

**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 June 30, 2022

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**

(State or other jurisdiction of incorporation or organization)

**87-0419387**

(I.R.S. Employer Identification No.)

**21250 Hawthorne Boulevard, Suite 800, Torrance, California**

(Address of principal executive offices)

**90503**

(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 49,558,501 shares of common stock, par value \$0.001 per share, outstanding as of August 10, 2022.

**EMMAUS LIFE SCIENCES, INC.**  
**For the Quarterly Period Ended June 30, 2022**  
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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	
	June 30, 2022 (Unaudited)	December 31, 2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 982	\$ 2,279
Accounts receivable, net	1,235	1,040
Inventories, net	3,134	4,392
Prepaid expenses and other current assets	1,235	1,380
Total current assets	6,586	9,091
Property and equipment, net	85	147
Equity method investment	16,982	17,616
Right of use assets	3,085	3,485
Investment in convertible bond	18,990	26,100
Other assets	261	295
Total assets	\$ 45,989	\$ 56,734
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 10,718	\$ 9,189
Operating lease liabilities, current portion	718	740
Conversion feature derivative, notes payable	8,122	7,507
Other current liabilities	2,791	4,404
Revolving line of credit from related party	400	400
Warrant derivative liabilities	—	1,503
Notes payable, current portion, net of discount	6,394	2,399
Notes payable to related parties	2,871	800
Convertible notes payable, net of discount	14,062	10,158
Total current liabilities	46,076	37,100
Operating lease liabilities, less current portion	2,854	3,261
Other long-term liabilities	31,694	33,173
Notes payable, less current portion	—	1,500
Convertible notes payable	—	3,150
Total liabilities	80,624	78,184
<b>STOCKHOLDERS' DEFICIT</b>		
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, 49,558,501 and 49,311,864 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	50	49
Additional paid-in capital	220,800	220,022
Accumulated other comprehensive loss	(3,339)	(255)
Accumulated deficit	(252,146)	(241,266)
Total stockholders' deficit	(34,635)	(21,450)
Total liabilities & stockholders' deficit	\$ 45,989	\$ 56,734

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)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>REVENUES, NET</b>	\$ 4,287	\$ 6,489	\$ 7,521	\$ 11,824
<b>COST OF GOODS SOLD</b>	396	430	1,403	866
<b>GROSS PROFIT</b>	3,891	6,059	6,118	10,958
<b>OPERATING EXPENSES</b>				
Research and development	298	753	764	2,562
Selling	1,952	1,453	3,412	2,736
General and administrative	3,081	3,370	6,450	6,792
Total operating expenses	5,331	5,576	10,626	12,090
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,440)	483	(4,508)	(1,132)
<b>OTHER INCOME (EXPENSE)</b>				
Loss on debt extinguishment	—	—	—	(1,172)
Change in fair value of warrant derivative liabilities	542	338	1,290	(191)
Change in fair value of conversion feature derivative, notes payable	(3,695)	2,563	(615)	225
Realized loss on investment in convertible bond	—	—	(133)	—
Net loss on equity method investment	(493)	(582)	(1,059)	(1,336)
Foreign exchange loss	(2,470)	(43)	(3,661)	(1,175)
Interest and other income	133	191	355	381
Interest expense	(1,287)	(653)	(2,024)	(1,707)
Total other income (expense)	(7,270)	1,814	(5,847)	(4,975)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(8,710)	2,297	(10,355)	(6,107)
<b>INCOME TAXES (BENEFIT)</b>	182	(192)	79	(174)
<b>NET INCOME (LOSS)</b>	(8,892)	2,489	(10,434)	(5,933)
<b>COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized gain on debt securities available for sale (net of tax)	(4,415)	546	(4,065)	604
Reclassification adjustment for loss included in net income	—	—	7	—
Foreign currency translation adjustments	643	(8)	974	157
<b>Other comprehensive income (loss)</b>	(3,772)	538	(3,084)	761
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ (12,664)	\$ 3,027	\$ (13,518)	\$ (5,172)
<b>EARNINGS (NET LOSS) PER COMMON SHARE - BASIC AND DILUTED</b>	\$ (0.18)	\$ 0.05	\$ (0.21)	\$ (0.12)
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</b>	49,319,995	49,311,864	49,315,952	49,193,474

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 capital	Accumulated other comprehensive income (loss)	Accumulated loss	Total stockholders' deficit
	Shares	Amount				
Balance at January 1, 2022	49,311,864	\$ 49	\$ 220,022	\$ (255)	\$ (241,266)	\$ (21,450)
Share-based compensation	—	—	5	—	—	5
Unrealized gain on debt securities available for sale (net of tax)	—	—	—	350	—	350
Reclassification adjustment for loss included in net income	—	—	—	7	—	7
Foreign currency translation effect	—	—	—	331	—	331
Net loss	—	—	—	—	(1,542)	(1,542)
Balance, March 31, 2022	49,311,864	49	220,027	433	(242,808)	(22,299)
Reclassification of warrants from liability to equity	—	—	213	—	—	213
Fair value of warrants including down-round protection adjustments	—	—	446	—	(446)	—
Common stock issued for services	246,637	1	109	—	—	110
Share-based compensation	—	—	5	—	—	5
Unrealized loss on debt securities available for sale (net of tax)	—	—	—	(4,415)	—	(4,415)
Foreign currency translation effect	—	—	—	643	—	643
Net income	—	—	—	—	(8,892)	(8,892)
Balance, June 30, 2022	49,558,501	\$ 50	\$ 220,800	\$ (3,339)	\$ (252,146)	\$ (34,635)

  

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated loss	Total stockholders' deficit
	Shares	Amount				
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)
Share-based compensation	—	—	274	—	—	274
Unrealized gain on debt securities available for sale (net of tax)	—	—	—	546	—	546
Foreign currency translation effect	—	—	—	(8)	—	(8)
Net income	—	—	—	—	2,489	2,489
Balance, June 30, 2021	49,311,864	\$ 49	\$ 219,924	\$ 1,905	\$ (231,253)	\$ (9,375)

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)

	Six Months Ended June 30,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (10,434)	\$ (5,933)
Adjustments to reconcile net loss to net cash flows used in operating activities		
Depreciation and amortization	28	30
Inventory reserve	1,008	300
Amortization of discount of notes payable and convertible notes payable	770	1,028
Foreign exchange adjustments	3,811	1,215
Tax benefit recognized on unrealized gain on debt securities	—	(201)
Net gain on investment in marketable securities	133	—
Loss on equity method investment	1,059	1,336
Loss on debt extinguishment	—	1,172
Loss on disposal of property and equipment	2	(1)
Loss on leased assets	22	—
Share-based compensation	10	455
Shares issued for services	—	500
Change in fair value of warrant derivative liabilities	(1,290)	191
Change in fair value of conversion feature derivative, notes payable	615	(225)
Net changes in operating assets and liabilities		
Accounts receivable	(188)	(3,163)
Inventories	233	237
Prepaid expenses and other current assets	302	5
Other non-current assets	321	272
Income tax receivable and payable	63	(14)
Accounts payable and accrued expenses	1,172	(884)
Other current liabilities	(3,002)	197
Other long-term liabilities	(431)	(276)
Net cash flows used in operating activities	(5,796)	(3,759)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of convertible bond	2,919	—
Purchases of property and equipment	(18)	(1)
Loan to equity method investee	(3,326)	(3,965)
Net cash flows used in investing activities	(425)	(3,966)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable issued, net of issuance cost and discount	5,039	700
Proceeds from convertible notes payable issued, net of issuance cost and discount	—	14,490
Payments of notes payable	(90)	(1,079)
Payments of convertible notes	—	(7,200)
Net cash flows provided by financing activities	4,949	6,911
Effect of exchange rate changes on cash	(25)	(2)
Net decrease in cash, cash equivalents and restricted cash	(1,297)	(816)
Cash, cash equivalents and restricted cash, beginning of period	2,279	2,487
Cash, cash equivalents and restricted cash, end of period	\$ 982	\$ 1,671
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES</b>		
Interest paid	\$ 285	\$ 590
Income taxes paid	\$ 16	\$ 41
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Debt discount due to conversion features derivative	\$ —	\$ 5,555
Debt discount due to deferred financing cost	\$ 134	\$ —

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

**EMMAUS LIFE SCIENCES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 — BASIS OF PRESENTATION**

The accompanying unaudited condensed 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”) on the basis that the Company will continue as a going concern. 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. Due to the uncertainty of the Company’s ability to meet its current liabilities and operating expenses, there is substantial doubt about the Company’s ability to continue as a going concern, as the continuation and any expansion of its business is dependent upon obtaining further financing, market acceptance of Endari®, and achieving a profitable level of revenues. The consolidated interim financial statements do not include any adjustments that might result from the outcome of these uncertainties. The condensed consolidated interim financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”) filed with the Securities and Exchange Commission (“SEC”) on March 31, 2022 and Quarterly Report on Form 10-Q filed with the SEC on May 13, 2022. The accompanying condensed consolidated balance sheet at December 31, 2021 has been derived from the audited consolidated balance sheet at December 31, 2021 contained in the Annual Report. The results of operations for the three and six months ended June 30, 2022, are not necessarily indicative of the results to be expected for the full year or any future interim period.

