UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2021

OR

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

For the transition period from to

Commission File No.: 001-35527

EMMAUS LIFE SCIENCES, INC.

(Exact name of Registrant as specified in its charter)

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

(310) 214-0065

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

The registrant had 49,311,864 shares of common stock, par value $0.001 per share, outstanding as of November 10, 2021.

EMMAUS LIFE SCIENCES, INC.
For the Quarterly Period Ended September 30, 2021
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Item 1. Financial Statements

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

	As of	
	September 30, 2021 (Unaudited)	**December 31, 2020**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,321	$ 2,487
Accounts receivable, net	2,663	198
Inventories, net	6,252	7,087
Prepaid expenses and other current assets	1,238	1,485
Total current assets	12,474	11,257
Property and equipment, net	97	120
Equity method investment	17,835	15,925
Right of use assets	3,642	4,072
Investment in convertible bond	25,716	27,866
Other assets	293	296
Total assets	$ 60,057	$ 59,536
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 6,973	$ 7,460
Operating lease liabilities, current portion	718	1,143
Conversion feature derivative, notes payable	6,733	—
Other current liabilities	4,940	2,706
Revolving line of credit from related party	600	800
Warrant derivative liabilities	1,393	1,071
Notes payable, current portion	3,269	4,588
Notes payable to related parties	400	134
Convertible debentures, net of discount	—	5,480
Total current liabilities	25,026	23,382
Operating lease liabilities, less current portion	3,449	3,470
Other long-term liabilities	32,275	34,470
Notes payable, less current portion	1,500	222
Convertible notes payable	12,908	3,150
Total liabilities	75,158	64,694
STOCKHOLDERS' DEFICIT		
Preferred stock, par value $0.001 per share, 15,000,000 shares authorized, none issued or outstanding	—	—
Common stock, par value $0.001 per share, 250,000,000 shares authorized, 49,311,864 and 48,987,198 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	49	49
Additional paid-in capital	220,017	218,728
Accumulated other comprehensive income	(763)	1,144
Accumulated deficit	(234,404)	(225,079)
Total stockholders' deficit	(15,101)	(5,158)
Total liabilities and stockholders' deficit	$ 60,057	$ 59,536

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
REVENUES, NET	$ 5,766	$ 5,601	$ 17,590	$ 16,915
COST OF GOODS SOLD	445	484	1,311	1,408
GROSS PROFIT	5,321	5,117	16,279	15,507
OPERATING EXPENSES				
Research and development	470	629	3,032	1,835
Selling	1,518	1,324	4,254	3,527
General and administrative	3,364	3,156	10,156	10,538
Total operating expenses	5,352	5,109	17,442	15,900
INCOME (LOSS) FROM OPERATIONS	(31)	8	(1,163)	(393)
OTHER INCOME (EXPENSE)				
Loss on debt extinguishment	—	—	(1,172)	(1,425)
Change in fair value of warrant derivative liabilities	(131)	745	(322)	669
Change in fair value of conversion feature derivative, notes payable	(1,357)	45	(1,132)	51
Net gain on investment in marketable securities	—	6,464	—	7,672
Net loss on equity method investment	(663)	(494)	(1,999)	(1,474)
Foreign exchange gain (loss)	(246)	657	(1,421)	685
Interest and other income	192	59	573	629
Interest expense	(683)	(1,606)	(2,390)	(4,713)
Total other income (expense)	(2,888)	5,870	(7,863)	2,094
INCOME (LOSS) BEFORE INCOME TAXES	(2,919)	5,878	(9,026)	1,701
INCOME TAXES PROVISION	232	293	58	80
NET INCOME (LOSS)	(3,151)	5,585	(9,084)	1,621
COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized loss on debt securities available for sale (net of tax)	(2,754)	—	(2,150)	—
Foreign currency translation adjustments	86	(35)	243	(7)
Other comprehensive loss	(2,668)	(35)	(1,907)	(7)
COMPREHENSIVE INCOME (LOSS)	$ (5,819)	$ 5,550	$ (10,991)	$ 1,614
EARNINGS (NET LOSS) PER COMMON SHARE - BASIC AND DILUTED	$ (0.06)	$ 0.11	$ (0.18)	$ 0.03
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	49,311,864	48,987,189	49,233,371	48,866,724

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

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

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Income	Income	Deficit
Balance at January 1, 2021	48,987,189	$ 49	$ 218,728	$ 1,144	$ (225,079)	$ (5,158)
Fair value of warrants including down-round protection adjustments	—	—	241	—	(241)	—
Common stock issued for services	324,675	—	500	—	—	500
Share-based compensation	—	—	181	—	—	181
Unrealized gain on debt securities available for sale (net of tax)	—	—	—	58	—	58
Foreign currency translation effect	—	—	—	165	—	165
Net loss	—	—	—	—	(8,422)	(8,422)
Balance at 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 at June 30, 2021	49,311,864	49	219,924	1,905	(231,253)	(9,375)
Share-based compensation	—	—	93	—	—	93
Unrealized loss on debt securities available for sale (net of tax)	—	—	—	(2,754)	—	(2,754)
Foreign currency translation effect	—	—	—	86	—	86
Net loss	—	—	—	—	(3,151)	(3,151)
Balance at September 30, 2021	49,311,864	$ 49	$ 220,017	$ (763)	$ (234,404)	$ (15,101)

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

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

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Loss	Deficit
Balance at January 1, 2020	48,471,446	$ 48	$ 215,207	$ (79)	$ (226,229)	$ (11,053)
Fair value of warrants including down-round protection adjustments	—	—	600	—	(200)	400
Common stock issued for cash (net of issuance cost)	515,743	1	141	—	—	142
Share-based compensation	—	—	209	—	—	209
Foreign currency translation effect	—	—	—	61	—	61
Net income	—	—	—	—	5,509	5,509
Balance at March 31, 2020	48,987,189	49	216,157	(18)	(220,920)	(4,732)
Share-based compensation	—	—	219	—	—	219
Foreign currency translation effect	—	—	—	(33)	—	(33)
Net loss	—	—	—	—	(9,473)	(9,473)
Balance at June 30, 2020	48,987,189	49	216,376	(51)	(230,393)	(14,019)
Fair value of warrants including down-round protection adjustments	—	—	1,987	—	(4)	1,983
Share-based compensation	—	—	121	—	—	121
Foreign currency translation effect	—	—	—	(35)	—	(35)
Net income	—	—	—	—	5,585	5,585
Balance at September 30, 2020	48,987,189	$ 49	$ 218,484	$ (86)	$ (224,812)	$ (6,365)

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)

