UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2021

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 No.: 001-35527

EMMAUS LIFE SCIENCES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**87-0419387**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21250 Hawthorne Boulevard, Suite 800, Torrance, California	**90503**
(Address of principal executive offices)	(Zip code)

(310) 214-0065

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

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

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

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

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

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

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

The registrant had 49,311,864 shares of common stock, par value $0.001 per share, outstanding as of August 24, 2021.

EMMAUS LIFE SCIENCES, INC.
For the Quarterly Period Ended March 31, 2021
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Item 1. Financial Statements

EMMAUS LIFE SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	As of	
	March 31, 2021 (Unaudited)	**December 31, 2020**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,759	$ 2,487
Accounts receivable, net	2,372	198
Inventories, net	6,740	7,087
Prepaid expenses and other current assets	1,270	1,485
Total current assets	14,141	11,257
Property and equipment, net	109	120
Equity method investment	15,790	15,925
Right of use assets	3,947	4,072
Investment in convertible bond	27,943	27,866
Other assets	293	296
Total assets	$ 62,223	$ 59,536
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 5,991	$ 7,460
Operating lease liabilities, current portion	661	1,143
Conversion feature derivative, notes payable	7,900	—
Other current liabilities	2,739	2,706
Revolving line of credit from related party	800	800
Warrant derivative liabilities	1,600	1,071
Notes payable, current portion	4,616	4,588
Notes payable to related parties	100	134
Convertible debentures, net of discount	—	5,480
Total current liabilities	24,407	23,382
Operating lease liabilities, less current portion	3,824	3,470
Other long-term liabilities	34,473	34,470
Notes payable, less current portion	89	222
Convertible notes payable	12,106	3,150
Total liabilities	74,899	64,694
STOCKHOLDERS' DEFICIT		
Preferred stock, par value $ 0.001 per share, 15,000,000 shares authorized, none issued or outstanding	—	—
Common stock, par value $ 0.001 per share, 250,000,000 shares authorized, 49,311,864 and 48,987,189 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	49	49
Additional paid-in capital	219,650	218,728
Accumulated other comprehensive income	1,367	1,144
Accumulated deficit	(233,742)	(225,079)
Total stockholders' deficit	(12,676)	(5,158)
Total liabilities & stockholders' deficit	$ 62,223	$ 59,536

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

EMMAUS LIFE SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
REVENUES, NET	$ 5,335	$ 6,954
COST OF GOODS SOLD	436	478
GROSS PROFIT	4,899	6,476
OPERATING EXPENSES		
Research and development	1,809	617
Selling	1,283	1,068
General and administrative	3,422	3,657
Total operating expenses	6,514	5,342
INCOME (LOSS) FROM OPERATIONS	(1,615)	1,134
OTHER INCOME (EXPENSE)		
Loss on debt extinguishment	(1,172)	—
Change in fair value of warrant derivative liabilities	(529)	25
Change in fair value of conversion feature derivative, notes payable	(2,338)	(29)
Net gain on investment in marketable securities	—	6,839
Net losses on equity method investment	(754)	(407)
Foreign exchange gain (loss)	(1,132)	1
Interest and other income	190	32
Interest expense	(1,054)	(1,800)
Total other income (expense)	(6,789)	4,661
INCOME (LOSS) BEFORE INCOME TAXES	(8,404)	5,795
INCOME TAXES	18	286
NET INCOME (LOSS)	(8,422)	5,509
COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain on debt securities available for sale (net of tax)	58	—
Foreign currency translation adjustments	165	61
Other comprehensive income (loss)	223	61
COMPREHENSIVE INCOME (LOSS)	$ (8,199)	$ 5,570
EARNINGS (NET LOSS) PER COMMON SHARE - BASIC and DILUTED	$ (0.17)	$ 0.11
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	49,073,769	48,624,469

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

EMMAUS LIFE SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Income	Deficit	Deficit
Balance at January 1,2021	48,987,189	$ 49	$ 218,728	$ 1,144	$ (225,079)	$ (5,158)
Fair value of warrants including down-round protection adjustments	—	—	241	—	(241)	—
Common stock issued for services	324,675	—	500	—	—	500
Share-based compensation	—	—	181	—	—	181
Unrealized gain on debt securities available for sale (net of tax)	—	—	—	58	—	58
Foreign currency translation effect	—	—	—	165	—	165
Net loss	—	—	—	—	(8,422)	(8,422)
Balance, March 31, 2021	49,311,864	$ 49	$ 219,650	$ 1,367	$ (233,742)	$ (12,676)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Deficit	Deficit
Balance at January 1, 2020	48,471,446	$ 48	$ 215,207	$ (79)	$ (226,229)	$ (11,053)
Fair value of warrants including down-round protection adjustments	—	—	600	—	(200)	400
Common stock issued for cash (net of issuance cost)	515,743	1	141	—	—	142
Share-based compensation	—	—	209	—	—	209
Foreign currency translation effect	—	—	—	61	—	61
Net income	—	—	—	—	5,509	5,509
Balance, March 31, 2020	48,987,189	$ 49	$ 216,157	$ (18)	$ (220,920)	$ (4,732)

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

EMMAUS LIFE SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (8,422)	$ 5,509
Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities		
Depreciation and amortization	15	15
Inventory reserve	162	—
Amortization of discount of notes payable and convertible notes payable	669	1,302
Foreign exchange adjustments	1,180	(50)
Tax benefit recognized on unrealized gain on debt securities	(19)	—
Net gain on investment in marketable securities	—	(6,839)
Loss on equity method investment	754	407
Loss on debt extinguishment	1,172	—
Gain on disposal of property and equipment	(1)	—
Share-based compensation	181	209
Shares issued for services	500	—
Change in fair value of warrant derivative liabilities	529	(25)
Change in fair value of conversion feature derivative, notes payable	2,338	29
Net changes in operating assets and liabilities		
Accounts receivable	(2,176)	249
Inventories	180	(285)
Prepaid expenses and other current assets	158	260
Other non-current assets	122	133
Income tax receivable and payable	33	286
Accounts payable and accrued expenses	(1,295)	2,449
Other current liabilities	42	(5,025)
Other long-term liabilities	(123)	3,184
Net cash flows (used in) provided by operating activities	(4,001)	1,808
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	—	(3)
Loan to equity method investee	(1,769)	—
Net cash flows used in investing activities	(1,769)	(3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable issued, net of issuance cost and discount	700	—
Proceeds from convertible notes payable issued, net of issuance cost and discount	14,390	—
Payments of notes payable	(844)	—
Payments of convertible notes	(7,200)	(1,500)
Proceeds from issuance of common stock, net of issuance cost	—	142
Net cash flows provided by (used in) financing activities	7,046	(1,358)
Effect of exchange rate changes on cash	(4)	(3)
Net increase (decrease) in cash and cash equivalents	1,272	444
Cash and cash equivalents, beginning of period	2,487	1,769
Cash and cash equivalents, end of period	$ 3,759	$ 2,213
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES		
Interest paid	$ 319	$ 312
Income taxes paid	$ 5	$ —
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Debt discount due to conversion features derivative	$ 5,555	$ —
Debt discount due to warrant issued with debt	$ —	$ 400

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

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of Emmaus Life Sciences, Inc., ("Emmaus") and its direct and indirect consolidated subsidiaries (collectively, "we," "our," "us" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany transactions have been eliminated. The Company's unaudited condensed consolidated interim financial statements contain adjustments, including normal recurring accruals necessary to fairly state the Company's consolidated financial position, results of operations and cash flows. The consolidated interim financial statements should be read in conjunction with the Annual Report on Form 10-K/A for the year ended December 31, 2020 (the "Annual Report") filed with the Securities and Exchange Commission ("SEC") on August 10, 2021. The accompanying condensed consolidated balance sheet at December 31, 2020 has been derived from the audited consolidated balance sheet at December 31, 2020 contained in the Form 10-K/A. The results of operations for the three months ended March 31, 2021, are not necessarily indicative of the results to be expected for the full year or any future interim period.

Organization and Nature of Operations

The Company is a commercial-stage biopharmaceutical company engaged in the discovery, development, marketing and sales of innovative treatments and therapies primarily for rare and orphan diseases. On July 17, 2019, we completed a merger transaction with EMI Holding, Inc., formerly known as Emmaus Life Sciences, Inc. ("EMI"), into a subsidiary of the Company (the "Merger"), with EMI surviving the Merger as a wholly owned subsidiary. Immediately after completion of the Merger, we changed our name to "Emmaus Life Sciences, Inc."

Principles of consolidation—The consolidated financial statements include the accounts of Emmaus and its direct and indirect consolidated subsidiaries. All significant intercompany transactions have been eliminated.

The preparation of the consolidated financial statements requires the use of management estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reported period. Actual results could differ materially from those estimates.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10K/A for the year ended December 31, 2020. There have been no material changes in these policies or their application.

Management has considered all recent accounting pronouncements will not have a material effect on the Company's condensed consolidated financial statements.

Factoring accounts receivables— The Company entered into a factoring agreement with Prestige Capital Finance, LLC on February 22, 2021. Under the agreement, the Company may factor its accounts receivables of up to 70% of the face value with maximum outstanding balance of $7.5 million and the fee ranges between 2.25% and 7.25% depending on the period when customers pay the outstanding accounts receivables. The Company hadno factoring accounts receivables outstanding as of March 31, 2021. For three month ended March 31, 2021, the Company incurred approximately $31,000 of factoring fees.

Net loss per share— In accordance with ASC 260, *"Earnings per Share,"* the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding. Dilutive loss per share is computed in a manner similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As of March 31, 2021 and March 31, 2020, the Company had outstanding potentially dilutive securities exercisable for or convertible into 24,515,738 shares and 16,698,829 shares, respectively, of the Company's common stock. No potentially dilutive securities were included in the calculation of diluted net income per share since the potential dilutive securities were out of the money for the period ended March 31, 2020 and were anti-dilutive for period ended March 31, 2021.