**Nature of Operations**

The Company is a commercial-stage biopharmaceutical company engaged in the discovery, development, marketing and sale of innovative treatments and therapies, primarily for rare and orphan diseases. The Company’s lead product, Endari® (prescription grade L-glutamine oral powder), is approved by the U.S. Food and Drug Administration, or FDA, to reduce the acute complications of sickle cell disease (“SCD”) in adult and pediatric patients five years of age and older.

**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 for the year ended December 31, 2021. There have been no material changes in these policies or their application.

**Going concern—** The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The Company incurred a net loss of \$10.4 million for the six months ended June 30, 2022 and had a working capital deficit of \$39.5 million. Management expects that the Company’s current liabilities, operating losses and expected capital needs, including the expected costs relating to the commercialization of Endari® in the Middle East North Africa region and elsewhere, will exceed its existing cash balances and cash expected to be generated from operations for the foreseeable future. In order to meet the Company’s current liabilities and future obligations, the Company will need to restructure or refinance its existing indebtedness and raise additional funds through related-party loans, equity or debt financings or licensing or other strategic agreements. The Company is in discussions with the holders of its outstanding convertible promissory notes and certain other creditors to restructure or refinance the convertible promissory notes and other current liabilities, but has no understanding or agreement to do so and has no understanding or arrangement for any additional financing. There can be no assurance that the Company will be able to restructure or refinance its existing indebtedness or other current liabilities or complete any additional equity or debt financings on favorable terms, or at all, or enter into licensing or other strategic arrangements. Due to the uncertainty of the Company’s ability to meet its current liabilities and operating expenses, there is substantial doubt about the Company’s ability to continue as a going concern for 12 months from the date of this filing. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

**Factoring accounts receivables —** Emmaus Medical, Inc., or Emmaus Medical, an indirect wholly owned subsidiary of Emmaus, is party to a purchase and sales 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 75% of the face amount of the accounts receivable, subject to a \$7.5

million 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 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. Emmaus Medical's obligations to Prestige Capital under the purchase and sale agreement are secured by a security interest in the accounts receivable and all or substantially all other assets of Emmaus Medical. In connection with the purchase and sale agreement, Emmaus has guaranteed Emmaus Medical's obligations under the purchase and sale agreement. At June 30, 2022, accounts receivable included \$402,000 of factoring accounts receivable and there were \$14,000 liabilities related to factoring reflected in other current liabilities. For three and six months ended June 30, 2022, the Company incurred approximately \$101,000, and \$154,000, respectively, of factoring fees.

**Net loss per share** — In accordance with Accounting Standard Codification ("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. Diluted net loss per share is computed in a manner similar to basic net 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 June 30, 2022 and June 30, 2021, the Company had outstanding potentially dilutive securities exercisable for or convertible into 52,523,286 shares and 23,326,667 shares, respectively, of the Company's common stock. No potentially dilutive securities were included in the calculation of diluted net loss per share since the potential dilutive securities were anti-dilutive for period ended June 30, 2021 and June 30, 2022.

### NOTE 3 — REVENUES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Endari®	\$ 4,261	\$ 6,445	\$ 7,309	\$ 11,596
Other	26	44	212	228
Revenues, net	<u>\$ 4,287</u>	<u>\$ 6,489</u>	<u>\$ 7,521</u>	<u>\$ 11,824</u>

The following table summarizes the revenue allowance and accrual activities for the six months ended June 30, 2022 and June 30, 2021 (in thousands):

	Trade Discounts, Allowances and Chargebacks	Government Rebates and Other Incentives	Returns	Total
Balance as of December 31, 2021	\$ 1,480	\$ 3,134	\$ 540	\$ 5,154
Provision related to sales in the current year	1,329	1,311	159	2,799
Adjustments related prior period sales	(56)	13	728	685
Credit and payments made	(1,288)	(1,055)	(854)	(3,197)
Balance as of June 30, 2022	<u>\$ 1,465</u>	<u>\$ 3,403</u>	<u>\$ 573</u>	<u>\$ 5,441</u>
Balance as of December 31, 2020	\$ 134	\$ 2,119	\$ 473	\$ 2,726
Provision related to sales in the current year	1,417	1,870	127	3,414
Adjustments related prior period sales	12	5	(59)	(42)
Credit and payments made	(581)	(1,657)	(20)	(2,258)
Balance as of June 30, 2021	<u>\$ 982</u>	<u>\$ 2,337</u>	<u>\$ 521</u>	<u>\$ 3,840</u>

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Customer A	50%	48%	31%	54%
Customer B	9%	36%	23%	28%
Customer C	10%	8%	12%	8%
Customer D	15%	0%	9%	0%

The Company is party to a distributor agreement with Telcon Pharmaceutical RF, Inc., or Telcon pursuant to which the Company 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 the Company specified minimum quantities of the PGLG. 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 specified in the distributor agreement 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 fee is included in other long-term liabilities as unearned revenue as of June 30, 2022 and December 31, 2021. Refer to Note 6 and 11 and for additional transaction details.

#### NOTE 4 — SELECTED FINANCIAL STATEMENT — ASSETS

Inventories consisted of the following (in thousands):

	June 30, 2022	December 31, 2021
Raw materials and components	\$ 1,441	\$ 1,439
Work-in-process	362	115
Finished goods	5,739	6,228
Inventory reserve	(4,408)	(3,390)
Total inventories, net	<u>\$ 3,134</u>	<u>\$ 4,392</u>

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

	June 30, 2022	December 31, 2021
Prepaid insurance	\$ 378	\$ 660
Prepaid expenses	435	326
Other current assets	422	394
Total prepaid expenses and other current assets	<u>\$ 1,235</u>	<u>\$ 1,380</u>

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

	June 30, 2022	December 31, 2021
Equipment	\$ 358	\$ 342
Leasehold improvements	39	39
Furniture and fixtures	99	103
Construction-in-progress	—	57
Total property and equipment	496	541
Less: accumulated depreciation	(411)	(394)
Total property and equipment, net	<u>\$ 85</u>	<u>\$ 147</u>

During the three months ended June 30, 2022 and 2021, depreciation expense was approximately \$10,000 and \$12,000, respectively. During the six months ended June 30, 2022 and 2021, depreciation expense was approximately \$21,000 and \$23,000, respectively.

#### NOTE 5 — INVESTMENTS

**Investment in convertible bond** - 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 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 October 16, 2021, the Company became 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 KRW9,232, or approximately \$8.00 per share. The initial conversion price is subject to downward adjustment monthly based on the volume-weighted average market price of Telcon shares as reported on Korean Securities Dealers Automated Quotations Market and in the event of the issuance of Telcon shares or share equivalents at a price below the market price of Telcon shares or upon a merger or similar reorganization of Telcon or a stock split, reverse stock split, stock dividend or similar event. The conversion price as of June 30, 2022 is set forth in the "Investment in convertible bond" table below. The convertible bond and any proceeds therefrom, including proceeds from any exercise of the early redemption right described above or the call option described below, are pledged as collateral to secure the Company's obligations under the API Supply Agreement and revised API Agreement with Telcon described in Note 6 and Note 11.

Concurrent with the purchase of the convertible bond, the Company entered into an 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 at any time and from time to time commencing October 16, 2021 and prior to maturity.