	Nine Months Ended September 30,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (9,084)	$ 1,621
Adjustments to reconcile net loss to net cash flows used in operating activities		
Depreciation and amortization	44	45
Inventory reserve	423	596
Amortization of discount of notes payable and convertible notes payable	1,410	3,200
Foreign exchange adjustments	1,415	(316)
Net gain on investment in marketable securities	—	(7,672)
Loss on equity method investment, net	1,999	1,474
Loss on debt extinguishment	1,172	1,425
Gain on disposal of property and equipment	(1)	—
Share-based compensation	548	549
Shares issued for services	500	—
Change in fair value of warrant derivative liabilities	322	(669)
Change in fair value of conversion feature derivative, notes payable	1,132	(51)
Net changes in operating assets and liabilities		
Accounts receivable	(2,469)	425
Inventories	404	(44)
Prepaid expenses and other current assets	202	336
Other non-current assets	417	313
Income tax receivable and payable	15	(43)
Accounts payable and accrued expenses	(173)	(3,119)
Other current liabilities	242	(3,883)
Other long-term liabilities	(637)	1,451
Net cash flows used in operating activities	(2,119)	(4,362)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of marketable securities	—	35,601
Purchases of property and equipment	(11)	(13)
Loan to equity method investee	(5,241)	(2,274)
Net cash flows (used in) provided by investing activities	(5,252)	33,314
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable issued, net of issuance cost and discount	1,000	1,980
Proceeds from convertible notes payable issued, net of issuance cost and discount	14,490	—
Payments of notes payable	(1,079)	(200)
Payments of convertible notes	(7,200)	(2,000)
Proceeds from issuance of common stock, net of issuance cost	—	142
Net cash flows provided by (used in) financing activities	7,211	(78)
Effect of exchange rate changes on cash	(6)	(14)
Net decrease in cash, cash equivalents and restricted cash	(166)	28,860
Cash, cash equivalents and restricted cash, beginning of period	2,487	1,769
Cash, cash equivalents and restricted cash, end of period	$ 2,321	$ 30,629
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES		
Interest paid	$ 840	$ 1,543
Income taxes paid	$ 43	$ 126
NON-CASH INVESING AND FINANCING ACTIVITIES		
Debt discount due to conversion features derivative	$ 5,555	$ —
Debt discount due to warrant issued with debt	$ —	$ 3,808

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

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"). All significant intercompany transactions have been eliminated. The Company's unaudited condensed consolidated interim financial statements contain adjustments, including normal recurring accruals necessary to fairly state the Company's consolidated financial position, results of operations and cash flows. The condensed consolidated interim financial statements should be read in conjunction with the Annual Report on Form 10-K/A for the year ended December 31, 2020 (the "Annual Report") filed with the Securities and Exchange Commission ("SEC") on August 10, 2021. The accompanying condensed consolidated balance sheet at December 31, 2020 has been derived from the audited consolidated balance sheet at December 31, 2020 contained in the Annual Report. The results of operations for the three and nine months ended September 30, 2021, are not necessarily indicative of the results to be expected for the full year or any future interim period.

Organization and Nature of Operations

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

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Restricted cash — Restricted cash as of September 30, 2020 includes proceeds received from the sale of6,643,559 shares of Telcon RF Pharmaceutical, Inc., a Korean corporation (formerly, Telcon Inc. and herein "Telcon") which were earmarked for the purchase of a Telcon convertible bond, described in Note 5. Reconciliation of cash, cash equivalent and restricted cash in the condensed consolidated statements of cash flows is as follows:

	As of September 30,	
	2021	2020
Cash and cash equivalents	$ 2,321	$ 4,949
Restricted cash	—	25,680
Total cash, cash equivalents and restricted cash	$ 2,321	$ 30,629

Factoring accounts receivable — Emmaus Medical, Inc., or Emmaus Medical, an indirect wholly owned subsidiary of Emmaus, entered into 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 70% (subject to increase to 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 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. 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 guarantees Emmaus Medical's obligations under the purchase and sale agreement. At September 30, 2021, accounts receivable includedapproximately $472,000 of factoring accounts receivable and other current liabilities included approximately $9,000 related to factoring. For three and nine months ended September 30, 2021, the Company incurred approximately $**106,000** and $**181,000**, respectively, of factoring fees.

Earnings (net loss) per share — In accordance with ASC 260, *"Earnings per Share,"* the basic earnings (net loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed in a manner similar to basic earnings (net loss) per common share except that the denominator is increased to include the number of additional common shares issuable under securities exercisable for or convertible into common shares had been issued if the additional common shares would be dilutive. As of September 30, 2021 and September 30, 2020, the Company had outstanding potentially dilutive securities exercisable for or convertible into 23,276,594 shares and 19,276,395 shares, respectively, of the Company's common stock. No potentially dilutive securities were included in the calculation of diluted earnings (net loss) per share since the potential dilutive securities were anti-dilutive for three and nine months ended September 30, 2021, and 2020.

NOTE 3 — REVENUES, NET

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Endari®	$ 5,590	$ 5,485	$ 17,186	$ 16,548
Other	176	116	404	367
Revenues, net	$ 5,766	$ 5,601	$ 17,590	$ 16,915

The following table summarizes the revenue allowance and accrual activities for the nine months ended September 30, 2021 and September 30, 2020 (in thousands):

	Trade Discounts, Allowances and Chargebacks	Government Rebates and Other Incentives	Returns	Total
Balance as of December 31, 2020	$ 134	$ 2,119	$ 473	$ 2,726
Provision related to sales in the current year	2,374	2,627	188	5,189
Adjustments related prior period sales	13	8	(111)	(90)
Credit and payments made	(1,217)	(2,201)	(20)	(3,438)
Balance as of September 30, 2021	$ 1,304	$ 2,553	$ 530	$ 4,387
Balance as of December 31, 2019	$ 228	$ 1,354	$ 315	$ 1,897
Provision related to sales in the current year	2,106	2,917	180	5,203
Adjustments related prior period sales	15	(43)	(65)	(93)
Credit and payments made	(2,144)	(1,762)	—	(3,906)
Balance as of September 30, 2020	$ 205	$ 2,466	$ 430	$ 3,101

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Customer A	31 %	49 %	47 %	52 %
Customer B	49 %	32 %	35 %	27 %
Customer C	12 %	9 %	10 %	8 %
Total	92 %	90 %	92 %	87 %

The Company is party to a distributor agreement with 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 for failure to obtain such product registrations, in which event the Company would be obliged to return to Telcon the $10 million upfront fee. The upfront fee of $10 million is included in other long-term liabilities as unearned revenue as of September 30, 2021 and December 31, 2020. Refer to Note 11 and for additional details.