NOTE 3 — REVENUES

Revenues disaggregated by category were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Endari®	$ 5,176	$ 6,714
Other	159	240
Revenues, net	$ 5,335	$ 6,954

The following table summarizes the revenue allowance and accrual activities for the three months ended March 31, 2021 and March 31, 2020 (in thousands):

	Trade Discounts, Allowances and Chargebacks	Government Rebates and Other Incentives	Returns	Total
Balance as of December 31, 2020	$ 134	$ 2,119	$ 473	$ 2,726
Provision related to sales in the current year	575	864	57	1,496
Adjustments related prior period sales	14	2	(37)	(21)
Credit and payments made	(281)	(792)	—	(1,073)
Balance as of March 31, 2021	$ 442	$ 2,193	$ 493	$ 3,128
Balance as of December 31, 2019	$ 228	$ 1,354	$ 315	$ 1,897
Provision related to sales in the current year	942	1,122	71	2,135
Adjustments related prior period sales	16	(44)	(22)	(50)
Credit and payments made	(794)	(709)	—	(1,503)
Balance as of March 31, 2020	$ 392	$ 1,723	$ 364	$ 2,479

The following table summarizes revenues attributable to each of our customers that accounted for 10% or more of our total revenues (as a percentage of net revenues):

	Three Months Ended March 31,	
	2021	2020
Customer A	63 %	54 %
Customer B	17 %	27 %

The Company is party to a distributor agreement with Telcon pursuant to which it granted Telcon exclusive rights to the Company's prescription grade L-glutamine ("PGLG") oral powder for the treatment of diverticulosis in South Korea, Japan and China in exchange for Telcon's payment of a $10 million upfront fee and agreement to purchase from us specified minimum quantities of the finished product. In a related license agreement with Telcon, the Company agreed to use commercially reasonable best efforts to obtain product registration in these territories within three years of obtaining FDA marketing authorization for PGLG in this indication. Telcon has the right to terminate the distributor agreement in certain circumstances for failure to obtain such product registrations, in which event the Company would be obliged to return to Telcon the $10 million upfront fee. The upfront fee of $10 million is included in other long-term liabilities as unearned revenue as of March 31, 2021 and December 31, 2020. Refer to Note 11 for additional details.

NOTE 4 — SELECTED FINANCIAL STATEMENT CAPTIONS - ASSETS

Inventories consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Raw materials and components	$ 1,486	$ 1,486
Work-in-process	690	721
Finished goods	5,913	6,064
Inventory reserve	(1,349)	(1,184)
Total	$ 6,740	$ 7,087

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

	March 31, 2021	December 31, 2020
Prepaid insurance	$ 236	$ 388
Prepaid expenses	397	$ 454
Due from EJ Holdings	400	$ 376
Other current assets	237	267
Total	$ 1,270	$ 1,485

Property and equipment consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Equipment	$ 331	$ 347
Leasehold improvements	39	39
Furniture and fixtures	99	99
Total property and equipment	469	485
Less: accumulated depreciation	(360)	(365)
Property and Equipment, net	$ 109	$ 120

During the three months ended March 31, 2021 and March 31, 2020, depreciation expense was approximately $11,000 and $12,000, respectively.

NOTE 5 — INVESTMENTS

Investment in convertible bonds - On September 28, 2020, the Company entered into a convertible bond purchase agreement pursuant to which it purchased at face value a convertible bond of Telcon RF Pharmaceutical, Inc., or Telcon in the principal amount of approximately $26.1 million which matures on October 16, 2030 and bears interest at the rate of 2.1% per year, payable quarterly. Beginning on October 16, 2021, the Company will be entitled on a quarterly basis to call for early redemption of all or any portion of the principal amount of the convertible bond. The convertible bond is convertible at the holder's option at any time and from time to time into common shares of Telcon at an initial conversion price of approximately $8.00 per share. The conversion price is subject to antidilution adjustments in the event of the issuance of Telcon shares or share equivalents at a price below the market price of Telcon shares, a merger or similar reorganization of Telcon or a stock split, reverse stock split, stock dividend or similar event. The convertible bond and any proceeds therefrom, including proceeds from any exercise of the early redemption right or the call option described below, are pledged as collateral to secure the Company's obligations under the revised API Supply Agreement with Telcon described in Note 6 and Note 11.

In connection with the purchase of the convertible bond, the Company entered into a call option agreement dated September 28, 2020 with Telcon pursuant to which Telcon or its designee is entitled to repurchase, at par, up to 50% in principal amount of the convertible bond commencing October 16, 2021 and prior to maturity. If the Company transfers the convertible bond, it will be obliged under the call option agreement to see to it that the transferee is bound by such call option.

The Company has elected the fair value option method to measure the investment in the Telcon convertible bond.The investment is classified as an available for sale security and remeasured at fair value on a recurring basis using Level 3 inputs, with any changes in the fair value option recorded in other comprehensive income. The fair value and any change in fair value of the convertible bond is determined using a convertible bond lattice model. The model produces an estimated fair value based on changes in the market price of the underlying common stock.

The following table sets forth the fair value and changes in fair value of the investment in convertible bonds as of March 31, 2021, and December 31, 2020 (in thousands):

Investment in convertible bond	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 27,866	$ —
Fair value at issuance date	—	22,059
Change in fair value included in the statement of other comprehensive income (loss)	77	5,807
Balance, end of period	$ 27,943	$ 27,866

The fair value as of March 31, 2021, and December 31, 2020 was based upon following assumptions:

	March 31, 2021	December 31, 2020
Principal outstanding (South Korean won)	KRW 30 billion	KRW 30 billion
Stock price	KRW 5,020	KRW 6,060
Expected life (in years)	9.55	9.79
Selected yield	9.50 %	10.50 %
Expected volatility (Telcon common stock)	84.50 %	85.80 %
Risk-free interest rate (South Korea government bond)	2.02 %	1.72 %
Expected dividend yield	0.00 %	0.00 %
Conversion price	KRW 5,023	KRW 6,028

Equity method investment – During 2018, the Company and Japan Industrial Partners, Inc., or JIP, formed EJ Holdings, Inc., or EJ Holdings, to acquire, own and operate an amino acids manufacturing facility in Ube, Japan. In connection with the formation, the Company invested approximately $32,000 in exchange for 40% of EJ Holdings voting shares. JIP owns 60% of EJ Holdings voting shares. In October 2018, the Company entered into a loan agreement with EJ Holdings under which the Company made an unsecured loan to EJ Holdings in the amount of $13.6 million. The loan matures on September 30, 2028 and bears interest at the rate of 1% per annum, payable annually. The loan proceeds were used by EJ Holdings to purchase the Ube facility in December 2019 and pay related taxes. In October 2020, the Company entered into a loan agreement with EJ Holdings pursuant to which it agrees to loan to EJ Holdings a total of approximately $6.5 million in monthly instalments through March 2021. The loans are unsecured general obligations of EJ Holdings, bear interest at a nominal annual rate payable on September 30 of each year beginning in 2021 and are due and payable in a lump sum at maturity on September 30, 2028. The proceeds of the loans are used by EJ Holdings to fund its activities and operations at its Ube facility. The parties contemplate that the Ube facility will eventually supply the Company with the facility's output of amino acids, that the operation of the facility will be principally for our benefit and, as such, that major decisions affecting EJ Holdings and the Ube facility will be made by EJ Holdings' three-person board of directors, one of whom is a designee of the Company and two of who are representatives of JIP, in consultation with the Company. As of March 31, 2021, and December 31, 2020, the loans receivable from EJ Holdings were approximately $19.0 million and $18.6 million, respectively.

EJ Holdings is engaged in reestablishing operations at the Ube facility, including obtaining regulatory approvals for the manufacture of prescription grade L-glutamine ("PGLG") in accordance with cGMP. EJ Holdings has had no significant revenues since its inception, has depended on loans from the Company to acquire the Ube facility and fund its operations and will continue to be dependent on loans from us or other financing unless and until the Ube facility is activated and EJ Holdings can secure customers for its products.

The Company has determined that EJ Holdings is a variable interest entity, or VIE, based upon the facts that the Company provided the loan financing to acquire the Ube facility and the EJ Holdings' activities at the facility are principally for the Company's benefit. JIP, however, owns 60% of EJ Holdings and is entitled to designate a majority of EJ Holdings' board of directors and its Chief Executive Officer and outside auditors, and, as such, controls the management, business, and operations of EJ Holdings. Accordingly, the Company accounts for its variable interest in EJ Holdings under the equity method.

The Company's share of the losses of EJ Holdings are classified as net losses on equity method investment. The investment is evaluated for impairment annually and if facts and circumstances indicate that the carrying value may not be recoverable, an impairment charge would be recorded.

The following table sets forth certain financial information of EJ Holdings for the three months ended March 31, 2021 and March 31, 2020 (in thousands):

	Three months ended March 31,	
	2021 (Unaudited)	2020 (Unaudited)
REVENUES, NET	59	84
GROSS PROFIT	59	84
NET LOSS	$ (1,886)	$ (1,021)

NOTE 6 — SELECTED FINANCIAL STATEMENT CAPTIONS - LIABILITIES

Accounts payable and accrued expenses consisted of the following at March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021	December 31, 2020
Accounts payable:		
Clinical and regulatory expenses	$ 531	$ 262
Professional fees	418	252
Selling expenses	339	395
Manufacturing costs	11	596
Other vendors	100	518
Total accounts payable	1,399	2,023
Accrued interest payable, related parties	54	41
Accrued interest payable	491	627
Accrued expenses:		
Payroll expenses	1,083	1,053
Government rebates and other rebates	2,193	2,659
Due to EJ Holdings	371	545
Other accrued expenses	400	512
Total accrued expenses	4,047	4,769
Total accounts payable and accrued expenses	$ 5,991	7,460

Other current liabilities consisted of the following at March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021	December 31, 2020
Trade discount	$ 2,000	$ 2,000
Other current liabilities	739	706
Total other current liabilities	$ 2,739	$ 2,706

Other long-term liabilities consisted of the following at March 31, 2021 and December 31, 2020 (in thousands):

	March 31, 2021	December 31, 2020
Trade discount	$ 24,453	$ 24,453
Unearned revenue	10,000	10,000
Other long-term liabilities	20	17
Total other long-term liabilities	$ 34,473	$ 34,470

On June 12, 2017, the Company and Telcon entered into an API Supply Agreement, as subsequently amended (so as amended, the "API agreement"), pursuant to which Telcon advanced to the Company approximately $31.8 million as an advance trade discount in consideration of the Company's agreement to purchase from Telcon a specific portion of the Company's estimated annual targets for bulk containers of PGLG. The Company did not purchase PGLG from Telcon in the three months ended March 31, 2021 and purchased $2.0 million of PGLG in the three months ended March 31, 2020. As of March 31, 2021, and December 31, 2020, respectively, accounts payable to Telcon were zero and $208,000, respectively. See Note 11 for additional details.

