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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

or

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

For the transition period from _____ to _____

Commission File Number: 001-40886

Cognition Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

2500 Westchester Ave.
Purchase, NY 10577
(Address of Principal Executive Offices)

13-4365359
(I.R.S. Employer
Identification Number)

10577
(Zip Code)

(412) 481-2210

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Trading symbol</u>	<u>Name of Exchange on which registered</u>
Common Stock, par value \$0.001 per share	CGTX	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of October 31, 2023, there were 30,417,082 shares of the registrant's common stock issued and outstanding.

TABLE OF CONTENTS

	<u>Page</u>
Cautionary Note on Forward-Looking Statements	3
Part I. Financial Information	5
Item 1. Financial Statements (unaudited)	5
Consolidated Balance Sheets as of September 30, 2023 (unaudited) and December 31, 2022	5
Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2023 and 2022 (unaudited)	6
Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2023 and 2022 (unaudited)	7
Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022 (unaudited)	9
Notes to Consolidated Financial Statements (unaudited)	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures about Market Risk	31
Item 4. Controls and Procedures	31
Part II. Other Information	33
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures	33
Item 5. Other Information	33
Item 6. Exhibits	34
Signatures	35

Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q, or Quarterly Report, contains forward-looking statements concerning our business, operations and financial performance, as well as our plans, objectives and expectations for our business operations and financial performance and condition. All statements other than statements of historical or current facts included in this Quarterly Report are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “assume,” “believe,” “contemplate,” “continue,” “could,” “design,” “due,” “estimate,” “expect,” “goal,” “intend,” “may,” “objective,” “plan,” “positioned,” “potential,” “predict,” “seek,” “should,” “target,” “will,” “would” and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. In addition, statements that “we believe” or similar statements reflect our beliefs and opinions on the relevant subject. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed in, or implied by these, forward-looking statements and therefore, you should not unduly rely on such statements, including, but not limited to:

- our ability to raise additional capital to fund our operations and continue the development of our current and future product candidates;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- the clinical nature of our business and our ability to successfully advance our current and future product candidates through our ongoing and future clinical trials, preclinical studies and development activities;
- our ability to generate revenue from future product sales and our ability to achieve and maintain profitability;
- the accuracy of our projections and estimates regarding our expenses, capital requirements, cash utilization, and need for additional financing;
- the expected uses of our existing cash and cash equivalents and the sufficiency of such resources to fund our planned operations;
- the extent to which health epidemics and other outbreaks of communicable diseases, including the COVID-19 pandemic, geopolitical turmoil, including the ongoing global and regional conflicts or increased trade restrictions between the United States, Russia, China, and other countries, social unrest, political instability, terrorism, or other acts of war could ultimately impact our business, including our ongoing and future clinical trials, preclinical studies and development activities;
- our dependence on the success of CT1812, our lead product candidate;
- the novelty of our approach to targeting the σ -2 (sigma-2) receptor (“S2R”) complex to treat age-related degenerative diseases and disorders, and the challenges we will face due to the novel nature of such approach;
- the success of competing therapies that are, or become, available;
- the initiation, progress, success, cost, and timing of our ongoing and future clinical trials, preclinical studies and development activities;
- our ability to obtain and maintain regulatory clearance of CT1812 for clinical trials under investigational new drug (“IND”) applications and any future IND applications for any of our other product candidates;
- the timing, scope and likelihood of regulatory filings and approvals, including final regulatory approval of our product candidates;

- the performance of third parties in connection with the development of our product candidates, including third parties conducting our future clinical trials as well as third-party suppliers and manufacturers;
- our ability to attract and retain strategic collaborators with development, regulatory, and commercialization expertise;
- our ability to successfully commercialize our product candidates and develop sales and marketing capabilities, if our product candidates are approved;
- the size and growth of the potential markets for our product candidates and our ability to serve those markets;
- regulatory developments and approval pathways in the United States and foreign countries for our product candidates;
- the potential scope and value of our intellectual property and proprietary rights;
- our ability, and the ability of any future licensors, to obtain, maintain, defend, and enforce intellectual property and proprietary rights protecting our product candidates, and our ability to develop and commercialize our product candidates without infringing, misappropriating, or otherwise violating the intellectual property or proprietary rights of third parties;
- economic uncertainty resulting from actual or perceived inflation or banking stability;
- developments relating to our competitors and our industry; and
- other risk and uncertainties, including those described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K (“Annual Report”) filed with the SEC on March 23, 2023.

You should refer to the “Risk Factors” section of our Annual Report for the year ended December 31, 2022 for a discussion of material factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. We intend the forward-looking statements contained in this Quarterly Report to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Exchange Act, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with: (i) the Condensed Financial Statements and related notes thereto which are included in this Quarterly Report on Form 10-Q; and (ii) our Annual Report on Form 10-K for the year ended December 31, 2022.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COGNITION THERAPEUTICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except share and per share amounts)

	As of	
	September 30, 2023	December 31, 2022
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,969	\$ 41,562
Grant receivables	1,638	3,672
Prepaid expenses and other current assets	1,433	2,413
Total current assets	36,040	47,647
Property and equipment, net	281	233
Right-of-use assets, operating leases	696	813
Other assets	1,755	1,732
Total assets	\$ 38,772	\$ 50,425
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,859	\$ 3,216
Accrued expenses	4,288	2,094
Deferred grant income, current	910	1,702
Operating lease liabilities, current	170	149
Other current liabilities	2	634
Total current liabilities	8,229	7,795
Operating lease liabilities, noncurrent	565	695
Deferred grant income and other liabilities, noncurrent	1,052	1,686
Total liabilities	9,846	10,176
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value, 250,000,000 shares authorized; 30,417,082 and 28,991,548 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	30	29
Additional paid-in capital	162,140	155,820
Accumulated deficit	(133,048)	(115,401)
Accumulated other comprehensive loss	(196)	(199)
Total stockholders' equity	28,926	40,249
Total liabilities and stockholders' equity	\$ 38,772	\$ 50,425

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

COGNITION THERAPEUTICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)
(in thousands, except share and per share amounts)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Operating Expenses:				
Research and development	\$ 11,669	\$ 8,268	\$ 25,596	\$ 23,884
General and administrative	3,076	4,357	9,939	10,367
Total operating expenses	<u>14,745</u>	<u>12,625</u>	<u>35,535</u>	<u>34,251</u>
Loss from operations	(14,745)	(12,625)	(35,535)	(34,251)
Other income (expense):				
Grant income	7,684	5,947	18,035	18,236
Other income (expense), net	314	55	(129)	(182)
Interest expense	(2)	(2)	(18)	(18)
Total other income, net	<u>7,996</u>	<u>6,000</u>	<u>17,888</u>	<u>18,036</u>
Net loss	<u>\$ (6,749)</u>	<u>\$ (6,625)</u>	<u>\$ (17,647)</u>	<u>\$ (16,215)</u>
Unrealized gain (loss) on foreign currency translation	—	(1)	3	(3)
Total comprehensive loss	<u>\$ (6,749)</u>	<u>\$ (6,626)</u>	<u>\$ (17,644)</u>	<u>\$ (16,218)</u>
Net loss per share:				
Basic	<u>\$ (0.22)</u>	<u>\$ (0.29)</u>	<u>\$ (0.59)</u>	<u>(0.71)</u>
Diluted	<u>\$ (0.22)</u>	<u>\$ (0.29)</u>	<u>\$ (0.59)</u>	<u>(0.71)</u>
Weighted-average common shares outstanding:				
Basic	<u>30,365,506</u>	<u>23,024,026</u>	<u>29,696,296</u>	<u>22,684,309</u>
Diluted	<u>30,365,506</u>	<u>23,024,026</u>	<u>29,696,296</u>	<u>22,684,309</u>