NOTE 4 — SELECTED FINANCIAL STATEMENT CAPTIONS - ASSETS

Inventories consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Raw materials and components	$ 1,472	$ 1,486
Work-in-process	70	721
Finished goods	6,317	6,064
Inventory reserve	(1,607)	(1,184)
Total	$ 6,252	$ 7,087

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

	September 30, 2021	December 31, 2020
Prepaid insurance	$ 167	$ 388
Prepaid expenses	242	454
Due from equity method investee	579	376
Other current assets	250	267
Total	$ 1,238	$ 1,485

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

	September 30, 2021	December 31, 2020
Equipment	$ 339	$ 347
Leasehold improvements	39	39
Furniture and fixtures	102	99
Total property and equipment	480	485
Less: accumulated depreciation	(383)	(365)
Property and equipment, net	$ 97	$ 120

During the three months ended September 30, 2021 and 2020, depreciation expenses were approximately $11,000 and $12,000, respectively. During the nine months ended September 30, 2021 and 2020, depreciation expenses were approximately $34,000 and $35,000, 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 on October 16, 2021, the Company is entitled on a quarterly basis to call for early redemption 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 on a monthly based on the volume-weighted average market price of Telcon shares as reported on the Korean Securities Dealers Automated Quotations ("KOSDAQ") Market and in the event of the issuance of Telcon shares or share equivalents at a price below the market price of Telcon share. The conversion price also is subject to customary antidilution adjustments upon a merger or other reorganization of Telcon or a stock split, reverse stock split, stock dividend or similar event. The conversion price as of September 30, 2021 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 holder's early redemption right or Telcon's call option described below, are pledged as collateral to secure the Company's obligations under the revised API Supply Agreement with Telcon described in Note 6 and Note 11.

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

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

The following table sets forth the fair value and changes in fair value of the investment in convertible bond as of September 30, 2021 and December 31, 2020 (in thousands):

Investment in convertible bond	**September 30, 2021**	**December 31, 2020**
Balance, beginning of period	$ 27,866	$ —
Fair value at issuance date	—	22,059
Change in fair value included in the statement of other comprehensive income	(2,150)	5,807
Balance, end of period	$ 25,716	$ 27,866

The fair value as of September 30, 2021 and December 31, 2020 was based upon following assumptions:

	September 30, 2021	**December 31, 2020**
Principal outstanding (South Korean won)	KRW 30 billion	KRW 30 billion
Stock price	KRW 3,990	KRW 6,060
Expected life (in years)	9.04	9.79
Selected yield	10.50 %	10.50 %
Expected volatility (Telcon common stock)	82.15 %	85.80 %
Risk-free interest rate (South Korea government bond)	2.18 %	1.72 %
Expected dividend yield	—	—
Conversion price	KRW 4,110 (US$3.47)	KRW 6,028 (US$5.54)

Equity method investment – During 2018, the Company and Japan Industrial Partners, Inc., or JIP, formed EJ Holdings, Inc., or EJ Holdings, to acquire, own and operate an amino acids manufacturing facility in Ube, Japan. In connection with the formation, the Company invested approximately $32,000 in exchange for 40% of EJ Holdings voting shares. JIP owns 60% of EJ Holdings voting shares. In October 2018, the Company entered into a loan agreement with EJ Holdings under which the Company made an unsecured loan to EJ Holdings in the amount of $13.2 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 rate of 1% per year, payable annually. The parties also contemplated that the Ube facility will eventually supply the Company with the facility's output of amino acids and the operation of the facility will be principally for the Company's benefit and, as such, that major decisions affecting EJ Holdings and the Ube facility will be made by EJ Holdings' board of directors, a majority of which are representatives of JIP, in consultation with the Company. During the nine months ended September 30, 2021, the Company made additional $3.6 million

of loans to EJ Holdings. As of September 30, 2021, and December 31, 2020, the loans receivable from EJ Holdings were approximately $**22.2** million and $18.6 million, respectively.

EJ Holdings is engaged in phasing in the Ube facility, which will include eventually obtaining regulatory approvals for the manufacture of PGLG in accordance with cGMP. EJ Holdings has had no significant revenues since its inception, has depended on loans from the Company to acquire the Ube facility and fund its operations and will continue to be dependent on loans from the Company or other financing unless and until the Ube facility is activated and EJ Holdings can secure customers for its products.

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

The Company's share of the losses of EJ Holdings are classified as net loss on equity method investment. The investment is evaluated for impairment 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 nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES, NET	$ 57	$ 55	$ 174	$ 201
GROSS PROFIT	57	55	174	201
NET LOSS	$ (1,657)	$ (1,228)	$ (4,998)	$ (3,677)

NOTE 6 — SELECTED FINANCIAL STATEMENT CAPTIONS - LIABILITIES

Accounts payable and accrued expenses consisted of the following at September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Accounts payable:		
Clinical and regulatory expenses	$ 443	$ 262
Professional fees	552	252
Selling expenses	508	395
Manufacturing costs	253	596
Other vendors	66	518
Total accounts payable	1,822	2,023
Accrued interest payable, related parties	79	41
Accrued interest payable	418	627
Accrued expenses:		
Payroll expenses	1,067	1,053
Government rebates and other rebates	2,553	2,659
Due to equity method investee	480	545
Other accrued expenses	554	512
Total accrued expenses	4,654	4,769
Total accounts payable and accrued expenses	$ 6,973	7,460

Other current liabilities consisted of the following at September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Trade discount	$ 4,000	$ 2,000
Other current liabilities	940	706
Total other current liabilities	$ 4,940	$ 2,706

Other long-term liabilities consisted of the following at September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Trade discount	$ 22,251	$ 24,453
Unearned revenue	10,000	10,000
Other long-term liabilities	24	17
Total other long-term liabilities	$ 32,275	$ 34,470

On June 12, 2017, the Company and Telcon entered into an API Supply Agreement, as subsequently amended (so as amended, the "API agreement"), pursuant to which Telcon advanced to the Company approximately $31.8 million as an advance trade discount in consideration of the Company's agreement to purchase from Telcon the Company's estimated annual targets for bulk containers of PGLG. The Company purchased $250,000 and $2.0 million of PGLG from Telcon in the nine months ended September 30, 2021, and September 30, 2020, respectively. As of September 30, 2021, and December 31, 2020, respectively, accounts payable to Telcon were $250,000 and $208,000. See Note 11 for additional details.