NOTE 7 — NOTES PAYABLE

Notes payable consisted of the following at March 31, 2021 and December 31, 2020 (in thousands except for number of shares):

Year Issued	Interest Rate Range	Term of Notes	Conversion Price		Principal Outstanding March 31, 2021	Unamortized Discount March 31, 2021	Carrying Amount March 31, 2021	Shares Underlying March 31, 2021
Notes payable								
2013	10%	Due on demand	—		$ 903	$ —	$ 903	—
2016	10%	Due on demand	—		20	—	20	—
2019	11%	Due on demand	—		2,065	—	2,065	—
2020	1%	2 years	—		798	—	798	—
2021	11%	Due on demand	—		919	—	919	—
					$ 4,705	**$ —**	**$ 4,705**	**—**
		Current			$ 4,616	$ —	$ 4,616	—
		Non-current			$ 89	$ —	$ 89	—
Notes payable - related parties								
2020	12%	Due on demand	—		$ 100	$ —	$ 100	—
					$ 100	**$ —**	**$ 100**	**—**
		Current			$ 100	$ —	$ 100	—
Convertible notes payable								
2020	12%	3 years	$ 10.00	(b)	3,150	—	3,150	316,604
2021	2%	3 years	$ 1.48	(a)	14,390	5,434	8,956	9,739,335
					$ 17,540	**$ 5,434**	**$ 12,106**	**10,055,939**
		Non-current			$ 17,540	$ 5,434	$ 12,106	10,055,939
		Total			**$ 22,345**	**$ 5,434**	**$ 16,911**	**10,055,939**

Year Issued	Interest Rate Range	Term of Notes	Conversion Price		Principal Outstanding December 31, 2020	Unamortized Discount December 31, 2020	Carrying Amount December 31, 2020	Shares Underlying Notes December 31, 2020
Notes payable								
2013	10%	Due on demand	—		$ 969	$ —	$ 969	—
2019	11%	Due on demand	—		2,899		2,899	—
2020	1%-11%	Due on demand - 2 years	—		942	—	942	—
					$ 4,810	**$ —**	**$ 4,810**	**$ —**
		Current			$ 4,588	$ —	$ 4,588	—
		Non-current			$ 222	$ —	$ 222	—
Notes payable - related parties								
2016	10%	Due on demand	—		$ 20	$ —	$ 20	—
2019	10%	Due on demand	—		14	—	14	—
2020	12%	Due on demand	—		100	—	100	—
					$ 134	**$ —**	**$ 134**	**—**
		Current			$ 134	$ —	$ 134	—
Convertible debentures								
2019	10%	18 months	$2.00-$9.52	(a)	$ 7,200	$ 1,720	$ 5,480	3,630,000
					$ 7,200	**$ 1,720**	**$ 5,480**	**3,630,000**
		Current			$ 7,200	$ 1,720	$ 5,480	3,630,000
Convertible note payable								
2018	10%	2 years	$ 10.00	(b)	$ 3,150	$ —	$ 3,150	316,723
					$ 3,150	**$ —**	**$ 3,150**	**316,723**
		Current			$ 3,150	$ —	$ 3,150	316,723
		Total			**$ 15,294**	**$ 1,720**	**$ 13,574**	**3,946,723**

(a) The notes are convertible to Emmaus Life Sciences, Inc. shares.
(b) The notes are convertible to EMI Holding, Inc. shares.

The weighted-average annual stated interest rate of notes payable was5% and 10% as of March 31, 2021 and December 31, 2020, respectively. The weighted-average annual effective annual interest rate of notes payable as of March 31, 2021 and December 31, 2020 was 14% and 37%, respectively, after giving effect to discounts relating to conversion features, warrants and deferred financing costs relating to the notes.

As of March 31, 2021, future contractual principal payments due on notes payable were as follows:

Year Ending		
2021 (nine months)	$	4,583
2022		222
2023		3,150
2024		14,390
Total	$	22,345

On March 8, 2021, the Company prepaid in full outstanding Amended and Restated 10% Senior Secured Convertible Debentures and recognized $1.2 million of loss on debt extinguishment due to recognize the remaining unamortized discount.

The conversion feature of the Amended and Restated 10% Senior Secured Convertible Debentures was separately accounted for at fair value as derivative liabilities under guidance in ASC 815 that is remeasured at fair value on a recurring basis using Level 3 inputs, with any changes in the fair value of the conversion feature liabilities recorded in earnings. Upon prepayment of the Debentures, the outstanding liability was recognized in change in fair value in earnings. The following table sets forth the fair value of the conversion feature liabilities as of March 31, 2021 and December 31, 2020 (in thousands):

Conversion feature liabilities — Amended and Restated 10% Senior Secured Convertible Debentures	**Three Months Ended March 31, 2021**	**Year Ended December 31, 2020**
Balance, beginning of period	$ 7	$ 1
Fair value at debt modification date	—	118
Change in fair value included in the statement of comprehensive (income) loss	(7)	(112)
Balance, end of period	$ —	$ 7

The fair value and any change in fair value of conversion feature liabilities are determined using a binomial lattice model. The model produces an estimated fair value based on changes in the price of the underlying common stock.

The fair value as of December 31, 2020 was based upon following assumptions:

	December 31, 2020
Stock price	$ 1.23
Conversion price	$ 2.00
Selected yield	10.48 %
Expected volatility (peer group)	95 %
Expected life (in years)	0.67
Expected dividend yield	—
Risk-free rate	Term structure

The Company is party to a revolving line of credit agreement with Dr. Niihara, the Company's Chairman and Chief Executive Officer. Under the agreement, at the Company's request from time to time Dr. Niihara may, but is not obligated to, loan or re-loan to the Company up to $1,000,000. Outstanding amounts under the agreement are due and payable upon demand and bear interest, payable monthly, at a variable annual rate equal to the Prime Rate in effect from time to time plus 3%. In addition to the payment of interest, the Company is obligated to pay Dr. Niihara a "tax gross-up" intended to make him whole for federal and state income taxes payable by him with respect to interest paid to him in the previous year. The outstanding balance under the revolving line of credit agreement of $800,000 as of March 31, 2021 and December 31, 2020 was reflected in revolving line of credit, related party on the Consolidated Balance Sheets. With the estimated tax-gross up, the effective annual interest rate on the outstanding balance as of March 31, 2021 was 10.4%. The revolving line of credit agreement will expire onNovember 22, 2022. Refer to Note 11 for related party information.

On May 8, 2020, the Company received a loan in the amount of $797,840 under the Small Business Administration Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan, which is in the form of a Promissory Note dated April 29, 2020, matures on April 29, 2022

and bears interest at a rate of 1% per annum, payable monthly commencing on December 8, 2020 unless the PPP loan is forgiven prior to the date of the first monthly payment or the loan forgiveness process has commenced. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The loan and accrued interest are forgivable after a specific period as long as the Company uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Company has applied for PPP loan forgiveness on October 30, 2020. There is no assurance that the loan will be forgiven. The amount of loan forgiveness would be reduced if the Company were to terminate employees or reduce salaries during such period. The PPP loan was included in notes payable on the condensed consolidated balance sheets at March 31, 2021 and December 31, 2020.

On February 9, 2021, the Company entered into a securities purchase agreement with an effective date of February 8, 2021 pursuant to which the Company agreed to sell and issue to the purchasers thereunder in a private placement pursuant to Rule 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D thereunder a total of up to $17 million in principal amount of convertible promissory notes of the Company for a purchase price equal to the principal amount thereof. As of March 31, 2021, we had sold approximately $14.4 million of the convertible promissory notes. Of the net proceeds from the sale of the convertible promissory notes, $6.2 million was used to prepay the outstanding Amended and Restated 10% Senior Secured Convertible Debentures as described above.

Commencing one year from the original issue date, the convertible promissory notes will be convertible at the option of the holder into shares of the Company's common stock at an initial conversion price of $1.48 per share, which equaled the "Average VWAP" (as defined) of the Company's common stock on the effective date. The initial conversion price will be adjusted as of the end of each three-month period following the original issue date, commencing May 31, 2021, to equal the Average VWAP as of the end of such three-month period if such Average VWAP is less than the then-conversion price. There is no floor on the conversion price. The conversion price will be subject to further adjustment in the event of a stock split, reverse stock split or certain other events specified in the convertible promissory notes.

The convertible promissory notes bear interest at the rate of 12% per year, payable semi-annually on the last business day of August and January of each year and will mature on the 3rd anniversary of the original issue date. The convertible promissory notes will become prepayable in whole or in part at the election of the holders on or after February 28, 2022 if the Company's common stock shall not have been approved for listing on the NYSE American, the Nasdaq Capital Market or other "Trading Market" (as defined). The Company will be entitled to prepay up to 50% of the principal amount of the convertible promissory notes at any time after the first anniversary and on or before the second anniversary of the original issue date for a prepayment amount equal to the principal amount being prepaid, accrued and unpaid interest thereon and a prepayment premium equal to 50% of such principal amount. The convertible promissory notes are general, unsecured obligations of the Company.

The conversion feature of the convertible promissory notes was separately accounted for at fair value as a derivative liability under guidance in ASC 815 that is remeasured at fair value on a recurring basis using Level 3 inputs, with any changes in the fair value of the conversion feature liability recorded in earnings. The following table sets forth the fair value of the conversion feature liability as of March 31, 2021(in thousands):

Convertible promissory notes	Three Months Ended March 31, 2021
Balance, beginning of period	$ —
Fair value at issuance date	5,555
Change in fair value included in the statement of comprehensive (income) loss	2,345
Balance, end of period	$ 7,900

The fair value and any change in fair value of conversion feature liability are determined using a convertible bond lattice model. The model produces an estimated fair value based on changes in the price of the underlying common stock.