The Company has elected the fair value option method of accounting for the investment in convertible bond. The investment in convertible bond 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 (loss). The fair value and any changes in fair value in the convertible bond is determined using a binominal lattice model. The model produces an estimated fair value based on changes in the price of the underlying common stock over successive periods of time.

In February 2022, the Company and Telcon agreed to settle a “target shortfall” under the revised API agreement with Telcon for the years ended 2020 and 2021 by exchanging KRW3.5 billion, or approximately US\$2.9 million, principal amount and accrued and unpaid interest of the Telcon convertible bond and KRW400 million, or approximately US\$310,000, in cash proceeds of the convertible bond. As a result, the Company realized a net loss on investment convertible bond of \$126,000 and other income of \$41,000 as reflected in the statement of operations. See Notes 6 and 11 for additional information on the “target shortfall.”

The following table sets forth the fair value and changes in fair value of the investment in the Telcon convertible bond as of June 30, 2022 and December 31, 2021 (in thousands):

<b>Investment in convertible bond</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Balance, beginning of period	\$ 26,100	\$ 27,866
Sales of convertible bond	(2,919)	—
Net loss on investment on convertible bond	(126)	—
Change in fair value included in the statement of other comprehensive income	(4,065)	(1,766)
Balance, end of period	<u>\$ 18,990</u>	<u>\$ 26,100</u>

The fair value as of June 30, 2022 and December 31, 2021 was based upon following assumptions:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Principal outstanding (South Korean won)	KRW 26.5 billion	KRW 30 billion
Stock price	KRW1,400	KRW2,925
Expected life (in years)	8.30	8.79
Selected yield	14.75%	10.50%
Expected volatility (Telcon common stock)	79.50%	81.31%
Risk-free interest rate (South Korea government bond)	3.64%	2.19%
Expected dividend yield	—	—
Conversion price	KRW1,498 (US\$1.16)	KRW2,847 (US\$2.39)

**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 a shuttered 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 \$13.2 million. The loan proceeds were used by EJ Holdings to purchase the Ube facility in December 2019 and pay related taxes. The loan matures on September 30, 2028 and bears interest at the annual rate of 1%, payable annually. The parties also contemplated that the Ube facility would eventually supply the Company with the facility’s output of amino acids and that the operation of the facility would be principally for the Company’s benefit and, as such, that major decisions affecting EJ Holdings and the Ube facility would be made by EJ Holdings’ board of directors, a majority of which are representatives of JIP, in consultation with the Company. During the six months ended June 30, 2022, the Company made an additional \$3.3 million of loans to EJ Holdings. As of June 30, 2022, and December 31, 2021, the loans receivable from EJ Holdings were approximately \$22.1 million and \$22.6 million, respectively, as reflected in equity method investment on the consolidated balance sheets.

EJ Holdings is engaged in retrofitting the Ube facility in order to seek regulatory approvals for the manufacture of PGLG in accordance with cGMP. EJ Holdings has had no substantial 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 the Company or other financing

unless and until the Ube facility is activated and EJ Holdings can secure customers for its products. There is no assurance the Company will be able to continue to provide loan financing to support EJ Holdings' activities at the Ube facility.

The Company has determined that EJ Holdings is a variable interest entity, or VIE, based upon the loan financing provided by the Company to acquire the Ube facility and fund EJ Holdings' activities, which are principally for the Company's benefit. JIP, however, owns 60% of EJ Holdings and is entitled to designate a majority of the directors of EJ Holdings 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 loss reported by EJ Holdings are classified as net loss on equity method investment. The investment is evaluated for impairment 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 and six months ended June 30, 2022 and 2021 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2021 (Unaudited)
REVENUES, NET	\$ 48	\$ 58	\$ 102	\$ 117
NET LOSS	\$ (1,234)	\$ (1,455)	\$ (2,648)	\$ (3,341)

#### NOTE 6 — SELECTED FINANCIAL STATEMENT - LIABILITIES

Accounts payable and accrued expenses consisted of the following at June 30, 2022 and December 31, 2021 (in thousands):

	June 30, 2022	December 31, 2021
Accounts payable:		
Clinical and regulatory expenses	\$ 537	\$ 534
Professional fees	615	477
Selling expenses	1,001	932
Manufacturing costs	245	378
Non-employee board member compensation	417	136
Other vendors	192	262
Total accounts payable	3,007	2,719
Accrued interest payable, related parties	227	91
Accrued interest payable	1,288	579
Accrued expenses:		
Payroll expenses	1,303	1,097
Government rebates and other rebates	4,520	4,371
Other accrued expenses	373	332
Total accrued expenses	6,196	5,800
Total accounts payable and accrued expenses	\$ 10,718	\$ 9,189

Other current liabilities consisted of the following at June 30, 2022 and December 31, 2021 (in thousands):

	June 30, 2022	December 31, 2021
Trade discount	\$ 1,600	\$ 3,000
Other current liabilities	1,191	1,404
Total other current liabilities	\$ 2,791	\$ 4,404

Other long-term liabilities consisted of the following at June 30, 2022 and December 31, 2021 (in thousands):

	June 30, 2022	December 31, 2021
Trade discount	\$ 21,666	\$ 23,148
Unearned revenue	10,000	10,000
Other long-term liabilities	28	25
Total other long-term liabilities	<u>\$ 31,694</u>	<u>\$ 33,173</u>

On June 12, 2017, the Company entered into an API Supply Agreement with Telcon 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 the Company's estimated annual target requirements for bulk containers of PGLG. On July 12, 2017, the Company entered into a raw material supply agreement with Telcon which revised certain items of the API Supply Agreement (the "revised API Agreement"). The Company purchased \$245,000 of PGLG from Telcon in the six months ended June 30, 2022 and purchased none of PGLG in the six months ended June 30, 2021 of which \$248,000 and \$378,000 were reflected in accounts payable as of June 30, 2022 and December 31, 2021, respectively. The revised API Agreement provided for an annual API purchase target of \$5 million and a target "profit" (*i.e.*, gross margin) to Telcon of \$2.5 million. To the extent these targets are not met, which management refers to as a "target shortfall," Telcon may be entitled to payment of the target shortfall or to settle the target shortfall by exchange of principal and interest on the Telcon convertible bond and proceeds thereof that are pledged as a collateral to secure the Company's obligations under the API Supply Agreement and he revised API Agreement. See Note 5 for information regarding the settlement in the six months ended June 30, 2022 of the target shortfall for 2021 and 2020.

#### NOTE 7 — NOTES PAYABLE

Notes payable consisted of the following at June 30, 2022 and December 31, 2021 (in thousands except for number of underlying shares) excluding the revolving line of credit agreement with related party discussed below:

Year Issued	Interest Rate Range	Term of Notes	Conversion Price	Principal Outstanding June 30, 2022	Unamortized Discount June 30, 2022	Carrying Amount June 30, 2022	Underlying Shares June 30, 2022
<b>Notes payable</b>							
2013	10%	Due on demand	—	\$ 734	\$ —	\$ 734	—
2021	11%	Due on demand - 2 years	—	2,793	—	2,793	—
2022	11%-41%	Due on demand - 10 month	—	2,985	118	2,867	—
				<u>\$ 6,512</u>	<u>\$ 118</u>	<u>\$ 6,394</u>	<u>—</u>
		Current		\$ 6,512	\$ 118	\$ 6,394	—
<b>Notes payable - related parties</b>							
2020	12%	Due on demand	—	100	—	100	—
2021	12%	Due on demand	—	700	—	700	—
2022	10%-12%	Due on demand	—	2,071	—	2,071	—
				<u>\$ 2,871</u>	<u>\$ —</u>	<u>\$ 2,871</u>	<u>—</u>
		Current		\$ 2,871	\$ —	\$ 2,871	—
<b>Convertible notes payable</b>							
2020	12%	3 years	\$ 10.00 (b)	3,150	—	3,150	323,016
2021	2%	3 years	\$ 0.37 (a)	14,490	3,578	10,912	40,739,519
				<u>\$ 17,640</u>	<u>\$ 3,578</u>	<u>\$ 14,062</u>	<u>41,062,535</u>
		Current		\$ 17,640	\$ 3,578	\$ 14,062	41,062,535
		<b>Total</b>		<u>\$ 27,023</u>	<u>\$ 3,696</u>	<u>\$ 23,326</u>	<u>41,062,535</u>