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

COGNITION THERAPEUTICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Gain	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2022	28,991,548	\$ 29	\$ 155,820	\$ (115,401)	\$ (199)	\$ 40,249
Issuance of common stock under the at-the-market (ATM) sales agreement, net of commissions and allocated fees	95,823	—	197	—	—	197
Issuance of common stock as commitment shares for equity line financing (Note 7)	189,856	—	318	—	—	318
Equity-based compensation	—	—	1,187	—	—	1,187
Other comprehensive gain	—	—	—	—	4	4
Net loss	—	—	—	(6,172)	—	(6,172)
Balances as of March 31, 2023	29,277,227	\$ 29	\$ 157,522	\$ (121,573)	\$ (195)	\$ 35,783
Issuance of common stock under the at-the-market (ATM) sales agreement, net of commissions and allocated fees	1,009,355	1	2,304	—	—	2,305
Equity-based compensation	—	—	1,025	—	—	1,025
Other comprehensive loss	—	—	—	—	(1)	(1)
Net loss	—	—	—	(4,726)	—	(4,726)
Balances as of June 30, 2023	30,286,582	\$ 30	\$ 160,851	\$ (126,299)	\$ (196)	\$ 34,386
Issuance of common stock under the at-the-market (ATM) sales agreement, net of commissions and allocated fees	5,500	—	8	—	—	8
Issuance of common stock related to the equity line financing	125,000	—	210	—	—	210
Equity-based compensation	—	—	1,071	—	—	1,071
Net loss	—	—	—	(6,749)	—	(6,749)
Balances as of September 30, 2023	30,417,082	\$ 30	\$ 162,140	\$ (133,048)	\$ (196)	\$ 28,926

COGNITION THERAPEUTICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Gain	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2021	22,230,032	\$ 22	\$ 145,453	\$ (94,004)	\$ (198)	\$ 51,273
Exercise of stock options	348,552	—	303	—	—	303
Equity-based compensation	—	—	1,001	—	—	1,001
Other comprehensive gain	—	—	—	—	1	1
Net loss	—	—	—	(3,838)	—	(3,838)
Balances as of March 31, 2022	22,578,584	\$ 22	\$ 146,757	\$ (97,842)	\$ (197)	\$ 48,740
Exercise of stock options	19,323	—	22	—	—	22
Equity-based compensation	—	—	892	—	—	892
Other comprehensive loss	—	—	—	—	(3)	(3)
Net loss	—	—	—	(5,752)	—	(5,752)
Balances as of June 30, 2022	22,597,907	\$ 22	\$ 147,671	\$ (103,594)	\$ (200)	\$ 43,899
Exercise of stock options	1,371,590	2	1,268	—	—	1,270
Equity-based compensation	—	—	777	—	—	777
Other comprehensive loss	—	—	—	—	(1)	(1)
Net loss	—	—	—	(6,625)	—	(6,625)
Balances as of September 30, 2022	23,969,497	\$ 24	\$ 149,716	\$ (110,219)	\$ (201)	\$ 39,320

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

COGNITION THERAPEUTICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (17,647)	\$ (16,215)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	69	60
Equity-based compensation	3,283	2,670
Amortization of right-of-use assets	117	115
Issuance of common stock as commitment shares for equity line financing	318	—
Loss on sale of common stock related to the equity line financing	5	—
Changes in operating assets and liabilities:		
Grant receivables	2,034	(727)
Prepaid expenses and other assets	957	(1,477)
Other receivables	—	465
Accounts payable and accrued expenses	1,837	4,482
Deferred grant income and other liabilities	(1,426)	2,366
Operating lease liabilities	(109)	(88)
Net cash used in operating activities	<u>(10,562)</u>	<u>(8,349)</u>
Cash flows from investing activities:		
Payments for property and equipment	(117)	(161)
Net cash used in investing activities	<u>(117)</u>	<u>(161)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under the ATM sales agreement, net of commissions and allocated fees	2,509	—
Proceeds from sale of common stock related to the equity line financing	205	—
Proceeds from the exercise of common stock options	—	1,595
Payments on loan payable	(632)	(1,191)
Net cash provided by financing activities	<u>2,082</u>	<u>404</u>
Effect of exchange rate changes on cash and cash equivalents	4	(5)
Net decrease in cash and cash equivalents	<u>(8,593)</u>	<u>(8,111)</u>
Cash and cash equivalents		
Cash and cash equivalents – beginning of period	41,562	54,721
Cash and cash equivalents – end of period	<u>\$ 32,969</u>	<u>\$ 46,610</u>
Supplemental disclosures of non-cash financing activities:		
Remeasurement of right-of-use asset and operating lease liability	\$ —	\$ 189

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

Cognition Therapeutics, Inc. and Subsidiary
Notes to Consolidated Financial Statements
(unaudited)
(in thousands, except share and per share amounts)

1. Description of Business and Financial Condition

Cognition Therapeutics, Inc. (the “Company”) was incorporated as a Delaware corporation on August 21, 2007. The Company is a biopharmaceutical company developing disease modifying therapies targeting age-related degenerative diseases and disorders of the central nervous system (“CNS”) and retina. The Company’s pipeline candidates were discovered using proprietary biology and chemistry platforms designed to identify novel drug targets and disease-modifying therapies that address dysregulated pathways specifically associated with neurodegenerative diseases. The Company was founded on the unique combination of biological expertise around these targets, including proprietary assays that emphasize functional responses, and proprietary medicinal chemistry intended to produce novel, high-quality small-molecule drug candidates.

On July 14, 2015, the Company formed Cognition Therapeutics PTY LTD, as its wholly owned subsidiary (the “Subsidiary”), primarily for the purpose of conducting research and development efforts at facilities located in Australia. Assets and liabilities of the Subsidiary, which uses the Australian dollar as its local functional currency, are translated to United States (U.S.) dollars at year-end exchange rates. Income statement accounts are translated using the average exchange rates prevailing during the month in which income and expenses are generated. Translation adjustments are recorded to accumulated other comprehensive income (loss) (“AOCI”) within stockholders’ equity. Gains and losses from foreign currency transactions are included in net loss as a part of other income, net.

On November 15, 2022, the Company closed a follow-on public offering of 5,000,000 shares of the Company’s common stock at a public offering price of \$1.20 per share (“November 2022 Offering”). The gross proceeds from the November 2022 Offering were \$6,000 and the net proceeds were approximately \$5,184, after deducting underwriting discounts and commissions and other offering related expenses payable by the Company.

On December 23, 2022, the Company filed a Registration Statement on Form S-3 (File No. 333-268992) (the “Shelf”) with the Securities and Exchange Commission (“SEC”) in relation to the registration of common stock, preferred stock, debt securities, warrants, subscription rights, and/or units of any combination thereof of up to \$200,000 in aggregate. The Shelf was declared effective on January 3, 2023 by the SEC. The Company also simultaneously entered into a sales agreement with Cantor Fitzgerald & Co. and B. Riley Securities, Inc. (the “Sales Agents”) providing for the offering, issuance and sale by the Company of up to \$40,000 of its common stock from time to time in “at-the-market” offerings under the Shelf (the “ATM”). During the nine months ended September 30, 2023, the Company sold 1,110,678 shares of its common stock pursuant to the ATM for gross proceeds of approximately \$2,509. Please refer to Note 7 for further details.