The fair value as of March 31, 2021 and at issuance date was based upon following assumptions:

Convertible promissory notes	March 31, 2021	At issuance date
Stock price	$ 1.71	$ 1.41
Conversion price	$ 1.48	$ 1.48
Selected yield	20.50 %	20.29 %
Expected volatility	50 %	50 %
Time until maturity (in years)	2.91	3.00
Dividend yield	—	—
Risk-free rate	0.33 %	0.30 %

NOTE 8 — STOCKHOLDERS' DEFICIT

Purchase Agreement with GPB—On December 29, 2017, the Company entered into the Purchase Agreement with GPB Debt Holdings II, LLC ("GPB"), pursuant to which the Company issued to GPB a $13 million senior secured convertible promissory note (the "GPB Note") for an aggregate purchase price of $12.5 million, reflecting a 4.0% original issue discount.

In connection with the issuance of GPB Note, the Company issued to GPB a warrant (the "GPB Warrant") to purchase up to 240,764 of common stock at an exercise price of $10.80 per share, with customary adjustments for stock splits, stock dividends and other recapitalization events. The GPB Warrant became exercisable six months after issuance and has a term of five years from the initial exercise date.

The Company determined that under ASC 815-40, GPB Warrant should be separately recognized at fair value as a liability. The warrant liability is remeasured at fair value on a recurring basis using Level 3 inputs and any change in the fair value of the liability is recorded in earnings.

The following table presents the change in fair value of the GPB Warrant as of March 31, 2021 and December 31, 2020 (in thousands):

Warrant Liability—GPB	Three Months Ended March 31, 2021	Year Ended December 31, 2020
Balance, beginning of period	$ 83	$ 38
Change in fair value included in the statement of comprehensive (income) loss	54	45
Balance, end of period	$ 137	$ 83

The fair value of the warrant derivative liability was determined using the Black-Scholes option pricing model.

The fair value as of March 31, 2021 and December 31, 2020 set forth in the table above was based on upon following assumptions:

	March 31, 2021	December 31, 2020
Adjusted exercise price	$ 10.28	$ 10.28
Common stock fair value	$ 1.71	$ 1.23
Risk-free interest rate	0.21 %	0.15 %
Volatility	125.00 %	120.00 %
Time until expiration (in years)	2.25	2.50
Expected dividend yield	—	—
Number outstanding	252,802	252,802

Purchase Agreement with Holders of 10% Senior Secured Debentures—In October 2018, EMI sold and issued $12.2 million principal amount of 10% Senior Secured Debentures and common stock purchase warrants to purchase an aggregate of up to 1,220,000 shares of EMI common stock to a limited number of accredited investors. EMI's obligations under the Debentures were secured by a security interest in substantially all EMI assets and guaranteed by EMI's U.S. subsidiaries. The net proceeds of the sale of the debentures and warrants were used to fund EMI's original $13.2 million loan to EJ Holdings in October 2018 reflected on the Company's condensed consolidated balance sheets.

The Debentures were amended and restated in their entirety in conjunction with the Merger. Common stock purchase warrants issued in conjunction with the original Debentures also were amended and restated in their entirety in conjunction with the Merger.

The Amended and Restated 10% Senior Secured Convertible Debentures issued in conjunction with the Merger were convertible at the option of each holder into shares of EMI common stock immediately prior to the Merger at a conversion price of $10.00 a share, subject to adjustment for stock splits, merger reorganizations and other customary events. The related amended and restated warrants were exercisable immediately prior to the Merger for an aggregate of 1,460,000 shares of EMI common stock at an initial exercise price of $10.00 per share. The exercise price of the warrants was subject to reduction in connection with a "going public event" such as the Merger based upon the "VWAP" (i.e., volume-weighted average trading price) of the Company common stock at the time of the Merger. Upon completion of the Merger, the amended and restated warrants became exercisable for shares of the Company common stock and the exercise price of the warrants and the number of underlying warrant shares were adjusted based upon exchange ratio in the Merger. The exercise price of the amended and restated warrants was subsequently adjusted in accordance

with their terms to $5.87 per share based upon the VWAP of the Company common stock on the day following completion of the Merger.

Pursuant to the terms of a securities amendment agreement entered into on February 21, 2020, the Amended and Restated 10% Senior Secured Convertible Debentures were once again amended and restated in their entirety to extend their maturity date to April 21, 2021 and reduce the conversion price thereof to $3.00 per share from $9.52 per share. The related amended and restate common stock purchase warrants also were amended and restated again to reduce the exercise price thereof to $3.00 per share from $5.87 per share. The newly Amended and Restated 10% Senior Secured Convertible Debentures and related newly amended and restated warrants provide for so-called full-ratchet anti-dilution adjustments in the event we sell or issue shares of common stock or common stock equivalents at an effective price per share less than the conversion price of the debentures or the exercise price of the warrants, subject to certain exceptions. The conversion price of the Amended and Restated 10% Senior Secured Convertible Debentures and the exercise price of the related amended and restated warrants were reduced to $2.00 a share as a result of the Company's sale of 100,000 shares of common stock at a price of $2.00 a share under the Purchase Agreement with Lincoln Park Capital LLC described below. See Note 7 for information regarding our recent prepayment of the Debentures.

The Company evaluated the common stock purchase warrants issued in connection with the original issuance of the 10% Senior Secured Debentures in October 2018 under ASC 815-40 and concluded that the warrants should be separately recognized at fair value as a liability. The liability is remeasured at fair value on a recurring basis using Level 3 input and any changes in fair value is recorded in earnings. In 2019, the Debentures were amended and restated to be convertible into common stock of EMI immediately prior to completion of the Merger, which resulted in the related warrants being reclassified to equity. The warrants also were amended and restated in their entirety in connection with the Merger.

The exercise price of the amended and restated warrants was reduced to $2.00 per share in February 2020, then reduced to $1.54 per share in March 2021 pursuant to the anti-dilution adjustment provisions of the warrants and the warrants were valued using Black-Scholes-Merton model. The fair value as of agreement date and the anti-dilution adjustment dates was based upon following assumptions:

	March 2, 2021 (Anti-dilution adjustment date)	February 28, 2020 (Anti-dilution adjustment date)	February 21, 2020 (Amendment date)
Exercise price	$ 1.54	$ 2.00	$ 3.00
Common stock fair value	$ 1.52	$ 1.60	$ 1.89
Volatility	101.00%-120.00%	93.00 %	92.00 %
Risk-free rate	0.21%-0.58%	0.86 %	1.29 %
Expected life (in years)	2.64-4.56	3.54	3.56

Purchase agreement with Holder of a Convertible Promissory Note - On June 15, 2020, the holder of a convertible promissory note in the principal amount of $3,150,000 agreed to an extension of the maturity date to June 15, 2023 in exchange for an increase in the interest rate on the note from 1% to 12% per annum. In conjunction with this amendment, the Company issued to the holder of note five-year **common stock purchase warrants to purchase a total of up to 1,250,000 shares of the Company common stock at an exercise price of $2.05 a share. Under ASC 815-40, the Company concluded that the warrants issued to the holder of the notes should be recognized at fair value as a liability. The warrant liability is remeasured at fair value on a recurring basis using Level 3 input and any changes in the fair value of liability is recorded in earnings.**

The following table presents the fair value and the change in fair value of the warrants as of March 31, 2021 and December 31, 2020 (in thousands):

Warrant liability—Wealth Threshold	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 988	$ —
Fair value at issuance date	—	1,425
Change in fair value included in the statement of comprehensive income (loss)	475	(437)
Balance, end of period	$ 1,463	$ 988

The fair value of the warrant derivative liability was determined using the Black-Scholes Merton model and was based upon following assumptions:

	March 31, 2021	December 31, 2020
Exercise price	$ 2.05	$ 2.05
Stock price	$ 1.71	$ 1.68
Risk-free interest rate	0.70 %	0.31 %
Expected volatility (peer group)	103.00 %	101.00 %
Expected life (in years)	4.21	4.46
Expected dividend yield	—	—
Number outstanding	1,250,000	1,250,000

A summary of outstanding warrants as of March 31, 2021 and December 31, 2020 is presented below:

	March 31, 2021	December 31, 2020
Warrants outstanding, beginning of period	8,439,480	4,931,099
Granted	—	3,625,000
Exercised	—	—
Cancelled, forfeited or expired	—	(116,619)
Warrants outstanding, end of period	8,439,480	8,439,480

A summary of outstanding warrants by year issued and exercise price as of March 31, 2021 is presented below:

	Outstanding			Exercisable	
Year issued and Exercise Price	Number of Warrants Issued	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Total	Weighted-Average Exercise Price
Prior to January 1, 2020					
$1.54-$36.24	4,814,480	1.54	$ 8.89	4,814,480	$ 8.89
Prior to Jan 1, 2020 Total	4,814,480			4,814,480	
At December 31, 2020					
$ 2.05	1,250,000	4.21	$ 2.05	—	—
$ 1.54	2,375,000	4.45	$ 1.54	2,375,000	$ 1.54
2020 Total	3,625,000			2,375,000	
At March 31, 2021					
$ —	—	—	$ —	—	$ —
Grand Total	8,439,480		Grand Total	7,189,480	

Summary of Plans – Upon completion of the Merger, the EMI Amended and Restated 2011 Stock Incentive Plan was assumed by the Company. The 2011 Stock Incentive Plan permits grants of incentive stock options to employees, including executive officers, and other share-based awards such as stock appreciation rights, restricted stock, stock units, stock bonus and unrestricted stock awards to employees, directors, and consultants for up to 9,000,000 shares of common stock. Options granted under the 2011 Stock Incentive Plan expire ten years after grant. Options granted to directors vest in equal quarterly installments and all other option grants vest over a minimum period of three years, in each case, subject to the optionee's all based on continuous service with the Company. Each stock option outstanding under the 2011 Stock Incentive Plan at the effective time of the Merger was automatically

converted into a stock option to purchase a number of shares of the Company's common stock and at an exercise price calculated based on the exchange ratio in the Merger.