Year Issued	Interest Rate Range	Term of Notes	Conversion Price	Principal Outstanding December 31, 2021	Unamortized Discount December 31, 2021	Carrying Amount December 31, 2021	Underlying Shares December 31, 2021
<b>Notes payable</b>							
2013	10%	Due on demand	—	\$ 869	\$ —	\$ 869	—
2021	11%	Due on demand - 2 years	—	3,030	—	3,030	—
				<b>\$ 3,899</b>	<b>\$ —</b>	<b>\$ 3,899</b>	<b>—</b>
		Current		\$ 2,399	\$ —	\$ 2,399	—
		Non-current		\$ 1,500	\$ —	\$ 1,500	—
<b>Notes payable - related parties</b>							
2020	12%	Due on demand	—	\$ 100	\$ —	\$ 100	—
2021	12%	Due on demand	—	700	—	700	—
				<b>\$ 800</b>	<b>\$ —</b>	<b>\$ 800</b>	<b>—</b>
		Current		\$ 800	\$ —	\$ 800	—
<b>Convertible notes payable</b>							
2020	12%	3 years	\$ 10.00 (b)	3,150	—	3,150	316,756
2021	2%	3 years	\$ 1.48 (a)	14,490	4,332	10,158	9,856,343
				<b>\$ 17,640</b>	<b>\$ 4,332</b>	<b>\$ 13,308</b>	<b>10,173,099</b>
		Current		\$ 14,490	\$ 4,332	\$ 10,158	9,856,343
		Non-current		\$ 3,150	\$ —	\$ 3,150	316,756
		<b>Total</b>		<b>\$ 22,339</b>	<b>\$ 4,332</b>	<b>\$ 18,007</b>	<b>\$ 10,173,099</b>

- (a) The notes are convertible into Emmaus Life Sciences, Inc. shares. Beginning February 28, 2022, the note holders became entitled to call for early redemption of the convertible notes payable, because the Company common stock was not approved for listing on a Trading Market (as defined in the agreement). Accordingly, the notes are classified as current liabilities.
- (b) This note is convertible into shares of EMI Holding, Inc., a wholly owned subsidiary of Emmaus Life Sciences, Inc.

The weighted-average stated annual interest rate of notes payable was 12% and 6% as of June 30, 2022 and December 31, 2021, respectively. The weighted-average effective annual interest rate of notes payable as of June 30, 2022 and December 31, 2021 was 22% and 15%, respectively, after giving effect to discounts relating to conversion features, warrants and deferred financing costs relating to the notes.

As of June 30, 2022, future contractual principal payments due on notes payable were as follows (in thousands):

Year Ending	
2022 (six months)	\$ 23,763 (a)
2023	3,260
<b>Total</b>	<b>\$ 27,023</b>

- (a) Includes \$14.5 million principal amount of convertible notes, the holders are entitled to call for early redemption.

The Company is party to a revolving line of credit agreement with Yutaka Niihara, M.D., M.P.H., 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 and employment taxes payable by him with respect to interest and tax gross-up paid to him in the previous year. As of June 30, 2022 and December 31, 2021, the outstanding principal balance under the agreement of \$400,000 was reflected in revolving line of credit from related party on the condensed consolidated balance sheets. With the tax-gross up, the effective interest rate on the outstanding balance as of June 30, 2022, was 10.4%. The revolving line of credit agreement will expire on November 22, 2022. Refer to Note 12 for more information on related party transactions.

On February 9, 2021, the Company entered into a securities purchase agreement 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. The Company sold and issued approximately \$14.5 million of the convertible promissory notes.

Commencing one year from the original issue date, the convertible promissory notes became 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 is subject to adjustment as of the end of each three-month period 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. As of June 30, 2022, the conversion price was \$0.37 per share.

The convertible promissory notes bear interest at the stated rate of 2% per year (10% in the event of a default), 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, unless earlier converted or prepaid. The convertible promissory notes are redeemable in whole or in part at the election of the holders. The Company is entitled to prepay up to 50% of the principal amount of the convertible promissory notes at any time on or before February 28, 2023 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 is 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 the condensed consolidated statements of operations. The following table sets forth the fair value of the conversion feature liability as of June 30, 2022 and December 31, 2021 (in thousands):

Convertible promissory notes	June 30, 2022	December 31, 2021
Balance, beginning of period	\$ 7,507	\$ —
Fair value at issuance date	—	5,594
Change in fair value included in the statement of operations	615	1,913
Balance, end of period	<u>\$ 8,122</u>	<u>\$ 7,507</u>

The fair value and any change in fair value of conversion feature liability are determined using a binominal 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 June 30, 2022 and December 31, 2021 was based upon following assumptions:

Convertible promissory notes	June 30, 2022	December 31, 2021
Stock price	\$ 0.45	\$ 1.67
Conversion price	\$ 0.37	\$ 1.48
Selected yield	27.60%	21.99%
Expected volatility	50%	50%
Time until maturity (in years)	1.66	2.16
Dividend yield	—	—
Risk-free rate	2.88%	0.77%

In June 2022, we entered into a Business Loan and Security Agreement and Addenda with a third-party lender pursuant to which the lender loaned to us \$1,800,000, which we refer to as the "loan amount," of which we received net proceeds of approximately \$1,666,000 after deduction of the lender's origination fee but without deduction for other transaction expenses. The loan amount, together with interest of \$738,000, is payable in over the 40-week loan term in weekly installments of \$31,725 for the first eight weeks and \$71,381 for the remaining 32 weeks. The loan amount and interest may be prepaid by us at any time within 90 days from the disbursement date for a repayment amount of \$2,250,000, less all prior payments on the loan, unless an event of default has occurred under the Business Loan and Security Agreement. Repayment of the loan is secured by a security interest in all or substantially all our assets and all assets of our U.S. subsidiaries and is personally guaranteed by Yutaka Niihara, M.D., M.P.H., our Chairman and Chief Executive Officer and principal stockholder, and his wife and Hope Hospice International, Inc., which is wholly owned by Dr. Niihara and his wife. The personal guarantee is secured by a deed of trust on certain real property of Dr. Niihara and his wife.

The Business Loan and Security Agreement contains representations and warranties of the parties and restrictive covenants against incurring additional indebtedness, subject to certain exceptions, granting liens or security interests in our or our subsidiaries assets, and similar matters. In the event of a breach of our representations and warranties or the restrictive covenants or other covenants, the lender would be entitled to accelerate the repayment of the loan and, in certain events, require us to pay an additional fee equal to 10% of the loan amount, or \$180,000.

## 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. The GPB Note was repaid in February 2018.

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 GPB Warrant is separately recognized under ASC 815-40 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 the condensed consolidated statements of operations and comprehensive income.

The following table presents the change in fair value of the GPB Warrant as of June 30, 2022 and December 31, 2021 (in thousands):

Warrant Liability—GPB	June 30, 2022	December 31, 2021
Balance, beginning of period	\$ 40	\$ 83
Change in fair value included in the statement of operations	(40)	(43)
Balance, end of period	\$ —	\$ 40

The fair value of the warrant derivative liability was determined using the Black-Scholes Merton model. The fair value as of June 30, 2022, and December 31, 2021 was based upon the following assumptions:

	June 30, 2022	December 31, 2021
Adjusted exercise price	\$ 10.28	\$ 10.28
Common stock fair value	\$ 0.45	\$ 1.67
Risk-free interest rate	2.80%	0.56%
Volatility	121.00%	104.00%
Time until expiration (years)	1.00	1.50
Expected dividend yield	—	—
Number outstanding	252,802	252,802

**Extension 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 of the convertible promissory note to June 15, 2023 in exchange for an increase in the interest rate on the note from 11% to 12%. In conjunction with the extension, the Company issued to the note holder a five-year warrant to purchase up to 1,250,000 shares (500,000 shares if the related convertible promissory note was repaid by June 15, 2022) of the Company common stock at an exercise price of \$2.05 a share. Under ASC 815-40, the warrant is 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 change in the fair value of liability is recorded in earnings. Since the loan was not repaid before June 15, 2022, the warrant was reclassified as equity.