NOTE 7 — NOTES PAYABLE

Notes payable consisted of the following at September 30, 2021 and December 31, 2020 (in thousands except for number of shares):

Year Issued	Interest Rate Range	Term of Notes	Conversion Price		Principal Outstanding September 30, 2021	Unamortized Discount September 30, 2021	Carrying Amount September 30, 2021	Underlying Shares September 30, 2021
Notes payable								
2013	10%	Due on demand	—		$ 895	$ —	$ 895	—
2020	1%	2 years	—		798	—	798	—
2021	11%	Due on demand - 2 years	—		3,076	—	3,076	—
					$ 4,769	**$ —**	**$ 4,769**	**—**
		Current			$ 3,269	$ —	$ 3,269	—
		Non-current			$ 1,500	$ —	$ 1,500	—
Notes payable - related parties								
2020	12%	Due on demand	—		100	—	100	—
2021	12%	Due on demand	—		300		300	
					$ 400	**$ —**	**$ 400**	**—**
		Current			$ 400	$ —	$ 400	—
		Non-current			$ —	$ —	$ —	—
Convertible notes payable								
2020	12%	3 years	$ 10.00	(b)	3,150	—	3,150	316,669
2021	2%	3 years	$ 1.48	(a)	14,490	4,732	9,758	9,806,305
					$ 17,640	**$ 4,732**	**$ 12,908**	**10,122,974**
		Non-current			$ 17,640	$ 4,732	$ 12,908	10,122,974
		Total			**$ 22,809**	**$ 4,732**	**$ 18,077**	**10,122,974**

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

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

The weighted-average stated annual interest rate of notes payable was5% and 10% as of September 30, 2021 and December 31, 2020, respectively. The weighted-average effective annual interest rate of notes payable as of September 30, 2021 and December 31, 2020 was 14% and 37%, respectively, after giving effect to discounts relating to conversion features, warrants and deferred financing costs relating to the notes.

As of September 30, 2021, future contractual principal payments due on notes payable were as follows:

Year Ending	
2021 (three months)	$ 3,447
2022	222
2023	4,650
2024	14,490
Total	$ 22,809

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

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

The following table sets forth the fair value of the conversion feature liabilities as of September 30, 2021 and December 31, 2020 (in thousands):

Conversion feature liabilities — Amended and Restated 10% Senior Secured Convertible Debentures	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Balance, beginning of period	$ 7	$ 1
Fair value at debt modification date	—	118
Change in fair value included in the statement of comprehensive loss	(7)	(112)
Balance, end of period	$ —	$ 7

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

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

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

The Company is party to a revolving line of credit agreement with Dr. Niihara, the Company's Chairman and Chief Executive Officer. Under the agreement, at the Company's request from time to time Dr. Niihara may, but is not obligated to, loan or re-loan to the Company up to $1,000,000. Outstanding amounts under the agreement are due and payable upon demand and bear interest, payable monthly, at a variable annual rate equal to the Prime Rate in effect from time to time plus 3%. In addition to the payment of interest, the Company is obligated to pay Dr. Niihara a "tax gross-up" intended to make him whole for federal and state income taxes payable by him with respect to interest paid to him in the previous year. The outstanding balance under the revolving line of credit agreement of $600,000 as of September 30, 2021 and December 31, 2020 were reflected in revolving line of credit, related party on the condensed consolidated balance sheets. With the estimated tax-gross up, the effective annual interest rate on the outstanding balance as of September 30, 2021, was 10.4%. The revolving line of credit agreement will expire on November 22, 2022. Refer to Note 12 for related party information.

On May 8, 2020, the Company received a loan in the amount of $797,840 under the Small Business Administration Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan, which is evidenced by a Promissory Note dated April 29, 2020, matures on April 29, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on December 8, 2020 unless the PPP loan is forgiven prior to the date of the first monthly payment or the loan forgiveness process has commenced. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The loan and accrued interest are forgivable after a specific period as long as the Company uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Company has applied for PPP loan forgiveness on October 30, 2020. There is no assurance that the loan will be forgiven. The amount of loan forgiveness would be reduced if the Company were to terminate employees or reduce salaries during such period. The PPP loan was included in notes payable on the condensed consolidated balance sheets at September 30, 2021 and December 31, 2020.

On February 9, 2021, the Company entered into a securities purchase agreement with an effective date of February 8, 2021 pursuant to which the Company agreed to sell and issue to the purchasers thereunder in a private placement pursuant to Rule 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D thereunder a total of up to $17 million in principal amount of convertible promissory notes of the Company for a purchase price equal to the principal amount thereof. As of September 30, 2021, we had sold approximately $14.5 million of the convertible promissory notes. Of the net proceeds from the sale of the convertible promissory notes, $6.2 million was used to prepay the outstanding Amended and Restated 10% Senior Secured Convertible Debentures as described above.

Commencing one year from the original issue date, the convertible promissory notes will be convertible at the option of the holder into shares of the Company's common stock at an initial conversion price of $1.48 per share, which equaled the "Average VWAP" (as defined) of the Company's common stock on the effective date. The initial conversion price will be adjusted as of the end of each three-month period following the original issue date, commencing May 31, 2021, to equal the Average VWAP as of the end of

such three-month period if such Average VWAP is less than the then-conversion price.There is no floor on the conversion price.The conversion price will be subject to further adjustment in the event of a stock split, reverse stock split or certain other events specified in the convertible promissory notes.

The convertible promissory notes bear interest at the rate of12% per year payable semi-annually on the last business day of August and January of each year and will mature on the 3rd anniversary of the original issue date. The convertible promissory notes will become prepayable in whole or in part at the election of the holders on or after February 28, 2022 if the Company's common stock shall not have been approved for listing on the NYSE American, the Nasdaq Capital Market or other "Trading Market" (as defined). The Company will be entitled to prepay up to 50% of the principal amount of the convertible promissory notes at any time after the first anniversary and on or before the second anniversary of the original issue date for a prepayment amount equal to the principal amount being prepaid, accrued and unpaid interest thereon and a prepayment premium equal to 50% of such principal amount. The convertible promissory notes are general, unsecured obligations of the Company.