The Company also has an Amended and Restated 2012 Omnibus Incentive Compensation Plan under which the Company may grant stock options and other stock awards to selected employees including officers, and to non-employee consultants and non-employee directors. All outstanding stock award under the 2012 Omnibus Incentive Compensation Plan were fully vested prior to the Merger and the Company intends not to make any further awards under thereunder.

Stock options—During the three months ended March 31, 2021, the Company did not issue any stock options. During the year ended December 31, 2020, the Company granted stock options to purchase 90,000 shares of common stock. All the options are exercisable for ten years from the date of grant and will vest and become exercisable with respect to the underlying shares as follows: as to one-third of the shares on the first anniversary of the grant date, and as to the remaining two-thirds shares in twenty-four approximately equal monthly installments over a period of two years thereafter.

A summary of outstanding stock options as of March 31, 2021 and December 31, 2020 is presented below.

	March 31, 2021		December 31, 2020	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	7,110,025	$ 4.63	7,245,350	$ 4.68
Granted or deemed granted	—	—	90,000	$ 2.05
Exercised	—	—	—	—
Cancelled, forfeited and expired	(23,102)	$ 4.16	(225,325)	$ 5.08
Options outstanding, end of period	7,086,923	$ 4.63	7,110,025	$ 4.63
Options exercisable, end of period	6,719,323	$ 4.60	6,986,268	$ 4.47
Options available for future grant	2,325,577		2,302,475	

The Company recognized approximately $0.2 million of share-based compensation expense for both three months ended March 31, 2021 and March 31, 2020. As of March 31, 2021, there was approximately $294,000 of total unrecognized compensation expense related to unvested share-based compensation which is expected to be recognized over the weighted-average remaining vesting period of 0.6 years.

Purchase Agreement with Lincoln Park Capital Fund, LLC—On February 28, 2020, the Company entered into a Purchase Agreement with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which the Company may elect to sell to LPC from time to time up to $25,000,000 in shares of its common stock, subject to certain limitations and conditions set forth in the Purchase Agreement, including 100,000 initial shares that the Company sold to LPC at a price of $2.00 per share.

Pursuant to the Purchase Agreement, on any business day over the 36-month term of the Purchase Agreement the Company has the right at its discretion and subject to certain conditions to direct LPC to purchase up to 20,000 shares of common stock, which amount is subject to increase under certain circumstances based upon increases in the market price of its common stock. The purchase price of the common stock will be based upon the prevailing market price of common stock at the time of the purchase without any fixed discount. In addition, the Company may direct LPC to purchase additional amounts as accelerated purchases and additional accelerated purchases under certain circumstances. Apart from the initial sale of shares described above, the Company is not obliged to sell any shares of common stock pursuant to the Purchase Agreement, and the Company will control the timing and amount of any such sales, but in no event will LPC be required to purchase more than $1,000,000 of common stock in any single regular purchase (excluding accelerated or additional accelerated purchases).

Concurrently with the execution of the Purchase Agreement on February 28, 2020, the Company entered into a Registration Rights Agreement pursuant to which the Company agreed to file a prospectus supplement pursuant to Rule 424(b) relating to the sale shares of common stock to be issued and sold to LPC under the Purchase Agreement under our effective shelf registration statement or a new registration statement and to use our reasonable best efforts to keep such registration statement effective during the term of the Purchase Agreement.

The Purchase Agreement contains customary representations, warranties, indemnification rights and other obligations and agreements of the company and LPC. There are no limitations and conditions to completing future transactions other than a prohibition against entering into a "Variable Rate Transaction" as defined in the Purchase Agreement. There is no upper limit on the price per share that LPC could be obligated to pay for common stock, but shares will only be sold to LPC on a day the Company's closing price is less

than the floor price as set forth in the Purchase Agreement and if the sale of the shares would not result in LPC and its affiliates having beneficial ownership of more than 4.99% of the Company's total outstanding shares of common stock. The Company has the right to terminate the Purchase Agreement at any time, at no cost or penalty. As consideration for LPC's commitments under the Purchase Agreement, the Company issued to LPC 415,743 shares of common stock, which valued at $750,000, recorded as an addition to equity for common stock and reduction for cost of capital raised.

As of the date of filing of this Quarterly Report, the Company was out of compliance with certain terms and conditions of the Purchase Agreement and unable to utilize the Purchase Agreement. The Company may seek to bring itself into compliance or seek an appropriate waiver from LPC to regain the ability to utilize the Purchase Agreement, but there can be no assurance when or whether the Company may be able to do so. If the Company is able to utilize the Purchase Agreement, whether or to what extent the Company sells shares of common stock to LPC under the Purchase Agreement will depend on a variety of factors to be determined by the Company from time to time, including, among others, its net revenue and other results of operations, its working capital and other funding needs, the prevailing market prices of the Company's common stock and the availability of other sources of funding.

Collaborative Research and Development Agreement with Kainos Medicine, Inc— On February 26, 2021, the Company entered into an agreement with Kainos Medicine, Inc. ("Kainos") to lead the preclinical development of Kainos' patented IRAK4 inhibitor ("KM10544") as an anti-cancer drug and further advance the research and development activity currently underway at Kainos. With this agreement in place, Kainos plans to complete the study of the therapeutic mechanism of action ("MOA") of KM10544 in solid cancers, blood cancers and lymphoma. The Company will be responsible for the investigation and proof of target disease selection, efficacy and safety. The companies also entered into a letter of intent regarding possible future joint development of small molecule therapeutics and other pharmaceutical assets.

Pursuant to the agreement, the Company paid $500,000 in cash and issued 324,675 of the Company's shares equivalent to $500,000 in consideration for entering into the agreement, which were recorded as research and development expenses in the condensed consolidated statements of operations and comprehensive income (loss). The Company, in turn, has been granted rights of first negotiation and first refusal for an exclusive license regarding the development and commercialization of products based on the intellectual property resulting from the agreement.

NOTE 9 — INCOME TAX

The quarterly provision for or benefit from income taxes is separately computed at an estimated annual effective tax rate to the year-to-date pre-tax income (loss) and other comprehensive income.

For the three months ended March 31, 2021 and March 2020, the Company recorded income tax provision of $18,000 and $0.3 million, respectively. The Company did not record a provision for federal income tax due to its net operating loss carryforwards. The Company established a full valuation allowance against its federal and state deferred tax asset and there was no unrecognized tax benefit as of March 31, 2021 and 2020.

NOTE 10 — LEASES

Operating leases — The Company leases its office space under operating leases with unrelated entities.

The Company leases 21,293 square feet of office space for our headquarters in Torrance, California, at a base rental of $30,886 per month, which lease will expire on September 30, 2026. The Company also leases an additional 1,850 square feet office space in New York, New York, at a base rent of $8,691, which lease will expire on January 31, 2023.

In addition, the Company leases 1,322 square feet of office space in Tokyo, Japan, which lease will expire on September 30, 2022 and 1,163 square feet of office space in Dubai, United Arab Emirates, which lease will expire on June 19, 2023.

The rent expense during the three months ended March 31, 2021 and March 31, 2020 amounted to approximately $301,000 and $311,000, respectively.

Future minimum lease payments under the lease agreements were as follows as of March 31, 2021 (in thousands):

		Amount
2021 (nine months)	$	864
2022		1,172
2023		1,058
2024		1,063
2025 and thereafter		1,928
Total lease payments		6,085
Less: Interest		1,600
Present value of lease liabilities	$	4,485

As of March 31, 2021, the Company had an operating lease right-of-use asset of $3.9 million and lease liability of $4.5 million in the condensed consolidated balance sheet. The weighted average remaining term of the Company's leases as of March 31, 2021 was 5.3 years and the weighted-average discount rate was 11.4%.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

API Supply Agreement — On June 12, 2017, the Company entered into an API Supply Agreement with Telcon pursuant to which Telcon paid the Company approximately $31.8 million in consideration of the right to supply 25% of the Company's requirements for bulk containers of PGLG for a fifteen-year term. The amount was recorded as deferred trade discount. On July 12, 2017, the Company entered into a raw material supply agreement with Telcon which revised certain terms of the original API Supply Agreement (the "Revised API Agreement"). The Revised API Agreement is effective for a term of five years and will renew automatically for 10 successive one-year renewal periods, except as either party may determine. In the Revised API Agreement, the Company has agreed to purchase a total of 940,000 kilograms of PGLG at $50 per kilogram, or a total of $47.0 million, over the term of the agreement. In September 2018, the Company entered into an agreement with Ajinomoto Health and Nutrition North America, Inc. ("Ajinomoto"), the producer of the PGLG, and Telcon to facilitate Telcon's purchase of PGLG from Ajinomoto for resale to the Company under the Revised API Agreement.

On June 16, 2019, the Company entered into an agreement with Telcon to adjust the price payable to Telcon under the Revised API Agreement from $50 per kilogram of PGLG to $100 per kilogram from July 1, 2019 through June 30, 2020, with the price payable after June 30, 2020 to be subject to agreement between the parties. The PGLG purchased from Telcon is recorded in inventory at net realizable value and the excess purchase price is recorded against deferred trade discount.