The following table presents the fair value and the change in fair value of the warrants as of June 15, 2022 and December 31, 2020 (in thousands):

Warrant liability—Convertible Promissory Note	June 15, 2022	December 31, 2021
Balance, beginning of period	\$ 1,463	\$ 988
Change in fair value included in the statement of operations	(1,250)	475
Reclassification to equity	(213)	—
Balance, end of period	\$ —	\$ 1,463

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

	June 15, 2022		December 31, 2021	
Exercise price	\$	2.05	\$	2.05
Stock price	\$	0.36	\$	1.67
Risk-free interest rate		3.35%		1.04%
Expected volatility (peer group)		126.00%		117.00%
Expected life (in years)		3.00		3.46
Expected dividend yield		—		—
Number outstanding		1,250,000		1,250,000

A summary of outstanding warrants as of June 30, 2022 and December 31, 2021 is presented below:

	June 30, 2022		December 31, 2021	
	Number of Warrants	Weighted-Average Exercise Price	Number of Warrants	Weighted-Average Exercise Price
Warrants outstanding, beginning of period	8,236,017	\$ 5.78	8,439,480	\$ 6.09
Granted	—		—	
Exercised	—		—	
Cancelled, forfeited or expired	(1,365,189)	\$ 4.76	(203,463)	\$ 4.36
Warrants outstanding, end of period	6,870,828	\$ 5.45	8,236,017	\$ 5.78
Warrants exercisable end of period	6,870,828	\$ 5.45	7,486,017	\$ 6.12

As of June 30, 2022, the weighted-average remaining contractual life of outstanding warrants was 2.1 years.

**Stock options**—The Company's former Amended and Restated 2011 Stock Incentive Plan expired on May 3, 2021, and no further awards may be made under the 2011 Plan. The expiration of the 2011 Plan did not affect outstanding stock awards thereunder.

The Company also previously maintained an Amended and Restated 2012 Omnibus Incentive Compensation Plan, which was terminated in September 2021 in connection with the adoption of the 2021 Stock Incentive Plan described below.

On September 29, 2021, the Board of Directors of the Company adopted the Emmaus Life Sciences, Inc. 2021 Stock Incentive Plan upon the recommendation of the Compensation Committee of the Board. The 2021 Stock Incentive Plan was approved by stockholders on November 23, 2021. No more than 4,000,000 shares of common stock may be issued pursuant to awards under the 2021 Stock Incentive Plan. The number of shares available for Awards, as well as the terms of outstanding awards, is subject to adjustment as provided in the Stock Incentive Plan for stock splits, stock dividends, reverse stock splits, recapitalizations and other similar events. As of June 30, 2022 and December 31, 2021, no awards were outstanding under the 2021 Stock Incentive Plan.

A summary of outstanding stock options as of June 30, 2022 and December 31, 2021 is presented below.

	June 30, 2022		December 31, 2021	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	5,968,338	\$ 4.78	7,110,025	\$ 4.63
Granted or deemed granted	—	\$ —	—	\$ —
Exercised	—	\$ —	—	\$ —
Cancelled, forfeited and expired	(1,055,399)	\$ 3.45	(1,141,687)	\$ 3.82
Options outstanding, end of period	4,912,939	\$ 5.07	5,968,338	\$ 4.78
Options exercisable, end of period	4,892,438	\$ 5.09	5,937,837	\$ 4.80
Options available for future grant	4,000,000		4,000,000	

During the three months ended June 30, 2022 and June 30, 2021, the Company recognized \$5,000 and \$274,000, respectively of share-based compensation expense. During the six months ended June 30, 2022 and June 30, 2021 the Company recognized \$10,000 and \$450,000, respectively, of share-based compensation expense. As of June 30, 2022, there was approximately



\$11,000 of unrecognized share-based compensation expense related to unvested stock options which is expected to be recognized over the weighted-average remaining vesting period of 1.0 year.

**Collaborative Research and Development Agreement with Kainos Medicine, Inc.**—On February 26, 2021, the Company entered into a collaborative research and development 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 Kainos’s research and development activities. 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 collaborative research and development agreement, the Company paid and issued to Kainos \$500,000 in cash and 324,675 shares of common stock of the Company equivalent to \$500,000 in additional consideration, which amounts were recorded as research and development expenses in the statement of operations and comprehensive income (loss) for each of the periods ended June 30, 2021 and December 31, 2021. The Company, in turn, was 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.

On October 7, 2021, the Company entered into a license agreement with Kainos under which Kainos granted the Company an exclusive license in the territory encompassing the U.S., the U.K. and the EU to patent rights, know-how and other intellectual property relating to Kainos’s novel IRAK4 inhibitor, referred to as KM10544, for the treatment of cancers, including leukemia, lymphoma and solid tumor cancers. In consideration of the license, the Company paid Kainos a six-figure upfront fee in cash and agreed to make additional cash payments upon the achievement of specified milestones totaling in the mid-eight figures and pay a single-digit percentage royalty based on net sales of the licensed products and a similar percentage of any sublicensing consideration.

During the six months ended June 30, 2021, the Company incurred \$1.0 million of research and development expenses related to the Kainos collaboration and license agreement. The Company incurred no such expenses in the six months ended June 30, 2022.

**Amended and Restated Warrants** – The Company evaluated its outstanding amended and restated warrants to purchase up to 4,038,200 shares of common stock under ASC 815-40 and concluded that the warrants should be accounted for equity.

In June 2022, the exercise price of outstanding amended and restated warrants was reduced to \$0.446 per share pursuant to the anti-dilution adjustment provisions of the warrants triggered by the Company’s issuance of restricted shares of common stock for professional relations and consulting services discussed below. The warrants were valued using the Black-Scholes Merton model and the \$446,000 change in fair value was recorded as additional paid-in capital and accumulated loss.

**Stock issued for services** – In June 2022, the Company issued 246,637 shares of restricted share of common stock, with an estimated fair value of \$110,000 for professional relations and consulting services to be rendered over the six-month period beginning July 1, 2022. The value of the shares issued in connection with this agreement was recorded in prepaid expenses and other current assets in the condensed consolidated balance sheet as of June 30, 2022 and will be amortized over the six-month period.

#### NOTE 9 — INCOME TAX

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

For the three and six months ended June 30, 2022, the Company recorded an income tax provision of \$182,000 and \$79,000, respectively. For three and six month ended June 30, 2021, the Company recorded an income tax benefit of \$192,000 and \$174,000, 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 June 30, 2022 or June 30, 2021.

#### 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 \$80,886 per month, which lease will expire on September 30, 2026. In addition, the Company leases 1,163 square feet of office space in Dubai, United Arab Emirates, which lease will expire on June 19, 2023. During six month ended June 30, 2020, the Company terminated leases of office space in New York, New York and Tokyo, Japan. Upon termination of New York lease, the Company recognized \$31,000 of loss on leased assets.

The rent expense during the three months ended June 30, 2022 and 2021 was approximately \$294,000 and \$288,000, respectively, and during the six months ended June 30, 2022 and June 30, 2021 was approximately \$597,000 and \$589,000, respectively.

Future minimum lease payments under the lease agreements were as follows as of June 30, 2022 (in thousands):

	Amount
2022 (six months)	\$ 523
2023	1,049
2024	1,063
2025	1,092
2026	836
Total lease payments	4,563
Less: Interest	991
Present value of lease liabilities	<u>\$ 3,572</u>

As of June 30, 2022, the Company had an operating lease right-of-use asset of \$3.1 million and lease liability of \$3.6 million reflected on the condensed consolidated balance sheet. The weighted average remaining term of the Company's leases as of June 30, 2022 was 4.2 years and the weighted-average discount rate was 12.9%.

#### NOTE 11 — COMMITMENTS AND CONTINGENCIES

**API Supply Agreement** — On June 12, 2017, the Company entered into an API Supply Agreement (the "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 API Supply Agreement (the "revised API Agreement"). The revised API Agreement is effective for a term of five years and will renew automatically for ten successive one-year renewal periods, except as either party may determine. In the revised API agreement, the Company has agreed to purchase a cumulative total of \$47.0 million, over the term of the agreement. The revised API Agreement provided for an annual API purchase target of \$5 million and a target "profit" (*i.e.*, gross margin) to Telcon of \$2.5 million. To the extent these targets are not met, which management refers to as a "target shortfall," Telcon may be entitled to payment of the target shortfall or to settle the target shortfall by exchange of principal and interest on the Telcon convertible bond and proceeds thereof that are pledged as a collateral to secure the Company's obligations under the API Supply Agreement and the revised API 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. The PGLG raw material purchased from Telcon is recorded in inventory at net realized value and the excess purchase price is recorded against deferred trade discount. Refer to Notes 5 and 6 for more information.