On March 10, 2023, the Company entered into a purchase agreement with Lincoln Park Capital Fund, LLC (“Lincoln Park”) for an equity line financing (the “Purchase Agreement”). The Purchase Agreement provides that, subject to the terms and conditions set forth therein, the Company has the right, but not the obligation, to direct Lincoln Park to purchase up to \$35,000 of shares of common stock in the Company’s sole discretion, over a 36-month period commencing on March 10, 2023. The Company filed a prospectus supplement to its Registration Statement on Form S-3 (File No. 333-268992) covering the resale of shares of common stock that may be issued under the Purchase Agreement. During the nine months ended September 30, 2023, the Company sold 125,000 shares of common stock to Lincoln Park for proceeds of \$205, as part of the equity line financing arrangement. As of September 30, 2023, \$34,795 was available to draw pursuant to the Purchase Agreement. Please refer to Note 7 for further details.

The Company held cash and cash equivalents of \$32,969 at September 30, 2023. The Company expects that its cash and cash equivalents will enable it to fund its operating expenses and capital expenditure requirements through at least the one year period subsequent to the filing date of this Quarterly Report on Form 10-Q. However, additional funding will be necessary beyond this point to fund the Company’s future preclinical and clinical activities. The Company expects to

finance its future cash needs through a combination of grant awards, equity or debt financings, collaboration agreements, strategic alliances and licensing arrangements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of September 30, 2023, and for the three and nine months ended September 30, 2023 and 2022, have been prepared in accordance with the rules and regulations of the SEC and generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the accompanying unaudited interim consolidated financial statements contain all adjustments that are necessary to present fairly the Company’s financial position as of September 30, 2023, the statements of operations and comprehensive loss and stockholders’ equity for the three and nine months ended September 30, 2023 and 2022, and cash flows for the nine months ended September 30, 2023 and 2022. Such adjustments are of a normal and recurring nature. The results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results for the year ending December 31, 2023, or for any future period. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, and the notes thereto, which are included in the Company’s Annual Report on Form 10-K, filed with the SEC on March 23, 2023.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-bearing deposits at various financial institutions and money markets. The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

Grant Receivables

Grant receivables relate to outstanding amounts due for reimbursable expenditures of awarded grants issued by the National Institute of Health (“NIH”) and are carried at their estimated collectible amounts. The Company expects all receivables to be collectible, and accordingly, there is no allowance for doubtful accounts required on these grant receivables.

Grant Income

The Company generates grant income through grants from government and other (non-government) organizations. Grant income is recognized in other income (expense) in the period in which the reimbursable research and development services are incurred and the right to payment is realized. Deferred grant income represents grant proceeds received by the Company prior to the period in which the reimbursable research and development services are incurred. For the three and nine months ended September 30, 2023, the Company generated grant income of \$7,684 and \$18,035, respectively, primarily from reimbursements from the National Institute of Aging (the “NIA”), a division of the NIH for aging research. For the three and nine months ended September 30, 2022, the Company generated grant income of \$5,947 and \$18,236, respectively, primarily from reimbursements from the NIA, a division of the NIH for aging research. The current and

noncurrent portion of deferred grant income as of September 30, 2023 was \$910 and \$1,052, respectively, as compared to the current and noncurrent portion of deferred grant income as of December 31, 2022 of \$1,702 and \$1,686, respectively.

The grants awarded relate to agreed-upon direct and indirect costs for specific studies or clinical trials, which may include personnel and consulting costs, costs paid to contract research organizations (“CROs”), research institutions and/or consortiums involved in the grants, as well as facilities and administrative costs. These grants are cost plus fixed fee arrangements in which the Company is reimbursed for its eligible direct and indirect costs over time, up to the maximum amount of each specific grant award. Only costs that are allowable under the grant award, certain government regulations and the NIH’s supplemental policy and procedure manual may be claimed for reimbursement, and the reimbursements are subject to routine audits from governmental agencies from time to time. While these NIH grants do not contain payback provisions, the NIH or other government agency may review the Company’s performance, cost structures and compliance with applicable laws, regulations, policies and standards and the terms and conditions of the applicable NIH grant. If any of the expenditures are found to be unallowable or allocated improperly or if the Company has otherwise violated terms of such NIH grant, the expenditures may not be reimbursed and/or the Company may be required to repay funds already disbursed. To date, the Company has not been found to have breached the terms of any NIH grant. As of September 30, 2023, the Company has been awarded grants with project periods that extend through May 31, 2026, subject to extension.

Research and Development Costs

The Company is involved in research and development of treatments for a variety of diseases related to the central nervous system, with a focus on Alzheimer’s disease, dementia with Lewy bodies, and geographic atrophy (GA) secondary to dry age-related macular degeneration. Research and development costs are expensed as incurred. Research and development expenses consist principally of personnel costs, including salaries, stock-based compensation, and benefits for employees, third-party license fees and other operational costs related to our research and development activities, including allocated facility-related expenses and external costs of outside vendors, and other direct and indirect costs. Non-refundable research and development costs are deferred and expensed as the related goods are delivered or services are performed. Costs for external development activities are recognized based on an evaluation of the progress to completion of specific tasks. Costs for certain research and development activities are recognized based on the pattern of performance of the individual arrangements, which may differ from the pattern of billings incurred, and are reflected in the consolidated financial statements as prepaid expenses or as accrued research and development expenses.

Equity-based Compensation

Following the provisions of ASC 718, *Compensation — Stock Compensation*, the Company recognizes compensation expense for equity-based grants using the straight-line attribution method, in which the expense is recognized ratably over the requisite service period within operating expenses based on the grant date fair value. The Company also has granted awards subject to performance-based vesting. The Company would recognize compensation expense for these awards commencing in the period in which the vesting condition becomes probable of achievement. Grant date fair value is estimated on the date of grant using the Black-Scholes option pricing model. Forfeitures are recognized in the period in which they occur.

Black-Scholes requires inputs based on certain subjective assumptions, including (i) the expected stock price volatility, (ii) the expected term of the award, (iii) the risk-free interest rate and (iv) expected dividends. Due to a lack of sufficient public market data for the Company’s common stock and lack of company-specific historical and implied volatility data, the Company has based its computation of expected volatility on the historical volatility of a representative group of public companies with similar characteristics to the Company, including stage of product development and life science industry focus. The historical volatility is calculated based on a period of time commensurate with expected term assumption. The Company uses the simplified method to calculate the expected term for stock options granted to employees whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the stock options due to its lack of sufficient historical data. The risk-free interest rate is based on U.S. Treasury securities with a maturity date commensurate with the expected term of the associated award. The expected dividend yield is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends on its common stock.

Prior to the IPO, due to the absence of an active market for the Company's common stock, the Company utilized methodologies in accordance with the framework of the American Institute of Certified Public Accountants Technical Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, to estimate the fair value of its common stock. In determining the exercise prices for stock options granted, the Company has considered the estimated fair value of the common stock as of the measurement date. The estimated fair value of the common stock has been determined at each grant date based upon a variety of factors, including the illiquid nature of the common stock, arm's-length sales of the Company's capital stock (including convertible preferred stock), the effect of the rights and preferences of the preferred stockholders and the prospects of a liquidity event. Among other factors are the Company's financial position and historical financial performance, the status of technological developments within the Company's research, the composition and ability of the current research and management team, an evaluation or benchmark of the Company's competition and the current business climate in the marketplace. Significant changes to the key assumptions underlying the factors used could result in different fair values of common stock at each valuation date. Subsequent to the IPO, the board of directors determines the fair value of the shares of common stock underlying the stock-based awards based off of the closing price as reported on the Nasdaq Stock Market LLC on the grant date.

