sales of those two products. On December 26, 2017, one of the products had its patent approved and a $50 milestone fee was recognized as R&D expense by the Company in 2017 and paid to Harrow in January 2018. In July 2018, the Company determined the patent-approved product was not viable for its portfolio of product opportunities and Harrow paid the Company $50 to cancel the licensing agreement for the one product and retain the product rights at Harrow.

On May 6, 2019, the Company entered into an Asset Purchase Agreement (the "CT-100 Asset Purchase Agreement") with Harrow. Pursuant to the CT-100 Asset Purchase Agreement, the Company sold all of its right, title and interest in CT-100 to Harrow, including any such product that incorporates or utilizes its intellectual property rights (a "Product" or, collectively, "Products"). Pursuant to the CT-100 Asset Purchase Agreement, Harrow will make certain payments to the Company upon the achievement of certain development and commercial milestones. In addition, Harrow is required to pay the Company a royalty in the low-single digit percentage range worldwide on a country-by-country basis on net sales for a period of the longer of 15 years from the date of the first commercial sale of a product in a particular country or the time that a valid intellectual property claim on such Product remains in force in the applicable country. The CT-100 Asset Purchase Agreement also contains customary representations, warranties, covenants and indemnities by the parties.

As part of the early start-up for the Company's pharmaceutical business, key executives at Harrow received 1,500,000 shares of restricted common stock in the Company for consulting services and certain Harrow managers also received options to purchase 130,000 shares of common stock from the Company (20,000 of these options were forfeited in 2018). The restricted stock and stock options vested 100% after one year on April 30, 2018. The Company recorded stock-based compensation expense of $0 and $970 for the Harrow restricted common stock and $0 and $80 for Harrow stock options, respectively, for the periods ended June 30, 2019 and 2018 as a component of its general and administrative expenses.

Additionally, the Chief Executive Officer of Harrow is a member of the Company's board of directors.

Chief Executive Officer

The Company's CEO has a partial interest in several companies that the Company is working with for product development and potential marketing if the products are approved by the FDA as detailed below.

The Company acquired the exclusive rights to sell the EM-100 product in the United States pursuant to a sales and marketing agreement (the "Eyemax Agreement") dated August 11, 2017 between the Company and Eyemax LLC ("Eyemax"), an entity affiliated with the Company's CEO. The Company also held a right of first refusal to obtain the exclusive license rights for geographic areas outside of the United States. Pursuant to the Eyemax Agreement, the Company is responsible for all costs of testing and FDA approval of the product, other than the FDA filing fee which will be paid by Eyemax. The Company was also responsible for commercializing the product in the United States at its expense. The Company paid Eyemax $250 upon execution of the Eyemax Agreement, which was recorded as a component of R&D expense. Under the terms of the original agreement, the Company would pay Eyemax $250 upon FDA approval and $500 upon the first commercial sale of the product and pay Eyemax a royalty of 10% on the net sales of all products. The Eyemax Agreement was for an initial term of 10 years from the date of the Eyemax Agreement, subject to successive two-year renewals unless the Company elected to terminate the Eyemax Agreement. There were no amounts due under the terms of the Eyemax Agreement as of June 30, 2019 or December 31, 2018.

Note 11 — Related Party Transactions (continued)

On February 18, 2019, The Company entered into an Amended and Restated Agreement with Eyemax amending the Sales Agreement (the "Amended Agreement"). Pursuant to the Amended Agreement, Eyemax sold the Company all of its right, title and interest in EM-100, including any such product that incorporates or utilizes Eyemax's intellectual property rights. Under the Amended Agreement, the Company assumed certain liabilities of Eyemax under its Exclusive Development & Supply Agreement with Excelvision SAS dated as of July 11, 2013, as amended (the "Excelvision Agreement"), with respect to certain territories and arising during certain time periods. Pursuant to the Amended Agreement, the Company remains obligated to pay Eyemax two milestones: (i) one milestone payment for $250 upon regulatory approval in the territory by the FDA of the first single agent product and (ii) one milestone payment for $500 following the first commercial sale of the first single agent product in the territory. Following payment of the milestones, the Company is entitled to retain all of the non-royalty transaction revenues and royalties up to $2,000 (the "Recovery Amount"). After the Company has retained the full Recovery Amount, it is entitled to retain half of all royalty and non-royalty transaction revenue. The Amended Agreement also contains customary representations, warranties, covenants and indemnities by the parties. The EM-100 asset and its associated product rights were sold to Bausch on February 18, 2019 and future potential royalties on Bausch sales of EM-100, pending an FDA approval for EM-100, will be split between Eyemax and the Company. There were no amounts due under the terms of the Amended Agreement as of June 30, 2019 or December 31, 2018.