NOTE 12 — RELATED PARTY TRANSACTIONS

The following table sets forth information relating to loans from related parties outstanding on or at any time during the three months ended March 31, 2021 (in thousands):

Class	Lender	Interest Rate	Date of Loan	Term of Loan	Principal Amount Outstanding at March 31, 2021	Highest Principal Outstanding	Amount of Principal Repaid	Amount of Interest Paid
Current, Promissory note payable to related parties:								
	Willis Lee (2)	12%	10/29/2020	Due on Demand	$ 100	$ 100	$ —	$ —
				Subtotal	**100**	**100**	**—**	**—**
Revolving line of credit agreement								
	Yutaka Niihara (2)	5.25%	12/27/2019	Due on Demand	800	800	—	47
				Subtotal	**800**	**800**	**—**	**47**
				Total	**$ 900**	**$ 900**	**$ —**	**$ 47**

The following table sets forth information relating to loans from related parties outstanding at any time during the year ended December 31, 2020:

Class	Lender	Interest Rate	Date of Loan	Term of Loan	Principal Amount Outstanding at December 31, 2020	Highest Principal Outstanding	Amount of Principal Repaid	Amount of Interest Paid
Current, Promissory note payable to related parties:								
	Lan T. Tran (2)	10%	4/29/2016	Due on Demand	$ 20	$ 20	$ —	$ —
	Lan T. Tran (2)	11%	2/10/2018	Due on Demand	—	159	159	35
	Lan T. Tran (2)	10%	2/9/2019	Due on Demand	14	14	—	—
	Hope Int'l Hospice (1)	12%	9/1/2020	Due on Demand	—	194	194	2
	Hope Int'l Homecare (1)	12%	9/1/2020	Due on Demand	—	189	189	1
	Soomi Niihara (1)	12%	9/1/2020	Due on Demand	—	98	98	4
	Soomi Niihara (1)	12%	10/28/2020	Due on Demand	—	395	395	12
	Willis Lee (2)	12%	9/1/2020	Due on Demand	—	685	685	1
	Willis Lee (2)	12%	10/29/2020	Due on Demand	100	100	100	—
				Subtotal	**134**	**1,854**	**1,820**	**55**
Revolving line of credit								
	Yutaka Niihara (2)	5.25%	12/27/2019	Due on Demand	800	800	200	37
				Subtotal	**800**	**800**	**200**	**37**
				Total	**$ 934**	**$ 2,654**	**$ 2,020**	**$ 92**

(1) Dr. Niihara, a Director and the Chairman, and Chief Executive Officer of the Company, is also a director and the Chief Executive Officer of Hope International Hospice, Inc.

(2) Officer.

See Notes 6 and 11 for a discussion of the Company's agreements with Telcon, which holds4,147,491 shares of the Company common stock, or approximately 8.4% of the common stock outstanding as of March 31, 2021. As of March 31, 2021, the Company held a Telcon convertible bond in the principal amount of approximately $27.9 million as discussed in Note 5.

NOTE 13 — SUBSEQUENT EVENTS

The Company evaluated events subsequent to the balance sheet date through the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.

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

In the following discussion, the terms, "we," "us," "our," "Emmaus" or the "Company" refer to Emmaus Life Sciences, Inc., and its direct and indirect subsidiaries

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K/A for the year ended December 31, 2020 filed with the Securities and Exchange Commission ("SEC") on August 10, 2021 (the "Annual Report").

This Quarterly Report contains forward-looking statements that involve substantial risks and uncertainties. All statements other than historical facts contained in this report, including statements regarding our future financial position, capital expenditures, cash flows, business strategy and plans and objectives of management for future operations are forward-looking statements. The words "anticipate," "believe," "expect," "plan," "intend," "seek," "estimate," "project," "could," "may" and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect our management's current views with respect to future events and financial performance and involve risks and uncertainties, including those set forth in the "Risk Factors" section of the Annual Report, many of which are beyond our control.

Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements. We undertake no duty to amend or update these statements beyond what is required by SEC reporting requirements.

Company Overview

We are a commercial-stage biopharmaceutical company engaged in the discovery, development, marketing and sale of innovative treatments and therapies, primarily for rare and orphan diseases. On July 7, 2017, the U.S. Food and Drug Administration, or FDA, approved our lead product, Endari® (prescription-grade L-glutamine oral powder), to reduce the severe complications of sickle cell disease ("SCD"), in adult and pediatric patients five years of age and older. Endari® has received Orphan Drug designation from the FDA and Orphan Medical designation from the European Commission, which designations afford marketing exclusivity for Endari® for a seven-year period in the U.S. and ten-year period in the European Union, respectively, following marketing approval.

We commenced commercialization of Endari® in the U.S. in January 2018 in collaboration with a contract sales organization. Effective January 2020, we have relied upon our in-house commercial sales team. Endari® is reimbursable by the Centers for Medicare and Medicaid Services, and every state provides coverage for Endari® for outpatient prescriptions to all eligible Medicaid enrollees within their state Medicaid programs. Endari® is also reimbursable by many commercial payors. We have distribution agreements in place with the nation's leading distributors as well as physician group purchasing organizations and pharmacy benefits managers, making Endari® available at selected pharmacies nationwide.

Until we began marketing and selling Endari® in the U.S. in early 2018, we had minimal revenues and relied upon funding from sales of equity securities and debt financings and loans, including loans from related parties to fund our business and operations. As of March 31, 2021, our accumulated deficit was $233.8 million and we had cash and cash equivalents of $3.8 million.

Until we can generate sufficient net revenues, our future cash requirements are expected to be financed through public or private equity or debt financings, loans or corporate collaboration and licensing arrangements.

Financial Overview

Revenues, net

Since January 2018, we have generated net revenues primarily through the sale of Endari® as a treatment for SCD.

Net revenues from Endari® sales are recognized upon transfer to our distributors and specialty pharmacy providers. Distributors resell our products to other pharmacy and specialty pharmacy providers, health care providers, hospitals, and clinics. In addition to agreements with these distributors, we have entered into contractual arrangements with specialty pharmacy providers, in-office dispensing providers, physician group purchasing organizations, pharmacy benefits managers and government entities that provide for government-mandated or privately negotiated rebates, chargebacks and discounts with respect to the purchase of our

products. These various discounts, rebates, and chargebacks are referred to as “variable consideration” Revenue from product sales is recorded net of variable consideration.

Under the Accounting Standards Codification (“ASC”) 606, the Company recognizes revenue when its customers obtain control of the Company's product, which typically occurs on delivery. Revenue is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for the product, or transaction price. To determine revenue recognition for contracts with customers within the scope of ASC 606, the Company performs the following: (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 Company’s performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the relevant performance obligations.

Revenue from product sales is recorded at the transaction price, net of estimates for variable consideration consisting of sales discounts, returns, government rebates, chargebacks and commercial discounts. Variable consideration is estimated using the expected-value amount method, which is the sum of probability-weighted amounts in a range of possible transaction prices. Actual variable consideration may differ from the Company's estimates. If actual results vary from the Company's estimates, the Company adjusts the variable consideration in the period such variances become known, which would affect net revenues in that period. The following are our significant categories of variable consideration:

Sales Discounts: We provide our customers prompt payment and large order discounts and from time to time offer additional discounts for bulk orders that are recorded as a reduction of revenue in the period the revenue is recognized. Sales attributable to one-time discounts offered and may adversely affect sales in subsequent periods.

Product Returns: We offer our distributors a right to return product principally based upon (i) overstocks, (ii) inactive product or non-moving product due to market conditions, and (iii) expired product. Product return allowances are estimated and recorded at the time of sale.

Government Rebates: We are subject to discount obligations under state Medicaid programs and the Medicare Part D prescription drug coverage gap program. We estimate Medicaid and Medicare Part D prescription drug coverage gap rebates based upon a range of possible outcomes that are probability-weighted for the estimated payor mix. These reserves are recorded in the same period the related revenues are recognized, resulting in a reduction of product revenues and the establishment of a current liability that is included as accounts payable and accrued expenses on our balance sheet. Our liability for these rebates consists primarily of estimates of claims expected to be received in future periods related to recognized revenues.

Chargebacks and Discounts: Chargebacks for fees and discounts represent the estimated obligations resulting from contractual commitments to sell products to certain specialty pharmacy providers, in-office dispensing providers, group purchasing organizations, and government entities at prices lower than the list prices charged to distributors. The distributors charge us for the difference between what they pay for the products and our contracted selling price to these specialty pharmacy providers, in-office dispensing providers, group purchasing organizations, and government entities. In addition, we have contractual agreements with pharmacy benefit managers who charge us for rebates and administrative fee in connection with the utilization of product. These reserves are established in the same period that the related revenues are recognized, resulting in a reduction of revenues. Chargeback amounts are generally determined at the time of resale of product by our distributors.

Cost of Goods Sold

Cost of goods sold consists primarily of expenses for raw materials, packaging, shipping and distribution of Endari®.

Research and Development Expenses

Research and development expenses consist of expenditures for new products and technologies consisting primarily of fees paid to contract research organizations (“CRO”) that conduct clinical trials of our product candidates, payroll-related expenses, study site payments, consultant fees and activities related to regulatory filings, manufacturing development costs and other related costs. The costs of later-stage clinical studies such as Phase 2 and 3 trials are generally higher than those of earlier studies. This is primarily due to the larger size, expanded scope, patient related healthcare and regulatory compliance costs, and generally longer duration of later-stage clinical studies.

Our contracts with CROs are generally based on time and materials expended, whereas study site agreements are generally based on costs per patient as well as other pass-through costs, including start-up costs and institutional review board fees. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones.

Future research and development expenses will depend on any new product candidates or technologies that we may introduce into our research and development pipeline. In addition, we cannot predict which product candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree, if any, such arrangements would affect our development plans and capital requirements.

Due to the inherently unpredictable nature of the drug approval process and the interpretation of the regulatory requirements, we are unable to estimate the amount of costs of obtaining regulatory approval of Endari® outside of the U.S. or the development of our other preclinical and clinical programs. Clinical development timelines, the probability of success and development costs can differ materially from expectations and can vary widely. These and other risks and uncertainties relating to product development are described in the Annual Report under the headings "Risk Factors—Risks Related to Our Business" and "Risk Factors—Risks Related to Regulatory Oversight of Our Business and Compliance with Law."

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related employee costs, including share-based compensation for our directors, executive officers and employees. Other general and administrative expenses include facility costs, patent filing costs and professional fees and expenses for legal, consulting, auditing and tax services. Inflation has not had a material impact on our general and administrative expenses over the past two years.

Selling Expenses

Selling expenses consist principally of salaries and related costs for personnel involved in the launch, promotion, sale and marketing of our products. Other selling cost include advertising, third party consulting costs, the cost of in-house sales personnel and travel-related costs. We expect selling expenses to increase as we acquire additional sales and administrative personnel to support the commercialization of Endari® in the U.S. and abroad.

Inventories

Inventories consist of raw materials, finished goods and work-in-process and are valued on a first-in, first-out basis and at the lower of cost or net realizable value. Substantially all raw materials purchased during the three months ended March 31, 2021 and 2020 were supplied by one vendor.

Results of Operations:

Three months ended March 31, 2021 and 2020

Revenues, Net. Net revenues decreased by $1.6 million, or 23%, to $5.3 million for the three months ended March 31, 2021 compared to $7.0 million for the three months ended March 31, 2020. We believe that the decrease in net revenues was primarily attributable to temporary disruptions in sales related to the COVID-19 pandemic.