The conversion feature of the convertible promissory notes was separately accounted for at fair value as a derivative liability under guidance in ASC 815 that is remeasured at fair value on a recurring basis using Level 3 inputs, with any changes in the fair value of the conversion feature liability recorded in earnings. The following table sets forth the fair value of the conversion feature liability as of September 30, 2021 (in thousands):

Convertible promissory notes	September 30, 2021
Balance, beginning of period	$ —
Fair value at issuance date	5,594
Change in fair value included in the statement of comprehensive (income) loss	1,139
Balance, end of period	$ 6,733

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

The fair value as of September 30, 2021 and at issuance date was based upon following assumptions:

Convertible promissory notes	September 30, 2021	Issuance Date
Stock price	$ 1.60	$ 1.41
Conversion price	$ 1.48	$ 1.48
Selected yield	21.62 %	20.29 %
Expected volatility	50 %	50 %
Time until maturity (in years)	2.41	3.00
Dividend yield	—	—
Risk-free rate	0.38 %	0.30 %

NOTE 8 — STOCKHOLDERS' DEFICIT

Purchase Agreement with GPB—On December 29, 2017, the Company entered into the Purchase Agreement with GPB Debt Holdings II, LLC ("GPB"), pursuant to which the Company issued to GPB a $13 million senior secured convertible promissory note (the "GPB Note") for an aggregate purchase price of $12.5 million, reflecting a 4.0% original issue discount. The GPB Note was repaid inFebruary 2018.

In connection with the issuance of GPB Note, the Company issued to GPB a warrant (the "GPB Warrant") to purchase up to240,764 of common stock at an exercise price of $10.80 per share, with customary adjustments for stock splits, stock dividends and other recapitalization events. The GPB Warrant became exercisable six months after issuance and has a term of five years from the initial exercise date.

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

The following table presents the change in fair value of the GPB Warrant as of September 30, 2021 and December 31, 2020 (in thousands):

Warrant Liability—GPB	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Balance, beginning of period	$ 83	$ 38
Change in fair value included in the statement of comprehensive income	(40)	45
Balance, end of period	$ 43	$ 83

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

The fair value as of September 30, 2021, and December 31, 2020 set forth in the table above was based on upon following assumptions:

	September 30, 2021	December 31, 2020
Adjusted exercise price	$ 10.28	$ 10.28
Common stock fair value	$ 1.60	$ 1.23
Risk-free interest rate	0.23 %	0.15 %
Volatility	100.00 %	120.00 %
Time until expiration (years)	1.75	2.50
Expected dividend yield	—	—
Number outstanding	252,802	252,802

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

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

The Amended and Restated 10% Senior Secured Convertible Debentures issued in conjunction with the Merger were convertible at the option of each holder into shares of EMI common stock immediately prior to the Merger at a conversion price of $10.00 a share, subject to adjustment for stock splits, merger reorganizations and other customary events. The related amended and restated warrants were exercisable immediately prior to the Merger for an aggregate of 1,460,000 shares of EMI common stock at an initial exercise price of $10.00 per share. The exercise price of the warrants was subject to reduction in connection with a "going public event" such as the Merger based upon the "VWAP" (i.e., volume-weighted average trading price) of the Company common stock at the time of the Merger. Upon completion of the Merger, the amended and restated warrants became exercisable for shares of the Company common stock and the exercise price of the warrants and the number of underlying warrant shares were adjusted based upon exchange ratio in the Merger. The exercise price of the amended and restated warrants was subsequently adjusted in accordance with their terms to $5.87 per share based upon the VWAP of the Company common stock on the day following completion of the Merger.

Pursuant to the terms of a securities amendment agreement entered into on February 21, 2020,the Amended and Restated 10% Senior Secured Convertible Debentures were once again amended and restated in their entirety to extend their maturity date toApril 21, 2021 and reduce the conversion price thereof to $3.00 per share from $9.52 per share. The related amended and restate common stock purchase warrants also were amended and restated again to reduce the exercise price thereof to $3.00 per share from $5.87 per share. The newly Amended and Restated 10% Senior Secured Convertible Debentures and related newly amended and restated warrants provide for so-called full-ratchet anti-dilution adjustments in the event we sell or issue shares of common stock or common stock equivalents at an effective price per share less than the conversion price of the debentures or the exercise price of the warrants, subject to certain exceptions. The conversion price of the Amended and Restated 10% Senior Secured Convertible Debentures and the exercise price of the related amended and restated warrants were reduced to $2.00 a share as a result of the Company's sale of100,000 shares of common stock at a price of $2.00 a share under the Purchase Agreement with Lincoln Park Capital LLC. See Note 7 for information regarding our recent prepayment of the Debentures.

The Company evaluated the common stock purchase warrants issued in connection with the original issuance of the10% Senior Secured Debentures in October 2018 under ASC 815-40 and concluded that the warrants should be separately recognized at fair value as a liability. The liability is remeasured at fair value on a recurring basis using Level 3 input and any changes in fair value is recorded in earnings. In 2019, the Debentures were amended and restated to be convertible into common stock of EMI immediately

prior to completion of the Merger, which resulted in the related warrants being reclassified to equity.The warrants also were amended and restated in their entirety in connection with the Merger.

On September 22, 2020, the Company and EMI entered into a securities amendment agreement (the "September 2020 Amendment") with the holders of the Amended and Restated 10% Senior Secured Convertible Debentures described above. The September 2020 Amendment amended in certain respects the securities purchase agreement among EMI and the Debenture holders originally entered into on September 8, 2018, as amended by the February 2020 Amendment, and provides that the Debentures are to be amended in certain respects as set forth in the form of Allonge Amendment No. 1 to the debentures included in the September 2020 Agreement (the "Allonge"). Pursuant to the Allonge, the aggregate monthly redemption payments under the Debentures were reduced to $500,000 from $1,000,000 in principal amount and the maturity date of the Debentures was extended from April 21, 2021 to August 31, 2021. The monthly redemption payments resumed in September 2020 and continued on the first day of each month thereafter commencing October 1, 2020. The remaining principal balance of the Debentures was due and payable upon maturity, subject to mandatory prepayment in connection with certain "Capital Events" as defined.

In consideration of the Debenture holder's financial accommodations to the Company, the Company issued to the holders, pro rata based upon the relative principal amounts of their Debentures, five-year common stock purchase warrants to purchase a total of up to1,840,000 shares of the Company common stock at an exercise price of $2.00 a share. The warrants provide for so-called full-ratchet anti-dilution adjustments in the event the Company sells or issues shares of common stock or common stock equivalents at an effective price per share less than the exercise price of the warrants, subject to certain exceptions. The exercise price also remains subject to adjustment for stock splits and other customary events. In October 2018, the Company granted to T.R. Winston and its affiliates for services relating to the September 2020 Amendment common stock purchase warrants to purchase up to 75,000 shares of the Company common stock at an exercise price of $2.10 a share and otherwise on terms identical to the warrants issued to the debenture holders described above.