The Company acquired the exclusive rights to sell the DS-100 product in the United States pursuant to an exclusive development and supply agreement (the "Andersen Agreement") dated July 9, 2017 between the Company and Andersen Pharma, LLC ("Andersen"), an entity affiliated with the Company's CEO. The Company also holds an option to purchase the DS-100 product and all related intellectual property and government approvals at a price of one dollar. Pursuant to the Andersen Agreement, Andersen is responsible for obtaining FDA approval at its expense and manufacturing the product for sale to the Company at its cost. The Company is responsible for commercializing the product in the United States at its expense. The Company paid Andersen $750 upon execution of the Andersen Agreement, which was recorded as a component of R&D expense and will pay Andersen $750 upon successful completion of three registration batches of product, $750 upon submission of a New Drug Application ("NDA") and $750 upon FDA approval. The Company will also pay Andersen 50% of the net profit from the sale of the product. The Andersen Agreement is for an initial term of five years from the first commercial sale of the product, subject to successive two-year renewals unless either party elects to terminate the Andersen Agreement. There were no amounts due under the terms of the Andersen Agreement as of June 30, 2019 or December 31, 2018. The aforementioned option to purchase the product and all related intellectual property and government approvals was considered to represent variable interest in the affiliated entity. The affiliated entity was not considered to be a variable interest entity.

The Company acquired the DS-200 product and all related intellectual property and government approvals pursuant to an asset purchase agreement (the "Selenix Agreement") dated June 23, 2017 between the Company and Selenix LLC ("Selenix"), an entity affiliated with the Company's CEO. Pursuant to the Selenix Agreement, the Company paid Selenix $1,500 at signing, which was recorded as a component of R&D expense and paid $1,500 in April 2019 upon submission of an NDA on March 13, 2019 which was reflected as a component of R&D expense for the six-month period ended June 30, 2019. The Company will pay $1,000 upon FDA approval of the DS-200 product. The Company has also agreed to pay Selenix 50% of the net profit from the sale of the product for the first 10 years following the date of the Selenix Agreement. There were no amounts due under the terms of the Selenix Agreement as of June 30, 2019 or December 31, 2018.

Note 12 — Leases

Effective January 1, 2019, the Company adopted ASC 842, which requires an entity to recognize a right-of-use ("ROU") asset and a lease liability on the balance sheet for substantially all leases, including operating leases, using the modified retrospective approach. The Company elected to use the package of practicable expedients which allows companies to not reassess the following: (1) the lease classification for any expired or existing leases, (2) the treatment of initial direct costs as they related to existing leases, and (3) whether expired or existing contracts are or contain leases. The Company did not elect the use of the hindsight practical expedient, but did elect to separate lease components from non-lease components related to its office space lease.

Upon adoption of ASC 842, the Company had non-cancellable operating leases for its office and laboratory space subject to recognition as ROU assets. Accordingly, on January 1, 2019 the Company recorded $281 in ROU assets and $272 in operating lease liabilities (the difference of $9 related to existing prepaid rent as of December 31, 2018). The Company has not entered into any other lease arrangements through June 30, 2019.

The Company does not have any lease contracts that contain: (1) an option to extend that the Company is reasonably certain to exercise, (2) an option to terminate that the Company is reasonably certain not to exercise, or (3) an option to extend (or not to terminate) in which exercise of the option is controlled by the lessor. Additionally, the Company does not have any leases with residual value guarantees or material restrictive covenants. For leases already commenced, the lease term was determined to be the remaining months in the lease term as of January 1, 2019, the date of adoption. Lease liabilities and their corresponding right-of-use assets have been recorded based on the present value of the future lease payments over the expected lease term. One of the Company's lease agreements contains provisions for escalating rent payments over the term of the lease.