Concentration of Credit Risk

The Company's financial instruments that are exposed to credit risks consist of cash and cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed the federally insured limit. The Company has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk related to these funds.

Fair Value of Financial Instruments

The Company applies ASC 820, *Fair Value Measurement* ("ASC 820"), which establishes a framework for measuring fair value and clarifies the definition of fair value within that framework. ASC 820 defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Company's principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value hierarchy established in ASC 820 generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions that market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions based on market data and the entity's judgments about the assumptions that market participants would use in pricing the asset or liability and are to be developed based on the best information available in the circumstances.

The carrying value of the Company's cash and cash equivalents, grants receivable, prepaid expense, other receivables, other assets, accounts payable, accrued expenses and other liabilities approximate fair value because of the short-term maturity of these financial instruments.

The valuation hierarchy is composed of three levels. The classification within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The levels within the valuation hierarchy are described below:

- Level 1 — Assets and liabilities with unadjusted, quoted prices listed on active market exchanges. Inputs to the fair value measurement are observable inputs, such as quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs to the fair value measurement are determined using prices for recently traded assets and liabilities with similar underlying terms, as well as direct or indirect observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 — Inputs to the fair value measurement are unobservable inputs, such as estimates, assumptions, and valuation techniques when little or no market data exists for the assets or liabilities.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss per share by the weighted-average number of shares of common stock outstanding during each period. Diluted net loss per share includes the effect, if any, from the potential exercise or conversion of securities, such as convertible preferred stock and stock options, which would result in the issuance of incremental shares of common stock. For diluted net loss per share, the weighted-average number of shares of common stock is the same for basic net loss per share due to the fact that when a net loss exists, dilutive securities are not included in the calculation as the impact is anti-dilutive.

Segments

The Company has determined that it operates and manages one operating segment, which is the business of developing and commercializing therapeutics. The Company's chief operating decision maker, its chief executive officer, reviews financial information on an aggregate basis for the purpose of allocating resources.

Emerging Growth Company Status

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it is (a) no longer an emerging growth company or (b) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, these financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

Recent Accounting Pronouncements

There have been no new pronouncements issued during the nine months ended September 30, 2023, which could be expected to materially impact the Company's consolidated financial statements.

Income Taxes

In accordance with ASC 270, *Interim Reporting*, and ASC 740, *Income Taxes*, the Company is required at the end of each interim period to determine the best estimate of its annual effective tax rate, apply that rate in providing for income taxes on a current year-to-date (interim period) basis, and include the tax impact for discrete items within the interim period. The Company maintains a full valuation allowance against all deferred tax assets as of September 30, 2023 and December 31, 2022, as management has determined that it is not more likely than not that the Company will realize these future tax benefits. As of September 30, 2023 and December 31, 2022, the Company had no uncertain tax positions.

3. Financial Instruments and Fair Value Measurements

Financial assets and liabilities measured at fair value are summarized below:

	As of September 30, 2023			
	Quoted Priced in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	\$ 32,558	\$ —	\$ —	\$ 32,558
Total assets	\$ 32,558	\$ —	\$ —	\$ 32,558

	As of December 31, 2022			Total
	Quoted Priced in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Money market funds	\$ 37,479	\$ —	\$ —	\$ 37,479
Total assets	\$ 37,479	\$ —	\$ —	\$ 37,479

4. Accrued Expenses

Accrued expense consists of the following:

	As of	
	September 30, 2023	December 31, 2022
Employee compensation, benefits, and related accruals	\$ 919	\$ 870
Research and development costs	3,231	900
Professional fees and other accruals	138	324
Total	\$ 4,288	\$ 2,094

5. Other Current Liabilities

In October 2022, the Company entered into an insurance premium financing agreement with a lender. Under the agreement, the Company financed \$841 of certain premiums at a 6.85% annual interest rate. Total payments of approximately \$72, including interest and principal, are due monthly from November 2022 through October 2023. As of September 30, 2023 and December 31, 2022, the outstanding principal of the loan was \$0 and \$634, respectively, and is included in other current liabilities on the consolidated balance sheet.

6. Commitments and Contingencies

Operating Leases

Amounts reported in the consolidated balance sheets for leases where the Company is the lessee as of September 30, 2023 were as follows, in thousands:

	As of September 30, 2023
Assets	
Operating lease assets	\$ 696
Total operating lease assets	\$ 696
Liabilities	
Current	
Operating lease liabilities	\$ 170
Noncurrent	
Operating lease liabilities, net of current	565
Total operating lease liabilities	\$ 735

Operating lease costs for the three and nine months ended September 30, 2023 was \$53 and \$161, respectively, as compared to operating lease costs for the three and nine months ended September 30, 2022 of \$50 and \$149, respectively.

The maturities of the operating lease liabilities and minimum lease payments as of September 30, 2023 were as follows:

For the Years Ended December 31,	Operating Leases
2023 (remaining)	\$ 55
2024	221
2025	222
2026	154
2027	87
Thereafter	125
Total undiscounted lease payments	\$ 864
Less: Imputed interest	(129)
Present value of operating lease liabilities	<u>\$ 735</u>

The following table summarizes the lease term and discount rate as of September 30, 2023:

	As of September 30, 2023
Weighted-average remaining lease term (years)	
Operating leases	4.3
Weighted-average discount rate	
Operating leases	8.1%

The following table summarizes the supplemental cash flow information related to the Company's operating leases:

(In Thousands)	Nine Months Ended September 30,	
	2023	2022
Operating cash flows used for operating leases	\$ 154	\$ 123

Litigation and Contingencies

From time to time, the Company may be involved in disputes or regulatory inquiries that arise in the ordinary course of business. When the Company determines that a loss is both probable and reasonably estimable, a liability is recorded and disclosed if the amount is material to the financial statements taken as a whole. When a material loss contingency is only reasonably possible, the Company does not record a liability but instead discloses the nature and the amount of the claim and an estimate of the loss or range of loss, if such an estimate can reasonably be made.

As of September 30, 2023 and December 31, 2022, there was no litigation or contingency with at least a reasonable possibility of a material loss.

7. Stockholders' Equity

Common and Preferred Stock

The Company is authorized to issue up to 250,000,000 shares of common stock with a par value of \$0.001 per share, and 10,000,000 shares of preferred stock with a par value of \$0.001 per share.

Common stockholders are entitled to dividends if and when declared by the Company's board of directors subject to the rights of the preferred stockholders. As of September 30, 2023, no dividends on common stock had been declared by the Company.

ATM

On December 23, 2022, the Company filed a shelf registration statement on Form S-3 with the SEC in relation to the registration of common stock, preferred stock, debt securities, warrants, subscription rights, and/or units of any combination thereof of up to \$200,000 in aggregate (the “Shelf”). The Shelf was declared effective on January 3, 2023 by the SEC. The Company also simultaneously entered into a sales agreement with the Sales Agents providing for the offering, issuance and sale by the Company of up to \$40,000 of its common stock from time to time in ATM offerings under the Shelf. The Company sold 1,110,678 shares of common stock pursuant to the ATM during the nine months ended September 30, 2023 for gross proceeds of approximately \$2,509. As of September 30, 2023, there was \$37,491 remaining of common stock available for sale under the ATM.