## 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 six months ended June 30, 2022 (in thousands):

Class	Lender	Interest Rate	Date of Loan	Term of Loan	Principal Amount Outstanding at June 30, 2022	Highest Principal Outstanding	Amount of Principal Repaid	Amount of Interest Paid
<b>Current, Promissory note payable to related parties:</b>								
	Willis Lee (2)	12%	10/29/2020	Due on Demand	100	100	—	—
	Soomi Niihara (1)	12%	12/7/2021	Due on Demand	700	700	—	—
	Soomi Niihara (1)	12%	1/18/2022	Due on Demand	300	300	—	—
	Yasushi Nagasaki (2)	10%	2/9/2022	Due on Demand	50	50	—	—
	Hope International Hospice, Inc. (1)	10%	2/9/2022	Due on Demand	350	350	—	—
	Hope International Hospice, Inc. (1)	10%	2/15/2022	Due on Demand	210	210	—	—
	Soomi Niihara (1)	10%	2/15/2022	Due on Demand	100	100	—	—
	George Sekulich (2)	10%	2/16/2022	Due on Demand	26	26	—	—
	Soomi Niihara (1)	10%	3/7/2022	Due on Demand	200	200	—	—
	Osato Medical Clinic (3)	12%	3/11/2022	Due on Demand	250	250	—	—
	Alfred Lui (2)	12%	3/11/2022	Due on Demand	—	50	50	1
	Hope International Hospice, Inc. (1)	12%	3/15/2022	Due on Demand	150	150	—	—
	Hope International Hospice, Inc. (1)	12%	3/30/2022	Due on Demand	150	150	—	—
	Wei Pei Zen (2)	10%	3/31/2022	Due on Demand	200	200	—	—
	Willis Lee (2)	10%	4/14/2022	Due on Demand	45	45	—	—
	Hope International Hospice, Inc. (1)	10%	5/25/2022	Due on Demand	40	40	—	—
				<b>Subtotal</b>	<b>\$ 2,871</b>	<b>\$ 2,921</b>	<b>\$ 50</b>	<b>\$ 1</b>
<b>Revolving line of credit agreement</b>								
	Yutaka Niihara (2)	5.25% (4)	12/27/2019	Due on Demand	400	400	—	10
				<b>Subtotal</b>	<b>400</b>	<b>400</b>	<b>—</b>	<b>10</b>
				<b>Total</b>	<b>\$ 3,271</b>	<b>\$ 3,321</b>	<b>\$ 50</b>	<b>\$ 11</b>

The following table sets forth information relating to loans from related parties outstanding at any time during the year ended December 31, 2021:

Class	Lender	Interest Rate	Date of Loan	Term of Loan	Principal Amount Outstanding at December 31, 2021	Highest Principal Outstanding	Amount of Principal Repaid	Amount of Interest Paid
<b>Current, Promissory note payable to related parties:</b>								
	Willis Lee (2)	12%	10/29/2020	Due on Demand	\$ 100	\$ 100	\$ —	\$ —
	Soomi Niihara (1)	12%	1/20/2021	Due on Demand	—	700	700	13
	Soomi Niihara (1)	12%	9/15/2021	Due on Demand	—	300	300	3
	Soomi Niihara (1)	12%	12/7/2021	Due on Demand	700	700	—	—
				<b>Subtotal</b>	<b>\$ 800</b>	<b>\$ 1,800</b>	<b>\$ 1,000</b>	<b>\$ 16</b>
<b>Revolving line of credit</b>								
	Yutaka Niihara (1)	5.25% (4)	12/27/2019	Due on Demand	400	800	400	35
				<b>Subtotal</b>	<b>400</b>	<b>800</b>	<b>400</b>	<b>35</b>
				<b>Total</b>	<b>\$ 1,200</b>	<b>\$ 2,600</b>	<b>\$ 1,400</b>	<b>\$ 51</b>

- (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.
- (3) Dr. Osato, a director of Emmaus, and his wife are the sole owner of Osato Medical Clinic.
- (4) The rate varies with changes in the prime rate and does not give effect to the “tax gross-up” described in Note 7.

See Note 7 for a discussion of the Company’s revolving line of credit agreement with Dr. Niihara and Note 13 for information regarding a recent related party loan.

Notes 6 and 11 for a discussion of the Company’s agreements with Telcon, which holds 4,147,491 shares of the Emmaus common stock, or approximately 8.4% of the common stock outstanding as of June 30, 2022. As of June 30, 2022, the Company held a Telcon convertible bond in the principal amount of approximately \$20.6 million as discussed in Note 5.

#### NOTE 13 — SUBSEQUENT EVENTS

Subsequent to June 30, 2022, the Company received \$1.0 million of proceeds from loans from related and unrelated parties to augment its working capital.

## 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 for the year ended December 31, 2021 filed with the Securities and Exchange Commission ("SEC") on March 31, 2022 (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 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. Our lead product, Endari® (prescription-grade L-glutamine oral powder) is approved by the U.S. Food and Drug Administration, or FDA, to reduce the acute complications of sickle cell disease ("SCD"), in adult and pediatric patients five years of age and older. In April 2022, Endari® was approved by the Ministry of Health and Prevention in the United Arab Emirates, or U.A.E, in adults and pediatric patients five years of age and older. The approval of Endari® in the U.A.E. was the first granted outside the U.S. Applications for marketing authorization are pending in the Kingdom of Saudi Arabia, Bahrain, and other Gulf Cooperation Council, or GCC, countries, as well. While the applications are pending, the FDA approval of Endari® can be referenced to allow access to Endari® on a named-patient basis.

Endari® is marketed and sold in the U.S. by our internal 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 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 retail and specialty pharmacies nationwide. In April 2022 we launched an innovative telehealth solution to afford SCD patients' direct access to Endari® remotely through a web portal managed by our strategic partners, including Asembia LLC, US Bioservices Corporation and UpScript IP Holdings, LLC.

As of June 30, 2022, our accumulated deficit was \$252.1 million and we had cash and cash equivalents of \$1.0 million. We expect net revenues to increase as we expand our commercialization of Endari® in the U.S. and begin to realize revenues in the U.A.E. and perhaps other GCC countries. Until we can generate sufficient net revenues from Endari® sales, our future cash requirements are expected to be financed through public or private sales of equity or debt securities and, loans, including loans from related parties, or possible corporate collaboration and licensing arrangements. We are unable to predict if or when we will become profitable.

### Financial Overview

#### *Revenues, net*

We realize net revenues primarily from sales of Endari® 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 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.

Management estimates variable consideration 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 our estimates. If actual results vary from the estimates, we adjust the variable consideration in the period such variances become known, which adjustments are reflected in net revenues in that period. The following are our significant categories of variable consideration:

Under the Accounting Standards Codification (“ASC”) 606, we recognize revenue when our customers obtain control of our product, which typically occurs on delivery. Revenue is recognized in an amount that reflects the consideration that we expect to receive in exchange for the product, or transaction price. To determine revenue recognition for contracts with customers within the scope of ASC 606, we perform 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 our performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy the relevant performance obligations.

*Sales Discounts:* We provide our customers prompt payment discounts and from time to time offer additional discounts to encourage bulk orders to generate needed working capital. Sales attributable to bulk discounts offered by us increased in 2021 and adversely affected sales in the first quarter of 2022.

*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 approvals 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 Expense*

General and administrative expense consists principally of salaries and related employee costs, including share-based compensation for our directors, officers, and employees. Other general and administrative expense includes facility costs, and professional fees and expenses for audit, legal, consulting, and tax services.

#### *Selling Expenses*

Selling expenses consist principally of salaries and related costs for personnel involved in the promotion, sale, and marketing of Endari®. 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 personnel to support the commercialization of Endari® in the U.S. and abroad.