The Company's leases do not contain readily determinable implicit discount rates, and therefore, the Company was required to use its incremental borrowing rate of 7.8% to discount the future lease payments based on information available at lease commencement. The incremental borrowing rate was estimated by determining the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

The Company's operating lease cost as presented in the "Research and Development" and "General and Administrative" captions in the condensed statements of operations was $14 and $20, respectively, for the three months ended June 30, 2019 and $28 and $43, respectively, for six months ended June 30, 2019. Cash paid for amounts included in the measurement of operating lease liabilities was $59 for the six months ended June 30, 2019. The ROU asset amortization for the three month and six month periods ended June 30, 2019 was $30 and $59, respectively, and is reflected within depreciation and amortization on the Company's condensed statements of cash flows. As of June 30, 2019, the weighted-average remaining lease term was 1.7 years, and the weighted-average incremental borrowing rate was 7.8%.

The table below presents the lease-related assets and liabilities recorded on the balance sheet as of June 30, 2019 (in thousands).

Assets	**Classification**	
Operating lease right-of-use assets	Operating lease right-of-use assets, net	$ 222
Total leased assets		$ 222
Liabilities		
Operating lease liabilities, current	Accrued liabilities	$ 127
Operating lease liabilities, noncurrent	Operating lease liabilities, net of current portion	86
Total operating lease liabilities		$ 213

The Company's lease commitments for its administrative offices in Deer Park, Illinois and its laboratory facility in Lake Zurich, Illinois for 2019 and beyond are as indicated below:

	Total	**2019**	**2020**	**2021**	**Thereafter**
Undiscounted lease payments	**$ 228**	**69**	**140**	**19**	—
Less: Imputed interest	**(15)**				
Total lease liabilities	**$ 213**				

Note 13 — Commitments and Contingencies

Legal

The Company is subject to legal proceedings and claims that may arise in the ordinary course of business. The Company is not aware of any pending or threatened litigation matters at this time that may have a material impact on the operations of the Company.

License and product development agreements

The Company has entered into various agreements in addition to those discussed above which are described below.

The Company acquired the exclusive rights to sell the DS-300 product in the United States pursuant to a sales and marketing agreement dated November 17, 2017 with an unaffiliated third party (the "Sales Agreement"). Pursuant to the Sales Agreement, the licensor is responsible for obtaining FDA approval, at its expense, and the Company is responsible for commercializing the product in the United States at its expense. The Company will pay the third party 50% of the net profit from the sale of the product. The initial term is for the first 10 years following the first commercial sale of the product.

The Company acquired the exclusive license to develop, manufacture and sell ET-103 in the United States pursuant to an Exclusive License and Supply Agreement dated August 3, 2018 between the Company and Liqmeds Worldwide Limited, an unaffiliated entity. Pursuant to the agreement, the Company will be responsible for, and shall own, all regulatory filings and approvals at its expense, provided that it shall have the right to recoup 35% of any regulatory filing fees from the initial profits from the sale of ET-103 and, provided further, the licensor shall be responsible for any bioequivalence study and shall be responsible for 60% of the costs of such study. An affiliate of the licensor shall manufacture the ET-103 and sell it to the Company at its cost. The Company paid the licensor $350 upon execution of the agreement and will pay the licensor $1,500 upon the FDA's acceptance of an NDA for review, $1,000 upon FDA approval, $1,500 upon issuance of patent covering ET-103 listed in the FDA's Orange Book and $500 in the event of product sales in excess of $10,000 in any calendar year. In addition, the Company is required to pay the licensor 35% of the net profit from product sales. The license agreement is for an initial term of 10 years from the date of the first commercial sale of the product, subject to two-year renewals unless either party elects to terminate no less than 12 months prior to the then current term. The agreement also contains customary representations, warranties, covenants and indemnities by the parties.

On January 23, 2019 the Company entered into a Licensing and Supply Agreement (the "Agreement") with Liqmeds Worldwide Limited ("LMW") for ET-104 oral liquid, a development stage product candidate ("ET-104"). Pursuant to the terms of the Agreement, the Company will be responsible for regulatory and marketing activities. LMW will be responsible for development and manufacturing of ET-104. The Company paid the licensor $350 upon execution of the Agreement and will pay the licensor $350 upon successful bioequivalence study results, $325 upon the FDA's acceptance of an NDA for review, $325 upon FDA approval of the NDA, $650 upon issuance of patent covering ET-104 listed in the FDA's Orange Book and $500 in the event that product sales in excess of $10,000 are achieved within a calendar year. In addition, the Company is required to pay the licensor 35% of the net profit from product sales. The Agreement is for an initial term of 10 years from the date of the first commercial sale of the product. The Company will retain sole ownership of the NDA after expiration of the Agreement