Lincoln Park Purchase Agreement

On March 10, 2023, the Company entered into a purchase agreement with Lincoln Park for an equity line financing. The Purchase Agreement provides that, subject to the terms and conditions set forth therein, the Company has the right, but not the obligation, to direct Lincoln Park to purchase up to \$35,000 of shares of common stock in the Company’s sole discretion, over a 36-month period commencing on March 10, 2023. As part of the Purchase Agreement, the Company issued 189,856 shares of its common stock as consideration for Lincoln Park’s commitment to purchase shares of common stock under the Purchase Agreement (the “Commitment Shares”). The Company recorded \$318 to other expense, net in connection with the issuance of the Commitment Shares. During the nine months ended September 30, 2023, the Company sold 125,000 shares of common stock to Lincoln Park for proceeds of \$205, as part of the equity line financing arrangement. As of September 30, 2023, \$34,795 was available to draw pursuant to the Purchase Agreement.

8. Equity-based Compensation

2021 Equity Incentive Plan

On October 7, 2021, the date upon which the Company’s Registration Statement on Form S-1 in connection with the IPO was declared effective, the Company’s 2021 Equity Incentive Plan (the “2021 Plan”) became effective. On the same date, the Company ceased granting awards under its 2017 Equity Incentive Plan (the “2017 Plan”). The 2021 Plan authorizes the award of both equity-based and cash-based incentive awards, including: (i) stock options (both incentive stock options and nonqualified stock options), (ii) stock appreciation rights, (iii) restricted stock awards, (iv) restricted stock units (“RSUs”), and (v) cash or other stock-based awards. Incentive stock options may be granted only to employees. All other types of awards may be issued to employees, directors, consultants, and other service providers.

As of September 30, 2023, the aggregate number of shares of common stock of the Company that may be issued under the 2021 Plan is 2,982,942. The number of shares reserved for issuance under the 2021 Plan increased automatically on January 1, 2023 pursuant to an evergreen provision therein by 1,449,577 shares, representing 5% of total common shares outstanding at December 31, 2022. The aggregate number of shares will increase each anniversary of such date prior to the termination of the 2021 Plan, equal to the lesser of (i) 5% of the Company’s shares of common stock issued and outstanding on the last day of the immediately preceding fiscal year and (ii) such smaller number of shares as determined by the Company’s board of directors or the compensation committee. No more than 7,543,185 shares of common stock may be issued under the 2021 Plan through incentive stock options. Shares subject to the 2021 Plan, the 2017 Plan or the 2007 Equity Incentive Plan (the “2007 Plan” and collectively with the 2017 Plan, the “Prior Plans”) that expire, terminate or are cancelled or forfeited for any reason after the effectiveness of the 2021 Plan will be added (or added back) to the shares available for issuance under the 2021 Plan. The total number of shares underlying the Prior Plan awards that may be recycled into the 2021 Plan will not exceed 4,334,131 shares.

2017 Equity Incentive Plan

On September 15, 2017, the Company’s board of directors approved the 2017 Plan, which provides for the granting of incentive stock options, non-qualified stock options and stock awards to employees, certain consultants and directors. The board of directors, or its designated committee, has the sole authority to select the individuals to whom awards are

granted and determine the terms of each award, including the number of shares and the schedule upon which the award becomes exercisable. Upon the effectiveness of the 2021 Plan, no further awards will be granted under the 2017 Plan.

The aggregate number of shares of common stock of the Company that may be issued under the 2017 Plan is 4,334,131 (taking into account shares of common stock that may become issuable pursuant to Section 3(b) of the 2017 Plan in respect of shares of common stock reserved under the Company's Amended and Restated 2007 Equity Incentive Plan). The 2021 Plan provides for shares granted under the Prior Plans which are cancelled, forfeited, exchanged or surrendered without having been exercised shall subsequently be available for reissuance under the 2021 Plan.

Employee Stock Purchase Plan

The Company's board of directors approved the Employee Stock Purchase Plan (the "ESPP") prior to the closing of the IPO. Under the ESPP, the Company may provide employees and employees of the Subsidiary with an opportunity to purchase shares of the Company's common stock at a discounted purchase price. As of September 30, 2023, subject to adjustment as provided in the ESPP, a total of 209,532 shares of common stock are authorized and reserved for issuance under the ESPP.

Subject to prior approval by the board of directors in each instance, on or about January 1, 2022 and each anniversary of such date thereafter prior to the termination of the ESPP, the number of shares of common stock authorized and reserved for issuance under the ESPP will be increased by a number of shares of common stock equal to the least of (i) 1,000,000 shares of common stock, (ii) 1% of the shares of common stock outstanding on the final day of the immediately preceding calendar year, and (iii) such smaller number of shares of common stock as determined by the board of directors. Such shares of common stock may be newly issued shares, treasury shares or shares acquired on the open market. In the event that any dividend or other distribution (whether in the form of cash, our common stock, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, or exchange of common stock or other securities, or other change in the structure affecting common stock occurs, then in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the ESPP, the compensation committee will, in such manner as it deems equitable, adjust the number of shares and class of common stock that may be delivered under the ESPP, the purchase price per share and the number of shares covered by each outstanding option under the ESPP, and the numerical limits described above.

Stock Options

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30,	
	2023	2022
Fair value of common stock	\$1.56 – \$2.99	\$1.88 – \$3.05
Expected volatility	91.53% – 92.68%	91.09% – 92.72%
Risk-free interest rate	3.46% – 4.26%	1.87% – 3.40%
Dividend yield	0.00%	0.00%
Expected term (years)	6.18 – 6.36	5.50 – 6.35

Expected Term — The expected term represents the period that the stock-based awards are expected to be outstanding. As the Company does not have sufficient historical experience for determining the expected term of the stock option awards granted, expected term has been calculated using the simplified method.

Risk-Free Interest Rate — The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant for zero-coupon U.S. Treasury constant maturity notes with terms approximately equal to the stock-based awards' expected term.

Expected Volatility — Up until October 13, 2021, the Company was privately held and did not have a trading history of common stock. As such, the expected volatility was derived from the average historical stock volatilities of the common

stock of several public companies within the industry that the Company considers to be comparable to our business over a period equivalent to the expected term of the stock-based awards. The Company will continue to derive expected volatility from average historical stock volatilities of industry peers until the Company has compiled a trading history of its own for a sufficient period of time.

Dividend Yield — The expected dividend yield is zero as the Company has not paid and does not anticipate paying any dividends in the foreseeable future.

Fair Value of Common Stock — Prior to the IPO, the fair value of the shares of common stock underlying the stock-based awards had historically been determined by the board of directors with input from management. Because there was no public market for the common stock, the board of directors had determined the fair value of the common stock at the time of grant of the stock-based award by considering a number of objective and subjective factors, including having contemporaneous valuations of the common stock performed by a third-party valuation specialist. Subsequent to the IPO, the board of directors determined the fair value of the shares of common stock underlying the stock-based awards based off of the closing price as reported on the Nasdaq Stock Market LLC on the grant date.

Activity for options was as follows:

	Options Outstanding			
	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in 000's)	Weighted Average Remaining Contractual Life (In Years)
Balance, December 31, 2022	3,679,468	\$ 5.13	\$ 2,085	6.7
Options granted	595,769	\$ 2.05		
Options exercised	—	\$ —		
Options forfeited	(79,742)	\$ 1.95		
Options expired	(10,901)	\$ 2.10		
Balance, September 30, 2023	4,184,594	\$ 4.76	\$ 740	6.7
Exercisable as of September 30, 2023	2,838,915	\$ 4.91	\$ 687	5.9

The weighted-average grant date fair value of stock options granted was \$1.25 and \$1.59 during the three and nine months ended September 30, 2023, respectively. The weighted-average grant date fair value of stock options granted was \$1.47 and \$1.90 during the three and nine months ended September 30, 2022, respectively. There were 19,500 and 595,769 stock options granted at an aggregate fair value of \$24 and \$950 for the three and nine months ended September 30, 2023, respectively. There were 14,000 and 449,270 stock options granted at an aggregate fair value of \$21 and \$838 for the three and nine months ended September 30, 2022, respectively. During the three and nine months ended September 30, 2023, there were no stock options exercised. During the three and nine months ended September 30, 2022 there were 1,371,589 and 1,739,465 stock options exercised, respectively, with an aggregate grant date fair value of \$1,018 and \$1,308, respectively. The intrinsic value of stock options exercised during the three and nine months ended September 30, 2022 was \$1,596 and \$2,717, respectively.