#### *COVID-19*

In retrospect, we believe our business and net revenues were adversely affected in 2020 and 2021 by lockdowns, travel-related restrictions and other governmental responses to the pandemic related to the COVID 19 pandemic which inhibited the ability of our sales force to visit doctors’ offices and clinics and may have adversely affected the willingness of SCD patients to seek the care of a physician or to comply with physician-prescribed care. We do not expect the ongoing epidemic to have a material adverse affect on our business or results of operation, but intend to consider future changes to our business to adapt to the new post-pandemic environment, including an increased focus on our telehealth solution.

#### *Inflation*

Inflation has not had a material impact on our expenses or results of operations over the past two years, but may result in increased manufacturing, research and development, general and administrative and selling expenses in the foreseeable future.

#### *Environmental Expenses*

The cost of compliance with environmental laws has not been material over the past two years and is not expected to have a material effect for the foreseeable future. Any such costs are included in general and administrative costs.

#### *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 each of the six months ended June 30, 2022 and 2021 were supplied by one vendor.

### **Results of Operations:**

#### **Three months ended June 30, 2022 and 2021**

*Net revenues.* Net revenues decreased by \$2.2 million, or 34%, to \$4.3 million for the three months ended June 30, 2022, compared to \$6.5 million for the three months ended June 30, 2021. The decrease was primarily attributable to lower bulk order purchases in 2022 compared to the same period in 2021.

*Cost of Goods Sold.* Cost of goods sold remained consistent at \$0.4 million for the three months ended June 30, 2022, compared to the three months ended June 30, 2021.

*Research and Development Expenses.* Research and development expenses decreased by \$0.5 million, or 60%, to \$0.3 million for the three months ended June 30, 2022, compared to \$0.8 million for the three months ended June 30, 2021. The decrease was primarily due to reduced costs associated with a pharmacokinetic characteristic and safety study for Endari® in the U.S. and a clinical study in Europe. We expect our research and development costs to increase in the remainder of 2022 as the studies progress or other studies are undertaken.

*Selling Expenses.* Selling expenses increased by \$0.5 million, or 34%, to \$2.0 million for the three months ended June 30, 2022, compared to \$1.5 million for the three months ended June 30, 2021. The increase was primarily due to increases in consulting fees and in travel expenses of our in-house commercial team.

*General and Administrative Expenses.* General and administrative expenses decreased by \$0.3 million, or 9% to \$3.1 million for the three months ended June 30, 2022, compared to \$3.4 million for the three months ended June 30, 2021. The decrease was primarily due to a decrease of \$0.5 million in professional fees, partially offset by total of \$0.2 million in increased payroll expenses and travel expenses.

*Other Income (Expense).* Total other expenses increased by \$9.1 million, or 501%, to \$7.3 million for the three months ended June 30, 2022, compared to \$1.8 million of other income for the three months ended June 30, 2021. The increase was primarily due to a decrease of \$6.3 million in change in fair value of embedded conversion option and an increase of \$2.4 million in foreign exchange loss.

*Net Income (Loss).* Net loss for the three months ended June 30, 2022, increased by \$11.4 million, or 457%, to a net loss of \$8.9 million for the three months ended June 30, 2022, compared to net income of \$2.5 million for the three months ended June 30, 2021. The increase of net loss was primarily a result of an increase of \$9.1 million in other expense and a decrease of \$1.9 million in income from operations as discussed above.

#### **Six months ended June 30, 2022 and 2021**

*Net revenues.* Net revenues decreased by \$4.3 million, or 36%, to \$7.5 million for the six months ended June 30, 2022, compared to \$11.8 million for the six months ended June 30, 2021. The decrease was primarily attributable to lower bulk orders in 2022 compared to the same period in 2021.

*Cost of Goods Sold.* Cost of goods sold increased by \$0.5 million, or 62% to \$1.4 million for six months ended June 30, 2022, compared to the six months ended June 30, 2021. The increase was primarily due to \$0.7 million of additional reserves relating to Endari® inventory with a shelf-life of less than two years.

*Research and Development Expenses.* Research and development expenses decreased by \$1.8 million, or 70%, to \$0.8 million for the six months ended June 30, 2022, compared to \$2.6 million for the six months ended June 30, 2021. The decrease was primarily due to \$0.5 million in cash and \$0.5 million in shares of the common stock issued under the agreement with Kainos Medicine, Inc. (“Kainos”) to lead the clinical development of Kainos’ patented IRAK4 inhibitor and a decrease of \$0.5 million relates to a pharmacokinetic characteristic and safety study for Endari® in the U.S. and a clinical study in Europe. We expect our research and development costs to increase in the remainder of 2022 as the studies progress or new studies are undertaken.

*Selling Expenses.* Selling expenses increased by \$0.7 million, or 25%, to \$3.4 million for the six months ended June 30, 2022, compared to \$2.7 million for the six months ended June 30, 2021. The increase was primarily due to increases in the consulting fees and in travel expenses of in-house sales team.

*General and Administrative Expenses.* General and administrative expenses decreased slightly by \$0.3 million, or 5%, to \$6.5 million for the six months ended June 30, 2022, compared to \$6.8 million for the six months ended June 30, 2021. The decrease was primarily due to decreases of \$0.7 million in professional fees partially offset by \$0.2 million in increased payroll expenses and travel expenses.

*Other Income (Expense).* Total other expense increased by \$0.9 million, or 18%, to \$5.8 million for the six months ended June 30, 2022, compared to \$5.0 million for the six months ended June 30, 2021. The increase was primarily due to increases of \$2.5 million in loss in foreign exchange and \$0.8 million in change in fair value of conversion feature derivative.

*Net Income (Loss).* Net loss for the six months ended June 30, 2022 increased by \$4.5 million, or 76% to \$10.4 million for the six months ended June 30, 2022, compared to \$5.9 million for the six months ended June 30, 2021. The increase was primarily a result of increases of \$0.9 million in other expense and \$3.4 million in loss from operations as discussed above.



## Liquidity and Capital Resources

Based on our losses to date, current liabilities, anticipated future net revenues and operating expenses, debt repayment obligations, planned funding to EJ Holdings and cash and cash equivalents balance of \$1.0 million as of June 30, 2022, we do not have sufficient capital for our business without raising additional capital. We realized a net loss of \$10.0 million for the six months ended June 30, 2022 and anticipate that we will continue to incur net losses for the foreseeable future and until we can generate increased net revenues from Endari® sales. While we anticipate increased net revenues as we expand our commercialization of Endari® in the U.S. through telehealth and other initiatives, as well as in the U.A.E. and perhaps other GCC countries, there is no assurance that we will be able to significantly increase our Endari® sales or attain sustainable profitability or that we will have sufficient capital resources to fund our operations until we are able to generate sufficient cash flow from operations. If we are unable to raise needed capital, we may need to suspend all or substantially all business activities except those essential to support our Endari sales while we seek to restructure or refinance our existing indebtedness and other current liabilities.

Our subsidiary, Emmaus Medical, Inc., or Emmaus Medical, is party 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 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.

Liquidity represents our ability to pay our liabilities when they become due, fund our business operations, fund the operations and retrofitting of EJ Holdings' amino acid production plant in Ube, Japan, and meet our contractual obligations, including our obligations to purchase API under our supply arrangements with Telcon, and execute our business plan. Our primary sources of liquidity are our cash balances at the beginning of each period, proceeds from our accounts receivable factoring arrangement with Prestige Capital and proceeds from related-party loans and other financing activities. Our short-term and long-term cash requirements consist primarily of working capital requirements, general corporate needs, our contractual obligations to purchase API from Telcon, debt service under our convertible notes payable and notes payable and planned ongoing loan funding to sustain EJ Holdings' operations. We have no contractual commitment to provide funding to EJ Holdings, but plan to continue to do so in the foreseeable to the extent we have cash available for this purpose.

As of June 30, 2022, we had outstanding \$17.6 million principal amount of convertible promissory notes and \$9.7 million principal amount of other notes payable. Our minimum lease payment obligations were \$3.6 million, of which \$0.6 million was payable within 12 months. We are in discussions with the holders of the convertible promissory notes to possibly restructure the notes, but there can be no assurance whether, or to what extent, or on what terms the notes may be restructured.