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

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

Purchase agreement with Holder of Convertible Promissory Note - On June 15, 2020, the holder of a convertible promissory note in the principal amount of $3,150,000 agreed to an extension of the maturity date to June 15, 2023 in exchange for an increase in the interest rate on the note from1% to 12%. In conjunction with this amendment, the Company issued to the holder five-year **common stock purchase warrants to purchase a total of up to 1,250,000 shares of the Company common stock at an exercise price of $2.05 a share. Under ASC 815-40, the Company concluded that the warrants issued should be recognized at fair value as a liability. The warrant liability is remeasured at fair value on a recurring basis using Level 3 input and any changes in the fair value of liability is recorded in earnings.**

The following table presents the fair value and the change in fair value of the warrants as of September 30, 2021 and December 31, 2020 (in thousands):

Warrant liability—Wealth Threshold	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Balance, beginning of period	$ 988	$ —
Fair value at issuance date	—	1,425
Change in fair value included in the statement of comprehensive income (loss)	362	(437)
Balance, end of period	$ 1,350	$ 988

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

	September 30, 2021	December 31, 2020
Exercise price	$ 2.05	$ 2.05
Stock price	$ 1.60	$ 1.68
Risk-free interest rate	0.69 %	0.31 %
Expected volatility (peer group)	110.00 %	101.00 %
Expected life (in years)	3.71	4.46
Expected dividend yield	—	—
Number outstanding	1,250,000	1,250,000

A summary of all outstanding warrants as of September 30, 2021 and December 31, 2020 is presented below:

	September 30, 2021	December 31, 2020
Warrants outstanding, beginning of period	8,439,480	4,931,099
Granted	—	3,625,000
Exercised	—	—
Cancelled, forfeited or expired	(203,463)	(116,619)
Warrants outstanding, end of period	8,236,017	8,439,480

A summary of all outstanding warrants by year issued and exercise price as of September 30, 2021 is presented below:

	Outstanding			Exercisable	
Year issued and Exercise Price	Number of Warrants Issued	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Total	Weighted-Average Exercise Price
Prior to January 1, 2020					
$1.54-$36.24	4,611,017	1.39	$ 9.14	4,611,017	$ 9.14
Prior to Jan 1, 2020 Total	4,611,017			4,611,017	
At December 31, 2020					
$ 2.05	1,250,000	3.71	$ 2.05	—	—
$ 1.54	2,375,000	3.95	$ 1.54	2,375,000	$ 1.54
2020 Total	3,625,000			2,375,000	
At September 30, 2021					
$ —	—	—	$ —	—	$ —
Grand Total	8,236,017		Grand Total	6,986,017	

Summary of Plans – Upon completion of the Merger, the EMI Amended and Restated 2011 Stock Incentive Plan was assumed by the Company. The 2011 Stock Incentive Plan permitted grants of incentive stock options to employees, including executive officers, and other share-based awards such as stock appreciation rights, restricted stock, stock units, stock bonus and unrestricted stock awards to employees, directors, and consultants for up to 9,000,000 shares of common stock. Options granted under the 2011 Stock Incentive Plan expire ten years after grant. Options granted to directors vest in equal quarterly installments and all other option grants vest over a minimum period of three years, in each case, subject to the optionee's all based on continuous service with the Company. Each stock option outstanding under the 2011 Stock Incentive Plan at the effective time of the Merger was automatically converted into a stock option to purchase a number of shares of the Company's common stock and at an exercise price calculated based on the exchange ratio in the Merger. The 2011 Stock Incentive Plan expired in May 2021, after which no further awards may be made under the Plan.

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

Stock options—During the nine months ended September 30, 2021, the Company did not issue any stock options. During the year ended December 31, 2020, the Company granted stock options to purchase 90,000 shares of common stock. All the options are exercisable for ten years from the date of grant and will vest and become exercisable with respect to the underlying shares as follows: as to one-third of the shares on the first anniversary of the grant date, and as to the remaining two-thirds of the shares in twenty-four approximately equal monthly installments over a period of two years thereafter. In September 2021, the 2012 Omnibus Incentive Compensation Plan was terminated. The termination of the Plan did not affect outstanding awards under the Plan.

A summary of outstanding stock options as of September 30, 2021 and December 31, 2020 is presented below.

	September 30, 2021		December 31, 2020	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	7,110,025	$ 4.63	7,245,350	$ 4.68
Granted or deemed granted	—	—	90,000	$ 2.05
Exercised	—	—	—	—
Cancelled, forfeited and expired	(1,125,753)	$ 3.82	(225,325)	$ 5.08
Options outstanding, end of period	5,984,272	$ 4.78	7,110,025	$ 4.63
Options exercisable, end of period	5,948,771	$ 4.80	6,986,268	$ 4.47
Options available for future grant	— (a)		2,302,475	

(a) Option plans were expired and therefore no options available for future grants.

During the three months ended September 30, 2021 and September 30, 2020, the Company recognized $93,000 and $121,000, respectively of share-based compensation expense. During the nine months ended September 30, 2021 and September 30, 2020, the Company recognized $548,000 and $549,000 of share-based compensation expenses, respectively. As of September 30, 2021, there was approximately $26,000 of total unrecognized compensation expense related to unvested share-based compensation which is expected to be recognized over the weighted-average remaining vesting period of 1.5 year.

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

Pursuant to the agreement, the Company paid $500,000 in cash and issued 324,675 of the Company’s shares equivalent to $500,000 in consideration for entering into the agreement, which were recorded as research and development expenses in the condensed consolidated statements of operations and comprehensive income (loss). The Company, in turn, has been granted rights of first negotiation and first refusal for an exclusive license regarding the development and commercialization of products based on the intellectual property resulting from the agreement. Refer to Note 13 for additional information.

NOTE 9 — INCOME TAX

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

For the three and nine months ended September 30, 2021, the Company recorded income tax provision of $232,000 and $58,000, respectively. For three and nine month ended September 30, 2020, the Company recorded income tax provision of $293,000 and $80,000. 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 September 30, 2021 and 2020.

NOTE 10 — LEASES

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

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

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

The rent expense during the three months ended September 30, 2021 and 2020 amounted to approximately $300,000 and $286,000, respectively, and during the nine months ended September 30, 2021 and 2020 amounted to approximately $889,000 and $895,000, respectively.