On February 8, 2019, The Company entered into an Exclusive Licensing and Supply Agreement (the "ET-202 License Agreement") with Sintetica SA ("Sintetica") for marketing rights in the United States to ET-202, an injectable product candidate for use in the hospital setting that has been submitted to the FDA for review. Pursuant to the terms of the ET-202 License Agreement, the Company will be responsible for marketing activities and Sintetica will be responsible for development, manufacturing, and regulatory activities related to obtaining regulatory approval. The Company paid Sintetica a licensing payment of $2,000 upon execution of the ET-202 License Agreement and will pay $750 upon FDA approval of the product candidate. Upon approval, Sintetica will supply ET-202 to the Company at its direct costs. The Company will retain 5% of net sales as a marketing fee. Sintetica will be entitled to receive the first $500 of product profits. All additional profit will be split 50% to the Company and 50% to Sintetica. The ET-202 License Agreement has a ten-year term from first commercial sale of product.

Note 13 — Commitments and Contingencies (continued)

On February 8, 2019, The Company also entered into an Exclusive Licensing and Supply Agreement (the "ET-203 License Agreement") with Sintetica for marketing rights in the United States to ET-203, an injectable product candidate for use in the hospital setting. Pursuant to the terms of the ET-203 License Agreement, the Company will be responsible for marketing activities and Sintetica will be responsible for development, manufacturing, and regulatory activities related to obtaining regulatory approval. The Company paid Sintetica a licensing payment of $1,000 upon execution of the ET-203 License Agreement and will pay $750 upon FDA approval of the product candidate. Upon approval, Sintetica will supply ET-202 to the Company at its direct costs. The Company will retain 5% of net sales as a marketing fee. Sintetica will be entitled to receive the first $500 of product profits. All additional profit will be split 50% to the Company and 50% to Sintetica. The ET-203 License Agreement has a ten-year term from first commercial sale of product.

On June 12, 2019, The Company entered into an Exclusive Licensing and Supply Agreement (the "ET-105 License Agreement") with Aucta Pharmaceuticals, Inc. ("Aucta") for marketing rights in the United States to ET-105, a product candidate for use as an adjunct therapy for partial seizures, primary generalized tonic-clonic seizures, and generalized seizures of Lennox-Gastaut syndrome in patients two years of age and older. Lamotrigine is currently only approved in tablet formulations. Pursuant to the terms of the ET-105 License Agreement, the Company will be responsible for marketing activities and Aucta will be responsible for development, manufacturing, and regulatory activities related to obtaining regulatory approval. The Company paid Aucta a licensing payment of $2,000 in August 2019 upon receiving an acceptance for review letter from the FDA and will pay $2,000 upon FDA approval of the product candidate and another $1,000 upon issuance of an Orange-book listed patent. Aucta will receive a low double-digit royalty on net sales and will be entitled to receive milestone payments of up to $18,000 based on commercial success of the product, including:

- $1,000 when net sales exceed $10 million in a calendar year
- $2,000 when net sales exceed $20 million in a calendar year
- $5,000 when net sales exceed $50 million in a calendar year
- $10,000 when net sales exceed $100 million in a calendar year

Indemnifications

As permitted under Delaware law and in accordance with the Company's Amended and Restated Bylaws, the Company is required to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving in such capacity. The Company is also party to indemnification agreements with its directors and officers. The Company believes the fair value of the indemnification rights and agreements is minimal. Accordingly, the Company has not recorded any liabilities for these indemnification rights and agreements as of June 30, 2019 or December 31, 2018.

Note 14 — Subsequent Events

The Company has performed an evaluation of events occurring subsequent to June 30, 2019 through the filing date of this Quarterly Report. Based on its evaluation, nothing additional is required to be disclosed.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with (i) our unaudited interim condensed financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) our audited financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations Included in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (the "SEC") on March 25, 2019 (the "2018 10-K").

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," "may," "plan", "seek" or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider other matters set forth in our SEC filings including the Risk Factors set forth in Part I, Item 1A of our 2018 10-K.