Cost of Goods Sold. Cost of goods sold decreased slightly by $42,000 or 9%, to approximately $436,000 for the three months ended March 31, 2021 compared to approximately $478,000 for the three months ended March 31, 2020. The decrease in cost of goods sold is due to the decrease in net revenues partially offset by $162,000 of reserve for Endari® inventory with a shelf-life less than two years.

Research and Development Expenses. Research and development expenses increased by $1.2 million, or 193%, to $1.8 million for the three months ended March 31, 2021 compared to $0.6 million for the three months ended March 31, 2020. This increase was primarily due to $500,000 in cash paid and $500,000 in shares of the Company's stock issued under the agreement with Kainos Medicine, Inc. ("Kainos") to lead the clinical development of Kainos' patented IRAK4 inhibitor and an increase of $ 0.2 million relates to a pharmacokinetic characteristic and safety study for Endari®. We expect our research and development costs to increase in the remainder of 2021 as our studies progress.

Selling Expenses. Selling expenses increased by $0.2 million, or 20%, to $1.3 million for the three months ended March 31, 2021 compared to $1.1 million for the three months ended March 31, 2020. The increase in selling expenses was primarily due to an increase of $0.2 million in in-house sales team compensation as we have increased on our in-house commercial team for marketing of Endari® in the U.S.

General and Administrative Expenses. General and administrative expenses decreased slightly by $0.2 million, or 6%, to $3.4 million for the three months ended March 31, 2021 compared to $3.6 million for the three months ended March 31, 2020. The decrease of general and administrative expenses was primarily due to a decrease of $0.2 million in consulting expenses.

Other Income (Expense). Total other expense increased by $11.5 million, or 246%, to $6.8 million for the three months ended March 31, 2021, compared to $4.7 million of other income for the three months ended March 31, 2020. The increase in other expenses was primarily due to a decrease of $6.8 million in net gain on investment in marketable securities, an increase of $2.3 million in loss on change in fair value of embedded conversion option, a $1.2 million in loss on debt extinguishment, and a $1.2 million increase in foreign exchange loss.

Net Income (Loss). Net loss for the three months ended March 31, 2021 increased by $13.9 million, or 245% to $8.4 million from a net income of $5.5 million for the three months ended March 31, 2020. The increase was primarily a result of increases of $11.5 million in other expense and $2.7 million in loss from operations as discussed above. These results are not necessarily indicative of the expected results for the full year.

Liquidity and Capital Resources

We anticipate that we will continue to incur net losses for the foreseeable future until we can generate increased net revenues from Endari® sales. Based on our losses, anticipated future revenues and operating expenses, cash and cash equivalents of $3.8 million as of March 31, 2021, and the remaining net proceeds from the recent sale of convertible promissory notes discussed in Note 7, we believe our working capital is sufficient to meet our needs at least through the third quarter of 2022. If future revenues are less than anticipated or we incur more expenses than we anticipate, we may not have sufficient operating capital for our business without curtailing certain operations or raising additional capital. Except as described below, we have no understanding or arrangements with respect to future financings, and there can be no assurance of the availability of such capital on terms acceptable to us or at all.

On February 28, 2020, we entered into a Purchase Agreement with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which we may elect to sell to LPC up to $25,000,000 in shares of our common stock, subject to certain limitations and conditions set forth in the Purchase Agreement from time to time over the 36-month term of the Purchase Agreement. As of the date of filing of this Quarterly Report, we are out of compliance with certain terms and conditions of the Purchase Agreement and unable to utilize the Purchase Agreement. We may seek to bring the Company into compliance or seek an appropriate waiver from LPC to regain our ability to utilize the Purchase Agreement, but there can be no assurance when or whether we may be able to do so.

Effective February 22, 2021, our subsidiary, Emmaus Medical, Inc., or Emmaus Medical, entered into a purchase and sale agreement with Prestige Capital Finance, LLC, or Prestige Capital, pursuant to which Emmaus Medical may offer and sell to Prestige Capital from time to time eligible accounts receivable in exchange for Prestige Capital's down payment, or advance, to Emmaus Medical of 70% (subject to increase to 75%) of the face amount of the accounts receivable, subject to a $7,500,000 cap on advances at any time. The balance of the face amount of the accounts receivable will be reserved by Prestige Capital and paid to Emmaus Medical, less discount fees of Prestige Capital ranging from 2.25% to 7.25% of the face amount, as and when Prestige Capital collects the entire face amount of the accounts receivable. In March 2021, we completed our first transaction under the purchase and sale agreement.

Cash flows for the three months ended March 31, 2021 and March 31, 2020

Net cash from operating activities

Net cash provided by (used in) operating activities decreased by $5.8 million, or 321%, to net cash used in operating activities of $4.0 million for the three months ended March 31, 2021 from net cash provided by operating activities of $1.8 million for the three months ended March 31, 2020. This decrease was primarily due to a $2.7 million decrease in income from operations and a decrease of $3.1 million in working capital.

Net cash from investing activities

Net cash used in investing activities increased by $1.8 million, to $1.8 million for the three months ended March 31, 2021 from $3,000 for the three months ended March 31, 2020. This increase was primarily due to a $1.8 million loan made to equity method investee.

Net cash from financing activities

Net cash provided by (used in) financing activities increased by $8.4 million, or 618%, to net cash provided by financing activities of $7.0 million for the three months ended March 31, 2021 from net cash used in financing activities of $1.4 million for the three months ended March 31, 2020. This increase was the result of $14.4 million in proceeds from the convertible promissory notes payable issued offset by $5.7 million increase in payment of convertible notes.

Off-Balance-Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the present circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

Refer to "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Amended Annual Report for our critical accounting policies. There have been no material changes in any of our critical accounting policies during the three months ended March 31, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures ("DCP") are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. DCP include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures.

As of the end of the period covered by this Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of our DCP. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that the Company's DCP were not effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2021 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material Weakness and Plan of Remediation

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that pose a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses might cause information required to be disclosed by the Company in the reports that it files or submits to not be recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

We conducted an evaluation pursuant to Rule 13a-15 of the Exchange Act of the effectiveness of the design and operation of our DCP as of March 31, 2020. This evaluation was conducted under the supervision (and with the participation) of our management, including our Chief Executive Officer and Interim Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our DCP were not effective as of March 31, 2021, because of the continuance of a material weaknesses in our internal control over financial reporting first identified in 2019 due to inadequate application of GAAP on certain complex transactions, inadequate financial closing process, timely filing of periodic and annual financial statements, segregation of duties including access control of information technology especially financial information, inadequate documentation

of policies and procedures over risk assessments, internal control and significant account processand insufficient entity risk assessment process.

In 2019, we began to implement measures designed to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses, including, without limitation:

- engaging a third-party accounting consulting firm to assist us in the review of our application of GAAP on complex debt financing transactions and revenue recognition under ASC 606;
- using a GAAP Disclosure and SEC Reporting Checklist;
- increasing the continuing professional training and academic education on accounting subjects for accounting staff;
- enhancing the level of the precision of review controls related to our financial close and reporting; and
- engaging other supplemental internal and external resources.

Our management and board of directors are committed to the remediation of the material weaknesses, as well as the continued improvement of our overall system of internal control over financial reporting. In addition to the measures described above, we also intend to consider upgrading our financial accounting systems and software as our finances permit. Further, we will consider establishing a Disclosure Committee to ensure more effective internal communications significant transactions.

We believe these measures will remediate the control deficiencies that gave rise to the material weakness. As we continue to evaluate and work to remediate these control deficiencies, we may determine that additional remediation measures may be required.

We are committed to maintaining a strong internal control environment and believe that these remediation actions will represent improvements in our internal control over financial reporting when they are fully implemented. The material weaknesses will not be considered fully remediated until controls have been designed and implemented for a sufficient period of time for our management to conclude that the control environment is operating effectively. Additional remediation measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our internal control over financial reporting and DCP.

As we continue to evaluate and work to remediate the Material Weakness and enhance our internal control over financial reporting and DCP, we may determine that we need to modify or otherwise adjust the remediation measures described above. As a result, we cannot assure you that our remediation efforts will be successful or that our internal control over financial reporting or DCP will be effective.

Part II. Other Information

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

Please refer to the "Risk Factors" section of the Annual Report.

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

On February 9, 2021, the Company entered into a securities purchase agreement with an effective date of February 8, 2021 pursuant to which the Company has agreed to sell and issue to the purchasers thereunder in a private placement pursuant to Rule 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D thereunder a total of up to $17 million in principal amount of convertible promissory notes of the Company for a purchase price equal to the principal amount thereof. As of March 31, 2021, we had sold approximately $14.5 million of the convertible promissory notes. Of the net proceeds from the sale of the convertible promissory notes, $6.2 million was used to prepay the outstanding 10% Senior Secured Convertible Debentures as described above.

Commencing one year from the original issue date, the convertible promissory notes will be convertible at the option of the holder into shares of our common stock at an initial conversion price of $1.48 per share, which equaled the "Average VWAP" (as defined) of our common stock on the effective date. The initial conversion price will be adjusted as of the end of each three-month period following the original issue date, commencing May 31, 2021, to equal the Average VWAP as of the end of such three-month period if such Average VWAP is less than the then-conversion price. The conversion price will be subject to further adjustment in the event of a stock split, reverse stock split or certain other events specified in the convertible promissory notes.

The exchange of the newly Amended and Restated 10% Senior Secured Convertible Debentures of EMI and newly amended and restated warrants of the Company for the Former Debentures and the Former Warrants was made without registration under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemption from registration afforded by Section 3(a)(9) of the Act for securities exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is given directly or indirectly for soliciting such exchange.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished
		Form	File No.	Exhibit	Filing Date	
10.1	Promissory Note dated January 20, 2021 issued by registrant to Soomi Niihara					*
10.2	Promissory Note dated February 17, 2021 issued by registrant to Shigeru Matsuda					*
10.3	Securities Purchase Agreement dated as of February 8, 2021 among Emmaus Life Sciences, Inc. and the "Purchasers" Thereunder	8-K	001-35527	10.1	February 16, 2021	
10.4	Transfer Restriction and Voting Agreement dated February 8, 2021 between Emmaus Life Sciences, Inc. and the "Purchaser" Thereunder	8-K	001-35527	10.2	February 16, 2021	
10.5	Purchase and Sale Agreement dated , 2021 between Emmaus Medical, Inc. and Prestige Capital Finance, LLC	8-K	001-35527	10.1	February 22, 2021	
31.1+	Certification of Chief Executive Officer pursuant to Item 601(b) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2+	Certification of Chief Financial Officer pursuant of Item 601(b) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1+	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					*
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					

* Filed herewith.