Restricted Stock Units

The fair values of RSUs are based on the fair market value of the Company’s common stock on the date of grant. Each RSU represents a contingent right to receive one share of the Company’s common stock upon vesting. RSUs for employees vest annually over three years on each anniversary of the Grant Date and RSUs for non-employee directors vest on the one-year anniversary of the Grant Date. The following table summarizes the Company’s RSU activity for the nine months ended September 30, 2023:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2022	—	\$ —
Granted	542,419	\$ 2.07
Vested	—	\$ —
Forfeited	(19,825)	\$ 1.97
Outstanding at September 30, 2023	<u>522,594</u>	<u>\$ 2.07</u>

Equity-based Compensation Expense

The Company recorded total equity-based compensation expense in the statement of operations and comprehensive loss related to stock options and restricted stock units as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Research and development	\$ 176	\$ 86	\$ 489	\$ 402
General and administrative	895	691	2,794	2,268
Total equity-based compensation	<u>\$ 1,071</u>	<u>\$ 777</u>	<u>\$ 3,283</u>	<u>\$ 2,670</u>

As of September 30, 2023, total future compensation expense related to unvested awards yet to be recognized by the Company was \$5,306, which is expected to be recognized over a weighted-average remaining vesting period of approximately 1.69 years.

9. Net Loss per Share

The following outstanding potentially dilutive common stock equivalents have been excluded from the calculation of diluted net loss per share for the periods presented due to their antidilutive effect:

	September 30,	
	2023	2022
Options issued and outstanding	4,184,594	3,733,446
Restricted stock units issued and outstanding	522,594	—
Total	<u>4,707,188</u>	<u>3,733,446</u>

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

The following discussion and analysis of our financial conditions and results of operations should be read together with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report and our audited financial statements and notes thereto as of and for the years ended December 31, 2022 and 2021 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report filed with the Securities and Exchange Commission (“SEC”), on March 23, 2023. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. Our actual results may differ materially from those discussed below. Please see “Special Note Regarding Forward-Looking Statements” and “Risk Factors” included in Part I, Item 1A of our Annual Report for factors that could cause or contribute to such differences.

Overview

We are a clinical-stage biopharmaceutical company engaged in the discovery and development of innovative, small molecule therapeutics targeting age-related degenerative diseases and disorders of the central nervous system (“CNS”) and retina. Currently available therapies for these diseases are limited, with few Alzheimer’s disease (“AD”) treatments, two approved treatments for geographic atrophy (GA) secondary to dry age-related macular degeneration (“dAMD”) and no approved treatments for dementia with Lewy bodies. Our goal is to develop disease-modifying treatments for patients with these degenerative disorders by initially leveraging our expertise in the σ -2 (sigma-2) receptor (“S2R”), which is expressed by multiple cell types, including neuronal synapses, and acts as a key regulator of cellular damage commonly associated with certain age-related degenerative diseases of the CNS and retina. We believe that targeting the S2R complex represents a mechanism that is functionally distinct from other current approaches in clinical development for the treatment of degenerative diseases. Recent clinical results supports this hypothesis. In the SNAP study, results of which were published in May 2023 in the journal, *Translational Neurodegeneration* and showed that a single oral dose of CT1812 rapidly displaces A β oligomers from synapses of individuals with AD. In the SEQUEL study, top-line results showed that four weeks of treatment with CT1812 improved synapse activity and connectivity of brain regions as measured via quantitative electroencephalogram (“qEEG”). Together, these findings provide evidence that the displacement of oligomers from synapses via CT1812 engagement with the S2R results in improved synapse function. In blinded and unblinded clinical trials, several patients experienced asymptomatic, reversible elevations in serum liver chemistries prompting harmonization of monitoring, increasing frequency where appropriate, across our clinical trials.

Since our inception in 2007, we have incurred significant operating losses and devoted substantially all of our time and resources to developing our lead product candidate, CT1812, building our intellectual property portfolio, raising capital and recruiting management and technical staff to support these operations. As of September 30, 2023, we had an accumulated deficit of \$133.0 million. We incurred a net loss of \$6.7 million and \$17.6 million for the three and nine months ended September 30, 2023, respectively, and net loss of \$6.6 million and \$16.2 million for the three and nine months ended September 30, 2022, respectively.

To date, we have funded our operations primarily with proceeds from grants awarded by the National Institute of Aging (the “NIA”), a division of the National Institutes of Health (the “NIH”), and proceeds from our initial public offering (the “IPO”), completed in October 2021, proceeds from our follow-on public offering in November 2022, sales of our common stock through our ATM (as defined below), sales of our convertible promissory notes, convertible preferred stock, simple agreements for future equity (“SAFE”) and stock option exercises. Since our inception, we have received approximately \$171.0 million in cumulative grant awards to fund our clinical trials, primarily from the NIA, and we have raised approximately \$111.4 million in net proceeds from sales of our equity securities, convertible notes, SAFE, stock option exercises, IPO and follow-on public offering, ATM, and equity line financing with Lincoln Park. As of September 30, 2023, we had cash and cash equivalents of \$33.0 million.

On November 15, 2022, we completed our follow-on public offering, pursuant to which we issued and sold 5,000,000 shares of our common stock at a public offering price of \$1.20 per share. In connection with the follow-on public offering, we received net proceeds of approximately \$5.2 million, after deducting underwriting discounts and commissions and other offering related expenses.

On December 23, 2022, we entered into a sales agreement with Cantor Fitzgerald & Co. and B. Riley Securities, Inc. (the “Sales Agents”), providing for the offering, issuance and sale by us of up to \$40.0 million of our common stock from time to time in “at-the-market” offerings (the “ATM”). We sold 1,110,678 shares of common stock under the ATM during the nine months ended September 30, 2023 for gross proceeds of approximately \$2.5 million. As of September 30, 2023, there was approximately \$37.5 million of common stock remaining available for sale under the ATM.

On March 10, 2023, we entered into a purchase agreement with Lincoln Park Capital Fund, LLC (“Lincoln Park”) for an equity line financing (the “Lincoln Park Purchase Agreement”). The Lincoln Park Purchase Agreement provides that, subject to the terms and conditions set forth therein, we have the right, but not the obligation, to direct Lincoln Park to purchase up to \$35 million of shares of common stock at our sole discretion, over a 36-month period commencing on March 10, 2023. We filed a prospectus supplement to our registration statement on Form S-3 (File No. 333-268992) covering the resale of shares of common stock that are issued under the Lincoln Park Purchase Agreement. During the nine months ended September 30, 2023, we sold 125,000 shares of common stock to Lincoln Park for proceeds of \$0.2 million, as part of the equity line financing arrangement. As of September 30, 2023, \$34.8 million was available to draw pursuant to the Lincoln Park Purchase Agreement.