Overview

We were formed in April 2017 as a specialty pharmaceutical company focused on developing and commercializing innovative pharmaceutical products that fulfill an unmet patient need. Since our formation, we have focused our efforts on the development and testing of our initial product candidates, the submission of NDA's for our product candidates and preliminary discussions with the FDA concerning the regulatory pathway for certain additional product candidates. To date, we have had limited revenue-producing operations and, under our current plan of business, do not expect to have significant revenues until we have received marketing approval from the FDA for one or more of our product candidates.

We have established a diversified pipeline of product candidates in various stages of development, four of which have been submitted to the FDA for review. We intend to focus on product candidates that are liquid in formulation, including injectables, oral liquids and ophthalmics, and will typically qualify under the FDA's 505(b)(2) regulatory pathway.

Our corporate strategy is to pursue what we perceive to be low-risk candidates where existing published literature, historical clinical trials, or physician usage has established safety and/or efficacy of the molecule, thereby reducing the incremental clinical burden required for us to bring the product to patients. We intend to pursue product candidates that require a single small Phase 3 trial, a bio-equivalence trial, or literature-based filings. Prior to initiating significant development activities on a product candidate, we typically meet with the FDA to establish a defined clinical and regulatory path to approval.

We believe our product candidates can address situations where patient needs are not being met by current FDA-approved pharmaceutical products. This may include products that are currently being compounded, and products that are approved and widely used internationally but not approved in the United States. For certain product opportunities competitors may gain approval of competing products in advance of our approval. We believe the market opportunities we are pursuing are large enough for multiple competitors to compete profitably.

Results of Operations

We were formed on April 27, 2017. To date, we have generated only limited revenues and do not anticipate generating significant revenues unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates. (Note: Dollar amounts are listed in thousands below).

Research and Development Expenses

For the three-month periods ended June 30, 2019 and 2018, we incurred $1,439 and $1,707 of research and development expenses ("R&D"), respectively. The comparative three-month detail of our R&D expense is listed in the table below with lower testing and test batch expenses for DS-300 and lower clinical study expenses for EM-100 being offset by higher indirect expenses for new personnel and operating costs associated with our new laboratory facility and additional product development staff.

For the six-month periods ended June 30, 2019 and 2018, we incurred $7,904 and $2,981 of R&D, respectively. The comparative six-month detail of our R&D expense is listed in the table below with $3,350 in milestone signing fees for ET-202, ET-203 and ET-104 along with a $1,500 DS-200 milestone fee in 2019 being o nly partial offset by lower clinical study expenses for EM-100. In addition, the indirect expenses for 2019 were $889 higher due to new personnel and operating costs associated with our new laboratory facility and additional product development staff.

Set forth in the table below is our research and development spending for our current product candidates for the three and six-month periods ended June 30, 2019 and 2018. We currently have eleven employees that support our overall product development and we also have facility and operating costs for a laboratory that will support product development. We do not track internal costs by product for our employees and laboratory expenses and they are listed as indirect expenses in the table below.

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
DS-200	$ 168	$ 205	$ 1,824	$ 395
DS-300	209	819	768	884
EM-100	4	373	100	978
ET-202	30	—	2,030	—
ET-203	—	—	1,000	—
ET-104	45	—	395	—
Other products	216	51	383	209
Indirect expenses	767	259	1,404	515
TOTAL	**$ 1,439**	**$ 1,707**	**$ 7,904**	**$ 2,981**

General and Administrative Expenses

General and administrative expenses ("G&A") consist primarily of employee compensation expenses, stock-based consulting service fees, legal and professional fees, product marketing planning and studies expenses, distribution set-up expenses, business insurance, travel expenses and general office expenses.

For the three-month periods ended June 30, 2019 and 2018, we incurred $1,910 and $990, respectively, of G&A. The increase in G&A was mainly due to increased headcount/personnel expenses and public company expenses as well as initial product marketing planning and study expenses along with set-up expenses for product distribution incurred in the 2019 period.

For the six-month periods ended June 30, 2019 and 2018, we incurred $3,499 and $2,680, respectively, of G&A. The increase in G&A was mainly due to increased headcount/personnel expenses and public company expenses as well as initial product marketing planning and study expenses along with set-up expenses for product distribution incurred in the 2019 period which were only partially offset by lower stock-based consulting service fees.

We anticipate that our G&A expenses will increase to support our business growth and the additional costs associated with being a public company.