+ This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

EMMAUS LIFE SCIENCES, INC.

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.

Emmaus Life Sciences, Inc.

Dated: September 1, 2021

By: /s/ Yutaka Niihara
Name: Yutaka Niihara, M.D., M.P.H.
Its: Chief Executive Officer

By: /s/ Yasushi Nagasaki
Name: Yasushi Nagasaki
Its: Interim Chief Financial Officer

Exhibit 10.1

EMMAUS LIFE SCIENCES, INC.
Promissory Note

Principal Amount: $700,000.00 Loan Date: January 20, 2021
Currency: U.S. dollars Term: NA
Interest Rate: 12% per year Loan Due Date: Due on demand
Interest Payment Period: Interest is payable upon Loan Due Date
Lender: Soomi Niihara

FOR VALUE RECEIVED, Emmaus Life Sciences, Inc., a Delaware corporation, located at 21250 Hawthorne Blvd., Suite 800 Torrance, CA 90503 ("Borrower") agrees to pay to Lender or her registered assigns the Principal Amount in the stated Currency, together with any accrued interest at the stated Interest Rate, under the following terms and conditions of this Promissory Note ("Note").

1. Terms of Repayment (Balloon Payment): The entire unpaid Principal Amount and any accrued interest shall become immediately due and payable upon the stated Loan Due Date. Simple interest at the stated Interest Rate will accrue on the outstanding Principal Amount commencing on the Loan Date of this Note and the Borrower shall make payments of interest only as per the stated Interest Payment Period.

2. Prepayment: This Note may be prepaid in whole or in part at any time after the Loan Date without premium or penalty. All prepayments shall first be applied to accrued interest, and then to principal.

3. Place of Payment: All payments due under this Note shall be sent to the Lender's address, as noted in Attachment 1 hereto, or at such other place as the Lender or subsequently assigned holder of this Note may designate in writing in the future.

4. Default: In the event of default, the Borrower agrees to pay all costs and expenses incurred by the Lender, including all reasonable attorney's fees as permitted by law for the collection of this Note upon default.

5. Acceleration of Debt: If the Borrower (i) fails to make any payment due under the terms of this Note or seeks relief under the U.S. Bankruptcy Code, (ii) suffers an involuntary petition in bankruptcy or receivership that is not vacated within thirty (30) days, (iii) consents to the appointment of a receiver, trustee, assignee, liquidator or similar official or such appointment is not discharged or stayed within 30 days, (iv) makes a general assignment for the benefit of its

creditors or (v) admits in writing that it is generally unable to pay its debts as they become due, the entire balance of this Note and any interest accrued thereon shall be immediately due and payable to the holder of this Note.

6. Modification: No modification or waiver of any of the terms of this Note shall be allowed unless by written agreement signed by the parties. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

7. Complete Note: This Note is the complete and exclusive statement of agreement of the parties with respect to matters in this Note. This Note replaces and supersedes all prior written or oral agreements or statements by and among the parties with respect to the matters covered by it. No representation, statement, condition or warranty not contained in this Note is binding on the parties.

8. Transfer of the Note: This Note may be transferred, in whole or in part, at any time or from time to time, by the Lender. If this Note is to be transferred, the Lender shall surrender this Note to the Borrower, whereupon the Borrower will forthwith issue and deliver upon the order of the Lender a new Note registered as the Lender may request, representing the outstanding Principal Amount being transferred by the Lender and, if less then the entire outstanding Principal Amount is being transferred, a new Note to the Lender representing the outstanding Principal Amount not being transferred.

9. Lost, Stolen or Mutilated Note: Upon receipt by the Borrower of evidence reasonably satisfactory to the Borrower of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Lender to the Borrower in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Borrower shall execute and deliver to the Lender a new Note representing the outstanding Principal Amount and accrued and unpaid interest thereon.

10. Severability of Provisions: If any portion of this Note is deemed unenforceable, all other provisions of this Note shall remain in full force and effect.

11. Choice of Law: All terms and conditions of this Note shall be interpreted under the laws of California, U.S.A., without regard to conflict of law principles.

Signed Under Penalty of Perjury, this _20th_ day of _January____, _2021_

Emmaus Life Sciences, Inc.

By: _____
Willis C. Lee, Chief Operating Officer

By: _____
Investor

ATTACHMENT 1

Lender's Name: Soomi Niihara

Lender's Address:

Exhibit 10.2

EMMAUS MEDICAL JAPAN
Promissory Note

Principal Amount: __JPY101,687,488____ Loan Date: ___02/17/2021_____
Currency: __Japanese Yen_____ Term: ___2 Years_____
Interest Rate: __11.0%_____ Loan Due Date: __Due on demand_____
Interest Payment Period: __ Interest is payable annually _____
Lender: _____Shigeru Matsuda _____

FOR VALUE RECEIVED, Emmaus Medical, Japan, a Japanese corporation, located at 2-20-11 Hongo Bunkyo-ku 113-0033 Tokyo Japan ("Borrower") agrees to pay to Lender the sum of the Principal Amount in the stated Currency, together with any accrued interest at the stated Interest Rate, under the following terms and conditions of this this Promissory Note ("Note").

1. Terms of Repayment (Balloon Payment): The entire unpaid Principal Amount and any accrued interest shall become immediately due and payable upon the stated Loan Due Date. Simple interest at the stated Interest Rate will accrue on the outstanding Principal Amount commencing on the Loan Date of this Note and the Borrower shall make payments of interest only as per the stated Interest Payment Period.

2. Prepayment: This Note may be prepaid in whole or in part at any time after six months of the Loan Date without premium or penalty. All prepayments shall first be applied to interest, and then to principal payments.

3. Place of Payment: All payments due under this Note shall be sent to the Lender's address, as noted in Attachment 1 hereto, or at such other place as the Lender or subsequently assigned holder of this Note may designate in writing in the future.

4. Default: In the event of default, the Borrower agrees to pay all costs and expenses incurred by the Lender, including all reasonable attorney fees as permitted by law for the collection of this Note upon default.

5. Acceleration of Debt: If the Borrower (i) fails to make any payment due under the terms of this Note or seeks relief under the Japanese Bankruptcy Code, (ii) fails to deliver shares to the Lender by the deadline set forth in Section 4 hereof, (iii) suffers an involuntary petition in bankruptcy or receivership that is not vacated within thirty (30) days, (iv) consents to the appointment of a receiver, trustee, assignee, liquidator or similar official or such appointment is not discharged or stayed within 30 days, (v) makes a general assignment for the benefit of its

creditors or (vi) admits in writing that it is generally unable to pay its debts as they become due, the entire balance of this Note and any interest accrued thereon shall be immediately due and payable to the holder of this Note.

6. Modification: No modification or waiver of any of the terms of this Note shall be allowed unless by written agreement signed by the parties. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

7. Complete Note: This Note is the complete and exclusive statement of agreement of the parties with respect to matters in this Note. This Note replaces and supersedes all prior written or oral agreements or statements by and among the parties with respect to the matters covered by it. No representation, statement, condition or warranty not contained in this Note is binding on the parties.

8. Transfer of the Note: This Note may be transferred, in whole or in part, at any time or from time to time, by the Lender. The Borrower hereby waives any notice of the transfer of this Note by the Lender or by any subsequent holder of this Note, agrees to remain bound by the terms of this Note subsequent to any transfer, and agrees that the terms of this Note may be fully enforced by any subsequent holder of this Note. If this Note is to be transferred, the Lender shall surrender this Note to the Borrower, whereupon the Borrower will forthwith issue and deliver upon the order of the Lender a new Note registered as the Lender may request, representing the outstanding Principal Amount being transferred by the Lender and, if less then the entire outstanding Principal Amount is being transferred, a new Note to the Lender representing the outstanding Principal Amount not being transferred. This Note may not be transferred by the Borrower, by operation of law or otherwise, without the prior written consent of the Lender.

9. Lost, Stolen or Mutilated Note: Upon receipt by the Borrower of evidence reasonably satisfactory to the Borrower of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Lender to the Borrower in customary form and, in the case of mutilation, upon surrender and cancellation of this Note, the Borrower shall execute and deliver to the Lender a new Note representing the outstanding Principal Amount and accrued and unpaid interest thereon.

10. Remedies: The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Lender's right to pursue actual and consequential damages for any failure by the Borrower to comply with the terms of this Note.

11. Severability of Provisions: If any portion of this Note is deemed unenforceable, all other provisions of this Note shall remain in full force and effect.

12. Insufficient Authorized Shares: The Borrower shall take all reasonable best action necessary to increase the Borrower's authorized shares of common stock to an amount sufficient to allow Borrower to reserve the Required Reserve Amount for the Note.

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13. Choice of Law: All terms and conditions of this Note shall be interpreted under the laws in Japan.
Signed Under Penalty of Perjury, this __17th___ day of _February____, _2021_____

Emmaus Medical, Japan

_____
By: Yutaka Niihara, MD, Board of Director

_____
By: Lender

ATTACHMENT 1

Lender's Name: Shigeru Matsuda

Lender's Address:

Exhibit 31.1

Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Yutaka Niihara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmaus Life Sciences, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 1, 2021

/s/ Yutaka Niihara

Yutaka Niihara, M.D., M.P.H.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Yasushi Nagasaki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Emmaus Life Sciences, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 1, 2021

/s/ Yasushi Nagasaki

Yasushi Nagasaki
Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Emmaus Life Sciences, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

/s/ Yutaka Niihara

Yutaka Niihara, M.D., M.P.H.
Chief Executive Officer
(Principal Executive Officer)
September 1, 2021

/s/ Yasushi Nagasaki

Yasushi Nagasaki
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)
September 1, 2021