Future minimum lease payments under the lease agreements were as follows as of September 30, 2021 (in thousands):

		Amount
2021 (three months)	$	290
2022		1,174
2023		1,058
2024		1,063
2025 and thereafter		1,928
Total lease payments		5,513
Less: Interest		1,346
Present value of lease liabilities	$	4,167

As of September 30, 2021, the Company had an operating lease right-of-use asset of $3.6 million and lease liability of $4.2 million in the balance sheet. The weighted average remaining term of the Company's leases as of September 30, 2021 was 4.8 years and the weighted-average discount rate was 11.6%.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

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

On June 16, 2019, the Company entered into an agreement with Telcon to adjust the price payable to Telcon under the Revised API Agreement from $50 per kilogram of PGLG to $100 per kilogram from July 1, 2019 through June 30, 2020, with the price payable after June 30, 2020 to be subject to agreement between the parties. There has been no changes to the price through September 30, 2021. The PGLG purchased from Telcon is recorded in inventory at net realizable value and the excess purchase price is recorded against deferred trade discount. Refer to Note 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 nine months ended September 30, 2021 (in thousands):

Class	Lender	Interest Rate	Date of Loan	Term of Loan	Principal Amount Outstanding at September 30, 2021	Highest Principal Outstanding	Amount of Principal Repaid	Amount of Interest Paid
Current, Promissory note payable to related parties:								
	Willis Lee (2)	12%	10/29/2020	Due on Demand	100	100	—	—
	Soomi Niihara (1)	12%	9/15/2021	Due on Demand	300	300	—	—
				Subtotal	**400**	**400**	—	—
Revolving line of credit agreement								
	Yutaka Niihara (1)	5.25%	12/27/2019	Due on Demand	600	800	—	28
				Subtotal	**600**	**800**	**—**	**28**
				Total	**$ 1,000**	**$ 1,200**	**$ —**	**$ 28**

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

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

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

(2) Current or former officer.

See Notes 6 and 11 for a discussion of the Company's agreements with Telcon, which holds4,147,491 shares of the Company common stock, or approximately 8.4% of the common stock outstanding as of September 30, 2021. As of September 30, 2021, the Company held a Telcon convertible bond in the principal amount of approximately $25.7 million as discussed in Note 5.

NOTE 13 — SUBSEQUENT EVENTS

On October 7, 2021, the Company entered into a License Agreement, effective as of October 6, 2021, 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 has agreed in the License Agreement to pay Kainos a six-figure upfront fee in cash within 90 days from the effective date of the License Agreement, cash payments upon the achievement of specified milestones totaling in the mid-eight figures, a single-digit percentage royalty based on net sales of the licensed products and a similar percentage of any sublicensing consideration.

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

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

Forward-Looking Statements

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

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

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

Company Overview

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

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

Until we began marketing and selling Endari® in the U.S. in early 2018, we had minimal revenues and relied upon funding from sales of equity securities and debt financings and loans, including loans from related parties, to fund our business and operations. As of September 30, 2021, our accumulated deficit was $234.4 million and we had cash and cash equivalents of $2.3 million. We expect net revenues to increase as we expand our commercialization of Endari® in the U.S. and expand or commence early access programs and eventual marketing and commercialization abroad.

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

Financial Overview

Revenues, net

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

Net revenues from Endari® sales are recognized upon transfer to our distributors and specialty pharmacy providers. Distributors resell our products to other pharmacy and specialty pharmacy providers, health care providers, hospitals, and clinics. In addition to agreements with these distributors, we have entered into contractual arrangements with specialty pharmacy providers, in-office dispensing providers, physician group purchasing organizations, pharmacy benefits managers and government entities that

provide for government-mandated or privately negotiated rebates, chargebacks and discounts with respect to the purchase of our products.These various discounts, rebates, and chargebacks are referred to as "variable consideration." Revenue from product sales is recorded net of variable consideration.

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

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

Sales Discounts: We provide our customers prompt payment and large order discounts and from time to time offer additional discounts that are recorded as a reduction of revenue in the period the revenue is recognized. Sales attributable to one-time discounts offered by us increased in 2020 and 2021 and may adversely affect sales in subsequent periods.

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

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

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

Cost of Goods Sold

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

Research and Development Expenses

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

Our contracts with CROs are generally based on time and materials expended, whereas study site agreements are generally based on costs per patient as well as other pass-through costs, including start-up costs and institutional review board fees. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment

flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones.

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

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

General and Administrative Expenses

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

Selling Expenses

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

Inventories

Inventories consist of raw materials, finished goods and work-in-process and are valued on a first-in, first-out basis and at the lower of cost or net realizable value. Substantially all raw materials purchased during the nine months ended September 30, 2021 and 2020 were supplied by one vendor.

Results of Operations:

Three months ended September 30, 2021 and 2020

Net revenues, Net. Net revenues increased by $0.2 million, or 3%, to $5.8 million for the three months ended September 30, 2021, compared to $5.6 million for the three months ended September 30, 2020. The increase in net revenues was primarily attributable to bulk order purchases and recovery from the temporary disruptions in revenues related to the COVID-19 pandemic during 2020.

Cost of Goods Sold. Cost of goods sold decreased by $0.1 million, or 8%, to $0.4 million for the three months ended September 30, 2021, compared to $0.5 million for the three months ended September 30, 2020.

Research and Development Expenses. Research and development expenses decreased by $0.2 million, or 25%, to $0.5 million for the three months ended September 30, 2021, compared to $0.6 million for the three months ended September 30, 2020. The decrease was primarily due to nearing completion of the preclinical phase of our diverticulosis study. We expect our research and development costs to increase in the remainder of 2021.

Selling Expenses. Selling expenses increased by $0.2 million, or 15%, to $1.5 million for the three months ended September 30, 2021, compared to $1.3 million for the three months ended September 30, 2020. The increase in selling expenses was primarily due to an increase of travel expenses as travel restrictions due to Covid-19 have been eased.

General and Administrative Expenses. General and administrative expenses increased by $0.2 million, or 7%, to $3.4 million for the three months ended September 30, 2021, compared to $3.2 million for the three months ended September 30, 2020. The increase in general and administrative expenses was due to an increase of $0.2 million in payroll expenses attributable to our Dubai office.

Other Income (Expense). Total other expense increased by $8.8 million, or 149%, to $2.9 million for the three months ended September 30, 2021, compared to $5.9 million of other income for the three months ended September 30, 2020. The increase was primarily due to decreases of $6.5 million in net income on investment in marketable securities, $1.4 million in change in fair value of embedded conversion option and $0.9 million in change in fair value of warrant derivative liabilities and an increase of $0.9 million in foreign exchange loss, partially offset by a decrease of $0.9 million in interest expense.

Net Income (Loss). Net loss for the three months ended September 30, 2021 increased by $8.7 million, or 156%, to a net loss of $3.2 million for the three months ended September 30, 2021 from net income of $5.6 million for the three months ended September 30, 2020. The increased net loss was due to the decrease of $8.8 million in other expense as discussed above, partially offset by a decrease of $0.1 million in income tax provision.