The three-month and six-month periods ended June 30, 2018 also included charges of $413 and $496, respectively, in other expense to recognize the increase in the fair value of warrants issued that were associated with our initial June 2017 Series A Preferred financing.

We incurred a net loss of $3,249 and $3,082 for the three-month periods ended June 30, 2019 and 2018, respectively. We incurred a net loss of $10,659 and $6,100 for the six-month periods ended June 30, 2019 and 2018, respectively.

Cash Flows

The following table sets forth a summary of our cash flows for the six-month periods ended June 30, 2019 and 2018:

	Six months ended June 30, 2019	Six months ended June 30, 2018
Net cash used in operating activities	$ (10,963)	$ (4,078)
Cash used in investing activities	(1,030)	(132)
Cash flows from financing activities	205	—
Change in cash and cash equivalents	**$ (11,788)**	**$ (4,210)**

The increase in cash used in operating activities is primarily a result of higher operating losses due to increased product candidate licensing and development activity along with higher personnel and operating expenses for our new laboratory combined with the expansion of our overall business operations including additional administrative personnel to support our initial marketing/sales development activities. Investing activities consist primarily of capital expenditures for setting up our new laboratory facility. The financing activity was the result of ESPP stock purchases and stock option exercises in 2019.

Critical Accounting Policies

Our condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of our condensed financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, costs and expenses in our condensed financial statements. We base our estimates on historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in Note 2 to our financial statements included herein, we believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Prior to 2019, we did not have any revenues. Our revenues of $500 for the six months ended June 30, 2019 resulted from the sale of our EM-100 product rights to Bausch Health Ireland Limited ("Bausch") per an Asset Purchase Agreement dated February 18, 2019 (the "Asset Purchase Agreement"). Pursuant to the Asset Purchase Agreement, Bausch paid us an upfront payment of $500 and Bausch is required to pay us commercial milestone payments of up to $2,500 upon the first commercial sale of the EM-100 product. In addition, Bausch is required to pay the us a royalty on net sales for a period of 10 years from the date of the first commercial sale of the first single agent EM-100 product in the United States.

We expect to generate future revenues from direct sales of our products in development which will typically require advance review and approval by the FDA. Additionally, we anticipate we will receive revenues from product licensing agreements where we have contracted for milestone payments and royalties from products we have developed or for which we have acquired the rights to a product developed by a third party.

We account for contracts with our customers in accordance with Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. ASC 606 applies to all contracts with customers, except for contracts that are within the scope of other standards. Under ASC 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assesses whether each promised good or service is distinct. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Arrangements that include rights to additional goods or services that are exercisable at a customer's discretion are generally considered options. We assess if these options provide a material right to the customer and, if so, they are considered performance obligations. The exercise of a material right is accounted for as a contract modification for accounting purposes.

We recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) each performance obligation is satisfied at a point in time or over time, and if over time this is based on the use of an output or input method. Any amounts received prior to revenue recognition will recorded as deferred revenue. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date will be classified as current portion of deferred revenue in the Company's consolidated balance sheets. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as long-term deferred revenue, net of current portion.

Milestone Payments – If a commercial contract arrangement includes development and regulatory milestone payments, we will evaluate whether the milestone conditions have been achieved and if it is probable that a significant revenue reversal would not occur before recognizing the associated revenue. Milestone payments that are not within our control or the licensee's control, such as regulatory approvals, are generally not considered probable of being achieved until those approvals are received.

Royalties – For arrangements that include sales-based royalties, including milestone payments based on a level of sales, which are the result of a customer-vendor relationship and for which the license is deemed to be the predominant item to which the royalties relate, we will recognize revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied or partially satisfied. To date, we have not recognized any royalty revenue resulting from any of our licensing arrangements.

Significant Financing Component – In determining the transaction price, we will adjust consideration for the effects of the time value of money if the expected period between payment by the licensees and the transfer of the promised goods or services to the licensees will be more than one year.

Stock-Based Compensation

We account for stock-based compensation under the provisions of ASC 718 Compensation – Stock Compensation. The guidance under ASC 718 requires companies to estimate the fair value of the stock-based compensation awards on the date of grant and record expense over the related service periods, which are generally the vesting period of the equity awards.