We expect to continue to incur significant and increasing expenses and net losses for the foreseeable future, as we advance our current and future product candidates through preclinical and clinical development, manufacture drug product and drug supply, seek regulatory approval for our current and future product candidates, maintain and expand our intellectual property portfolio, hire additional research and development and business personnel and operate as a public company. We will not generate revenue from product sales unless and until we successfully complete clinical development and obtain regulatory approval for our product candidates. In addition, if we obtain regulatory approval for our product candidates and do not enter into a third-party commercialization partnership, we expect to incur significant expenses related to developing our commercialization capability to support product sales, marketing, manufacturing and distribution activities.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity offerings, debt financings or other sources, such as potential collaboration agreements and strategic alliances, licensing or similar arrangements with third parties. To the extent available, we expect to continue our pursuit of non-dilutive research contributions, or grants, including additional NIA grant funding. However, we may fail to receive additional NIA grants, or we may be unable to raise additional funds or enter into such other agreements or arrangements when needed on acceptable terms, or at all. Our failure to obtain additional NIA grants or raise capital or enter into such agreements as and when needed could have a material adverse effect on our business, results of operations and financial condition.

Because of the numerous risks and uncertainties associated with product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to raise capital, maintain our research and development efforts, expand our business or continue our operations at planned levels, and as a result we may be forced to substantially reduce or terminate our operations.

We do not own or operate manufacturing facilities. We rely, and expect to continue to rely, on third parties for the manufacture of CT1812 for preclinical studies and clinical trials, as well as for commercial manufacture if CT1812 obtains marketing approval. We also rely, and expect to continue to rely, on third parties to manufacture, package, label, store, and distribute CT1812, if marketing approval is obtained. We believe that this strategy allows us to maintain a more efficient infrastructure by eliminating the need for us to invest in our own manufacturing facilities, equipment, and personnel while also enabling us to focus our expertise and resources on the development of CT1812.

Impact of COVID-19 on Our Business

Our business has been and could be adversely affected by the effects of the COVID-19 pandemic or other national health issues. For example, our ongoing and/or planned clinical trials may be impacted by interruptions or delays in the

operations of the FDA and comparable foreign regulatory authorities. Additionally, we have made certain adjustments to the operation of our trials in an effort to ensure the monitoring and safety of patients and minimize risks to trial integrity during the pandemic in accordance with the guidance issued by the FDA and may need to make further adjustments in the future.

While the potential further economic impact brought by the COVID-19 pandemic may be difficult to assess or predict, there could be a significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity and financial position. As a result, we may face difficulties raising capital through future sales of our common stock or such sales may be on unfavorable terms.

Components of Our Results of Operations

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of direct and indirect costs incurred for our research activities, including development of our drug discovery efforts and the development of our product candidates. Direct costs include laboratory materials and supplies, contracted research and manufacturing, clinical trial costs, consulting fees, and other expenses incurred to sustain our research and development program. Indirect costs include personnel-related expenses, consisting of employee salaries, related benefits, and stock-based compensation expense for employees engaged in research and development activities, facilities, and other expenses consisting of direct and allocated expenses for rent and depreciation, and lab consumables.

We expense research and development costs as incurred. Non-refundable advance payments for goods and services that will be used over time for research and development are capitalized and recognized as goods are delivered or as the related services are performed. In-licensing fees and other costs to acquire technologies used in research and development that have not yet received regulatory approval and that are not expected to have an alternative future use are expensed when incurred. We track direct costs by stage of program, clinical or preclinical. However, we do not track indirect costs on a program specific basis because these costs are deployed across multiple programs and, as such, are not separately classified.

We cannot reasonably determine the nature, timing, and estimated costs of the efforts that will be necessary to complete the development of, and obtain regulatory approval for, any of our product candidates. Product candidates in later stages of development generally have higher development costs than those in earlier stages. We expect that our research and development expenses will increase substantially for the foreseeable future as we continue to invest in research and development activities related to developing our product candidates, as our product candidates advance into later stages of development, as we begin to conduct larger clinical trials, as we seek regulatory approvals for any product candidates that successfully complete clinical trials, as we expand our product pipeline, as we maintain, expand, protect and enforce our intellectual property portfolio, and as we incur expenses associated with hiring additional personnel to support our research and development efforts.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related costs, including employee salaries, related benefits, and stock-based compensation expense for our employees in the executive, finance and accounting, and other administrative functions. General and administrative expenses also include third-party costs such as legal costs, insurance costs, accounting, auditing and tax related fees, consulting fees and facilities and other expenses not otherwise included as research and development expenses. We expense general and administrative costs as incurred.

We expect that our general and administrative expenses will increase for the foreseeable future as we increase our headcount to support our continued research activities and development of our programs.

Other Income (Expense)

Grant Income

Grant income relates to the grants awarded from governmental bodies that are conditional cost reimbursement grants and are recognized as grant income as allowable costs are incurred and the right to payment is realized. The grants awarded relate to agreed upon direct and indirect costs for specific studies or clinical trials, which may include personnel and consulting costs, costs paid to contract research organizations (“CROs”), research institutions and /or consortiums involved in the grant, as well as facilities and administrative costs. These grants are cost plus fixed fee arrangements in which we are reimbursed for eligible direct and indirect costs over time, up to the maximum amount of each specific grant award. Only costs that are allowable under the grant award, certain government regulations and the NIH’s supplemental policy and procedure manual may be claimed for reimbursement, and the reimbursements are subject to routine audits from governmental agencies from time to time. As of September 30, 2023, the Company has been awarded grants with project periods that extend through May 31, 2026, subject to extension. Our clinical trials have been funded by approximately \$171.0 million in cumulative grants awarded primarily by the NIA, which includes an approximately \$81.0 million grant from the NIA to fund our Phase 2 (COG0203) study of CT1812 in patients with early-stage AD, an approximately \$30.5 million grant from the NIA to fund our Phase 2 (COG0201) study of CT1812 in patients with mild-to-moderate AD, and an approximately \$29.5 million grant from the NIA to fund our Phase 2 (COG1201) study of CT1812 in patients with dementia with Lewy bodies.

Interest Expense

Interest expense consisted of interest expense related to the insurance premium financing arrangement with a lender.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income from money market funds, other fees such as offering costs incurred to establish our equity line financing, as well as foreign currency transaction gains or losses.

Results of Operations

Comparison of the Three Months Ended September 30, 2023 and 2022

The following table summarizes our results of operations (in thousands):

	Three Months Ended September 30,		Change
	2023	2022	
Operating Expenses:			
Research and development	\$ 11,669	\$ 8,268	\$ 3,401
General and administrative	3,076	4,357	(1,281)
Total operating expenses	14,745	12,625	2,120
Loss from operations	(14,745)	(12,625)	(2,120)
Other income (expense):			
Grant income	7,684	5,947	1,737
Other income, net	314	55	259
Interest expense	(2)	(2)	—
Total other income, net	7,996	6,000	1,996
Net loss	\$ (6,749)	\$ (6,625)	\$ (124)

Research and Development Expenses

The following table summarizes our research and development expenses (in thousands):

	Three Months Ended September 30,		Change
	2023	2022	
Clinical programs	\$ 5,367	\$ 3,610	\$ 1,757
Personnel	2,213	2,101	112
Manufacturing	2,699	1,982	717
Preclinical programs	1,292	523	769
Facilities and other costs	98	52	46
	<u>\$ 11,669</u>	<u>\$ 8,268</u>	<u>\$ 3,401</u>

Research and development expenses were \$11.7 million for the three months ended September 30, 2023, compared to \$8.3 million for the three months ended September 30, 2022. The increase of \$3.4 million was primarily due to the following:

- an increase of \$1.8 million in clinical programs primarily related to increased Phase II trial activities with contract research organizations;
- an increase of \$0.1 million in personnel costs associated with expanded research and development activities, and equity-based compensation expense;
- an increase of \$0.7 million in manufacturing related to higher costs with contract manufacturing organizations for the replenishment of clinical trial supply; and
- an increase of \$0.8 million in preclinical programs, facilities and other costs primarily due to increased research spend.