Nine months ended September 30, 2021and 2020

Net revenues, Net. Net revenues increased by $0.7 million, or 4%, to $17.6 million for the nine months ended September 30, 2021, compared to $16.9 million for the nine months ended September 30, 2020. The increase in net revenues was primarily attributable to higher bulk order purchases compared to the same period in 2020 and gradual recovery from the temporary disruptions in revenues related the COVID-19 pandemic during 2020.

Cost of Goods Sold. Cost of goods sold decreased by $0.1 million or 7%, to $1.3 million for nine months ended September 30, 2021, compared to $1.4 million for the nine months ended September 30, 2020.

Research and Development Expenses. Research and development expenses increased by $1.2 million, or 65%, to $3.0 million for the nine months ended September 30, 2021, compared to $1.8 million for the nine months ended September 30, 2020. The increase was primarily due to $0.5 million in cash and $0.5 million in shares of the Company's stock issued under the agreement with Kainos to lead the clinical development of Kainos' patented IRAK4 inhibitor and an increase of $0.6 million relates to a pharmacokinetic characteristic and safety study for Endari® and clinical study in Europe partially offset by a decrease of $0.4 million relating to our diverticulosis study. We expect our research and development costs to increase in the remainder of 2021.

Selling Expenses. Selling expenses increased by $0.7 million, or 21%, to $4.3 million for the nine months ended September 30, 2021, compared to $3.5 million for the nine months ended September 30, 2020. The increase was primarily due to increased headcount of our in-house sales team and increased travel expenses.

General and Administrative Expenses. General and administrative expenses decreased by $0.4 million, or 4%, to $10.2 million for the nine months ended September 30, 2021, compared to $10.5 million for the nine months ended September 30, 2020. The decrease was primarily due to decreases of $0.3 million in insurance expenses, $0.3 million of professional fees, $0.2 million of recruiting expenses and $0.1 million of public relations expenses, partially offset by an increase of $0.5 million of Dubai office operating expenses.

Other Income (Expense). Total other expense increased by $10.0 million, or 475%, to $7.9 million for the nine months ended September 30, 2021, compared to $2.1 million of other income for the nine months ended September 30, 2020. The increase in other expenses was primarily due to decreases of $7.7 million in net gain on investment in marketable securities, $1.2 million in change in fair value of conversion feature derivative and $1.0 million in change in fair value of warrant derivative liabilities, and an increase of $2.1 million in loss in foreign exchange loss, partially offset by a decrease of $2.3 million interest expenses.

Net Income (Loss). Net loss for the nine months ended September 30, 2021 increased by $10.7 million, or 660% to $9.1 million for the nine months ended September 30, 2021, compared to net income of $1.6 million for the nine months ended September 30, 2020. The increase was primarily a result of increases of $10.0 million in other expense and $0.8 million in loss from operations as discussed above.

Liquidity and Capital Resources

We anticipate that we will continue to incur net losses for the foreseeable future until we can generate increased net revenues from Endari® sales. Based on our losses, anticipated future revenues and operating expenses and cash and cash equivalents of $2.3 million as of September 30, 2021, we believe our working capital is sufficient to meet our needs at least through the fourth quarter of 2022. If future revenues are less than anticipated or we incur more expenses than we anticipate, we may not have sufficient operating capital for our business without curtailing certain operations, our investment in equity method investment (EJ Holdings) or raising additional capital. Except as described below, we have no understanding or arrangements with respect to future financings, and there can be no assurance of the availability of such capital on terms acceptable to us or at all.

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

Cash flows for the nine months ended September 30, 2021and September 30, 2020

Net cash provided by (used in) operating activities

Net cash used in operating activities decreased by $2.2 million, or 51%, to $2.1 million for the nine months ended September 30, 2021 from $4.4 million for the nine months ended September 30, 2020 due to a decrease of $2.5 million in working capital.

Net cash provided by (used in) investing activities

Net cash used in investing activities decreased by $38.6 million, or 116%, to $5.3 million for the nine months ended September 30, 2021 from net cash provided by investing activities of $33.3 million for the nine months ended September 30, 2020. This decrease was primarily due to a $3.0 million loan to equity method investee and a $35.6 million of proceeds from sales of Telcon stock received during 2020.

Net cash provided by (used in) financing activities

Net cash provided by financing activities increased by $7.3 million to net cash provided by financing activities of $7.2 million for the nine months ended September 30, 2021 from net cash used in financing activities of $0.1 million for the nine months ended September 30, 2020. This increase was the result of $14.5 million in proceeds from the sales of convertible promissory notes, partially offset by a $6.2 million used to prepay our outstanding 10% Senior Secured Convertible Debentures.

Off-Balance-Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

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

Refer to "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Amended Annual Report for our critical accounting policies. There have been no material changes in any of our critical accounting policies during the nine months ended September 30, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for a smaller reporting company.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures ("DCP") are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. DCP include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under

the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosures.

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2021 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material Weakness and Plan of Remediation

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

We conducted an evaluation pursuant to Rule 13a-15 of the Exchange Act of the effectiveness of the design and operation of our DCP as of September 30, 2021. This evaluation was conducted under the supervision (and with the participation) of our management, including our Chief Executive Officer and Interim Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our DCP were not effective as of September 30, 2021, because of the continuance of a material weaknesses in our internal control over financial reporting first identified in 2019 due to inadequate application of GAAP on certain complex transactions, inadequate financial closing process, timely filing of periodic and annual financial statements, segregation of duties including access control of information technology especially financial information, inadequate documentation of policies and procedures over risk assessments, internal control and significant account process and insufficient entity risk assessment process.

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

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

Our management and board of directors are committed to the remediation of the material weaknesses, as well as the continued improvement of our overall system of internal control over financial reporting. In addition to the measures described above, we also intend to consider upgrading our financial accounting systems and software as our finances permit. Further, we recently 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

Please refer to the “Risk Factors” section of the Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Chief Executive Officer pursuant to Item 601(b) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Certification of Chief Financial Officer pursuant of Item 601(b) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					

* Filed herewith.

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

EMMAUS LIFE SCIENCES, INC.

SIGNATURES

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

Emmaus Life Sciences, Inc.

Dated: November 12, 2021

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

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

Exhibit 31.1

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

I, Yutaka Niihara, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2021

/s/ Yutaka Niihara

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

Exhibit 31.2

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

I, Yasushi Nagasaki, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2021

/s/ Yasushi Nagasaki

Yasushi Nagasaki
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the quarterly report of Emmaus Life Sciences, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

/s/ Yutaka Niihara

Yutaka Niihara, M.D., M.P.H.
Chief Executive Officer
(Principal Executive Officer)
November 12, 2021

/s/ Yasushi Nagasaki

Yasushi Nagasaki
Chief Financial Officer
(Principal Financial and Accounting Officer)
November 12, 2021