We estimate the fair value of stock-based option awards to our employees and directors using the Black-Scholes-Merton option-pricing model ("BSM"). The BSM requires the input of subjective assumptions, including the expected stock price volatility, the calculation of expected term, forfeitures and the fair value of the underlying common stock on the date of grant, among other inputs. The risk-free interest rate was determined from the implied yields for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options or warrants. Dividends on common stock are assumed to be zero for the BSM valuation of the stock options. The expected term of stock options granted is based on vesting periods and the contractual life of the options. Expected volatilities are based on comparable companies' historical volatility along with limited weighting for our volatility experience from the date of our IPO in November 2018, which management believes represents the most accurate basis for estimating expected future volatility under the current conditions. We account for forfeitures as they occur.

Research and Development Expenses

R&D expenses include both internal R&D activities and external contracted services. Internal R&D activity expenses include salaries, benefits and stock-based compensation, laboratory operating costs and other expenses to support our R&D operations. External contracted services include product development efforts including certain product licensor milestone payments, clinical trial activities, manufacturing and control-related activities and regulatory costs. R&D expenses are charged to operations as incurred. We review and accrue R&D expenses based on services performed and rely upon estimates of those costs applicable to the stage of completion of each project. Significant judgments and estimates are made in determining the accrued balances at the end of any reporting period. Actual results could differ from our estimates.

Upfront payments and milestone payments made for the licensing of technology are expensed as R&D in the period in which they are incurred. Nonrefundable advance payments for goods or services to be received in the future for use in R&D activities are recorded as prepaid expenses and are expensed as the related goods are delivered or the services are performed.

Off Balance Sheet Transactions

We do not have any off-balance sheet transactions.

JOBS Act Transition Period

In April 2012, the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier to occur of (1) the last day of the fiscal year (a) December 31, 2023, which is the end of the fiscal year following the fifth anniversary of the completion of our IPO, (b) in which we have total annual gross revenues of at least $1.07 billion or (c) in which we are deemed to be a "large accelerated filer" under the rules of the SEC, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve capital. We do not utilize hedging contracts or similar instruments. We are exposed to certain market risks relating primarily to interest rate risk on our cash and cash equivalents and risks relating to the financial viability of the institutions which hold our capital and through which we have invested our funds. We manage such risks by investing in short-term, liquid, highly-rated instruments. As of June 30, 2019, our cash equivalents and investments are invested exclusively in money market funds. We do not believe we have any material exposure to interest rate risk due to the extremely low interest rate environment and the short duration of the invested funds we hold. Declines in interest rates would reduce our investment income but would not have a material effect on our financial condition or results of operations. We do not currently have exposure to foreign currency risk.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the six-month period ended June 30, 2019, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2018 10-K, which could materially affect our business, financial condition, cash flows or future results. There have been no material changes in the risk factors included in our 2018 10-K. The risk factors described in our 2018 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits listed on the Exhibit Index are either filed or furnished with this report or incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of President and Chief Executive Officer (Principal Executive Officer), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer (Principal Financial Officer), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of President and Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Balance Sheets, (ii) the Condensed Statements of Operations, (iii) the Condensed Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit), (iv) the Condensed Statements of Cash Flows and (v) Notes to Condensed Financial Statements.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

ETON PHARMACEUTICALS, INC.

August 6, 2019

By: */s/ Sean E. Brynjelsen*
Sean E. Brynjelsen
President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ W. Wilson Troutman*
W. Wilson Troutman
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sean E. Brynjelsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Eton Pharmaceuticals, Inc.;

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

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

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

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

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

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

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

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

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

Date: August 6, 2019

By: */s/ Sean E. Brynjelsen*
Sean E. Brynjelsen
Principal Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, W. Wilson Troutman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Eton Pharmaceuticals, Inc.;

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

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

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

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

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

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

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

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

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

Date: August 6, 2019

By: */s/ W. Wilson Troutman*
W. Wilson Troutman
Principal Financial Officer

Exhibit 32.1

ETON PHARMACEUTICALS, INC.
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Sean E. Brynjelsen, President and Chief Executive Officer of Eton Pharmaceuticals, Inc. (the "Company"), and W. Wilson Troutman, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2019, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

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

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 6th day of August, 2019.

/s/ Sean E. Brynjelsen	*/s/ W. Wilson Troutman*
Sean E. Brynjelsen President and Chief Executive Officer (principal executive officer)	W. Wilson Troutman Chief Financial Officer (principal financial officer)

* This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.