Of our outstanding convertible promissory notes, \$14.5 million principal amount of the notes bear interest at the stated rate of 2% per year (10% in the event of a default), 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, unless earlier converted or prepaid. We are in discussions with the holders of these convertible promissory notes to possibly restructure our obligations under the notes, but there can be no assurance whether, or to what extent, or on what terms the notes may be restructured.

Our API Supply Agreement and revised API Agreement with Telcon provide for an annual API purchase target of \$5 million and a target "profit" (*i.e.*, gross margin) to Telcon of \$2.5 million. To the extent these targets are not met, which management refers to as a "target shortfall," Telcon may be entitled to payment of the target shortfall in cash or to settle the target shortfall in exchange for principal and interest on the Telcon convertible bond and proceeds thereof that are pledged as collateral to secure our obligations. In February 2022 we agreed with Telcon to settle the target shortfall for 2020 and 2021 in exchange for a reduction in principal and accrued interest on our Telcon convertible bond and cash proceeds thereof as described in Note 5 of the Notes to condensed consolidated financial statements.

Due to uncertainties regarding our ability to meet our current liabilities and future operating expenses, there is substantial doubt about our ability to continue as a going concern for 12 months from the date of this filing as referred to in the "Risk Factors" section of this Quarterly Report and Note 2 of the Notes to condensed consolidated financial statements included herein.

## **Cash flows for the six months ended June 30, 2022 and June 30, 2021**

### *Net cash used in operating activities*

Net cash used in operating activities increased by \$2.0 million, or 54%, to \$5.8 million for the six months ended June 30, 2022 from \$3.8 million for the six months ended June 30, 2021. This increase was primarily due to an increase of \$3.3 million in loss from operations.

### *Net cash used in investing activities*

Net cash used in investing activities decreased by \$3.5 million, or 89%, to \$0.4 million for the six months ended June 30, 2022 from \$4.0 million for the six months ended June 30, 2021. This decrease was primarily due to deemed proceeds of \$2.9 million sales of convertible bonds resulting from the offset target shortfalls against principal and interest of our Telcon convertible note against our trade discount.

### *Net cash from financing activities*

Net cash from financing activities decreased by \$2.0 million, or 29%, to \$4.9 million for the six months ended June 30, 2022 from net cash provided by financing activities of \$6.9 million for the six months ended June 30, 2021. This decrease was the result of \$14.5 million in proceeds from the convertible promissory notes payable issued in 2021, partially offset by a \$6.2 million used to prepay our outstanding Amended and Restated 10% Senior Secured Convertible Debenture in the same period and \$5.0 million of proceeds from note payable issued in 2022.

## **Off-Balance-Sheet Arrangements**

We have no off-balance sheet arrangements.

## **Critical Accounting Estimates**

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 certain 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 Annual Report for our critical accounting policies. There have been no material changes in any of our critical accounting policies during the six months ended June 30, 2022.

## **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 Chief Financial Officer, of the effectiveness of our DCP. Based on that evaluation, our Chief Executive Officer and 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 June 30, 2022 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 June 30, 2022. This evaluation was conducted under the supervision (and with the participation) of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our DCP were not effective as of June 30, 2022, because of the continuation of a material weaknesses (the "Material Weakness") in our internal control over financial reporting due to inadequate financial closing process, 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 process and insufficient entity risk assessment process.

We engaged in ongoing efforts to remediate the control deficiencies that constituted the Material Weakness by implementing changes to our internal control over financial reporting 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
- subscribing the relevant online services other supplemental internal and external resources relating to SEC reporting.

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 are in the process of implementing an integrated cloud-based enterprise resource planning (ERP) system to manage our financial information to replace our outdated financial accounting systems and software, which we expect to complete before the end of 2022 as our finances permit. We also have established 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.

There is no assurance 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

The following should be read in conjunction with the “Risk Factors” section of the Annual Report.

The Company’s consolidated financial statements included in this Quarterly Report have been prepared on the basis that the Company will continue as a going concern. The Company incurred a net loss of \$10.4 million for the six months ended June 30, 2022 and had a working capital deficit of \$39.5 million at June 30, 2022. Management expects that the Company’s current liabilities and operating expenses, including the expected costs relating to the commercialization of Endari® in the Middle East North Africa region and elsewhere, will exceed our existing cash balances and cash expected to be generated from operations for the foreseeable future. To meet the Company’s current liabilities and operating expenses, the Company will need to restructure or refinance its existing indebtedness and raise additional funds through related-party loans, equity and debt financings or licensing or other strategic agreements. The Company has no understanding or arrangement to restructure or refinance its indebtedness or for any additional financing, and there can be no assurance that the Company will be able to restructure or refinance its existing indebtedness or complete any additional equity or debt financings on favorable terms, or at all, or enter into licensing or other strategic arrangements. Due to the uncertainty of the Company’s ability to meet its current liabilities and operating expenses, there is substantial doubt about the Company’s ability to continue as a going concern for 12 months from the date of this filing. The consolidated financial statements included in this Quarterly Report do not include any adjustments that might result from the outcome of these uncertainties.

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

On June 29, 2022, the Company entered into a Professional Services and Consulting Agreement with a strategic business outreach and professional services consulting firm pursuant to which the Company issued \$110,000 of restricted shares of common stock valued for this purpose at \$0.446 a share, the volume-weighted daily average closing price of the common stock as reported on the OTCQX over the previous ten trading days (the “VWAP”), in consideration of services rendered and to be rendered under the Professional Services and Consulting Agreement. The Company also agree to issue the consulting firm an additional \$55,000 of restricted shares valued at the VWAP at the time on the nine-month and twelve-month anniversaries of the date of the Professional Services and Consulting Agreement. The shares were, or will be, issued without registration under the Securities Act of 1933, as amended, pursuant to the exemptions from registration under Section 4(a)(2) of such Act and Regulation D for transactions not involving a public offering based upon the facts that the shares were issued to a single accredited investor in a privately negotiated transaction not involving the services of a broker-dealer or other intermediary or general solicitation or advertising.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

#### *Related Party Loans*

Over the period January 1, 2022 through June 30, 2022, certain of the Company’s directors and executive officers loaned the Company an aggregate of \$2.1 million to augment the Company’s working capital as reflected in the following table (in thousands):

	Principal Amounts	Annual Interest Rate	Term
Soomi Niihara (1)	\$ 300	12%	Due on Demand
Yasushi Nagasaki (2)	\$ 50	10%	Due on Demand
Hope International Hospice, Inc. (1)	\$ 350	10%	Due on Demand
Hope International Hospice, Inc. (1)	\$ 210	10%	Due on Demand
Soomi Niihara (1)	\$ 100	10%	Due on Demand
Soomi Niihara (1)	\$ 200	10%	Due on Demand
Osato Medical Clinic (3)	\$ 250	12%	Due on Demand
Hope International Hospice, Inc. (1)	\$ 150	12%	Due on Demand
Hope International Hospice, Inc. (1)	\$ 150	12%	Due on Demand
Wei Pei Zen (2)	\$ 200	10%	Due on Demand
Willis Lee (2)	\$ 45	10%	Due on Demand
Hope International Hospice, Inc. (1)	\$ 40	10%	Due on Demand

- (1) Soomi Niihara is Dr. Niihara's wife. 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., which is wholly owned by him and his wife.
- (2) Officer or director.
- (3) Dr. Osato, a director of Emmaus, and his wife are the sole owners of Osato Medical Clinic.

## Item 6. Exhibits

(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished
		Form	File No.	Exhibit	Filing Date	
31.1	<a href="#">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</a>					*
31.2	<a href="#">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</a>					*
32.1	<a href="#">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</a>					**
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.

Dated: August 15, 2022

**Emmaus Life Sciences, Inc.**

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

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

**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: August 15, 2022

/s/ Yutaka Niihara

Yutaka Niihara, M.D., M.P.H.

Chief Executive Officer

(Principal Executive Officer)



**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: August 15, 2022

/s/ YASUSHI NAGASAKI

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Yasushi Nagasaki  
Interim Chief Financial Officer  
(Principal Financial Officer)

**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 June 30, 2022, 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

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Yutaka Niihara, M.D., M.P.H.

Chief Executive Officer

(Principal Executive Officer)

August 15, 2022

/s/ YASUSHI NAGASAKI

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Yasushi Nagasaki

Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

August 15, 2022