General and Administrative Expenses

General and administrative expenses were \$3.1 million for the three months ended September 30, 2023, compared to \$4.4 million for the three months ended September 30, 2022. The decrease of \$1.3 million was primarily due to:

- decrease of \$0.4 million in Director & Officer liability insurance and other expenses;
- a decrease of \$1.1 million in professional fees primarily driven by lower consulting and legal expenses; and
- an increase of \$0.2 million in equity-based compensation from stock option and restricted stock unit (“RSU”) grants.

Other Income (Expense)

Grant Income

Grant income was \$7.7 million for the three months ended September 30, 2023, compared to \$5.9 million for the three months ended September 30, 2022. The change in grant income is correlated with the increase in eligible reimbursable costs related to clinical trials incurred during 2023 as compared to 2022.

Other Income, Net

Other income, net was \$0.3 million for the three months ended September 30, 2023, compared to other income, net of less than \$0.1 million for the three months ended September 30, 2022. The change in other income, net was driven primarily by interest earned on money market funds.

Interest Expense

Interest expense was less than \$0.1 million for the three months ended September 30, 2023, compared to interest expense of less than \$0.1 million for the three months ended September 30, 2022. Interest expense was not significant in either period.

Comparison of the Nine Months Ended September 30, 2023 and 2022

The following table summarizes our results of operations (in thousands):

	Nine Months Ended September 30,		Change
	2023	2022	
Operating Expenses:			
Research and development	\$ 25,596	\$ 23,884	\$ 1,712
General and administrative	9,939	10,367	(428)
Total operating expenses	<u>35,535</u>	<u>34,251</u>	<u>1,284</u>
Loss from operations	(35,535)	(34,251)	(1,284)
Other income (expense):			
Grant income	18,035	18,236	(201)
Other expense, net	(129)	(182)	53
Interest expense	(18)	(18)	—
Total other income, net	<u>17,888</u>	<u>18,036</u>	<u>(148)</u>
Net loss	<u><u>\$ (17,647)</u></u>	<u><u>\$ (16,215)</u></u>	<u><u>\$ (1,432)</u></u>

Research and Development Expenses

The following table summarizes our research and development expenses (in thousands):

	Nine Months Ended September 30,		Change
	2023	2022	
Clinical programs	\$ 11,961	12,660	\$ (699)
Personnel	6,875	5,463	1,412
Manufacturing	3,527	4,043	(516)
Preclinical programs	2,910	1,559	1,351
Facilities and other costs	323	159	164
	<u><u>\$ 25,596</u></u>	<u><u>\$ 23,884</u></u>	<u><u>\$ 1,712</u></u>

Research and development expenses were \$25.6 million for the nine months ended September 30, 2023, compared to \$23.9 million for the nine months ended September 30, 2022. The increase of \$1.7 million was primarily due to the following:

- a decrease of \$0.7 million in clinical programs primarily related to lower Phase II trial spend due to non-recurring start up activities with contract research organizations;

- an increase of \$1.4 million in personnel costs associated with expanded research and development activities, and equity-based compensation expense;
- a decrease of \$0.5 million in manufacturing related to lower costs with contract manufacturing organizations for the production of pre-clinical and future clinical trial supply; and
- an increase of \$1.5 million in preclinical programs, facilities and other costs primarily due to increased research spend.

General and Administrative Expenses

General and administrative expenses were \$9.9 million for the nine months ended September 30, 2023, compared to \$10.4 million for the nine months ended September 30, 2022. The decrease of \$0.5 million was primarily due to:

- a decrease of \$0.8 million in Director & Officer liability insurance and other expenses;
- a decrease of \$0.2 million in professional fees driven by lower consulting and legal services; and
- an increase of \$0.5 million in equity-based compensation from stock option and RSU grants.

Other Income (Expense)

Grant Income

Grant income was \$18.0 million for the nine months ended September 30, 2023, compared to \$18.2 million for the nine months ended September 30, 2022. The change in grant income is correlated with the decrease in eligible reimbursable costs incurred during 2023 as compared to 2022.

Other Expense, Net

Other expense, net was \$0.1 million for the nine months ended September 30, 2023, compared to other expense, net of \$0.2 million for the nine months ended September 30, 2022. The decrease in other expense, net was driven primarily by expenses related to the Lincoln Park Purchase Agreement incurred in the first quarter of 2023 offset by interest earned on money market funds.

Interest Expense

Interest expense was less than \$0.1 million for the nine months ended September 30, 2023, compared to interest expense of less than \$0.1 million for the nine months ended September 30, 2022. Interest expense was not significant in either period.

Liquidity and Capital Resources

Sources of Liquidity

To date, we have funded our operations primarily with proceeds from grants awarded by the NIA, and proceeds from the sales of our convertible promissory notes, convertible preferred stock, SAFE, stock option exercises, follow-on equity offerings, sales under our ATM and equity line financing, and our IPO. Since our inception, we have received grant awards primarily from the NIA in the aggregate amount of approximately \$171.0 million and have raised approximately \$111.4 million in net proceeds from sales of our equity securities, convertible notes and SAFE, stock option exercises, our ATM, our equity line financing with Lincoln Park, our IPO and our follow-on public offering. The net proceeds from our IPO, which closed on October 13, 2021, were approximately \$44.2 million, after deducting underwriting discounts and commissions and other offering related expenses payable by us. On November 15, 2022, we closed our follow-on public

offering, selling 5,000,000 shares of our common stock at a public offering price of \$1.20 per share. The net proceeds were approximately \$5.2 million, after deducting underwriting discounts and commissions and other offering related expenses payable by us. On December 23, 2022, we entered into a sales agreement with the Sales Agents, providing for the offering, issuance and sale by us of up to \$40.0 million of our common stock from time to time in ATM offerings. As of September 30, 2023, we sold 1,105,178 shares of common stock under the ATM during the nine months ended September 30, 2023, for gross proceeds of approximately \$2.5 million. As of September 30, 2023, there was \$37.5 million of common stock remaining available for sale under the ATM. In addition, in March 2023, we entered into the Lincoln Park Purchase Agreement with Lincoln Park Capital Fund, LLC, or Lincoln Park, giving the Company the right, but not the obligation to sell to Lincoln Park up to \$35.0 million worth of shares of our common stock. During the nine months ended September 30, 2023, we sold 125,000 shares of common stock to Lincoln Park for proceeds of \$0.2 million, as part of the equity line financing arrangement. As of September 30, 2023, \$34.8 million was available to draw pursuant to the Lincoln Park Purchase Agreement.

As of September 30, 2023, we had \$33.0 million in cash and cash equivalents and have not generated positive cash flows from operations. Based on our current business plans, we believe that our existing cash and cash equivalents, and income from non-dilutive grants, will be sufficient for us to fund our operating expenses and capital expenditures requirements through November of 2024, which assumes no usage from the remaining ATM nor the Lincoln Park Purchase Agreement. We have based these estimates on assumptions that may prove to be incorrect or require adjustment as a result of business decisions, and we could utilize our available capital resources sooner than we currently expect.

Future Funding Requirements

We expect to continue to incur significant and increasing expenses and net losses for the foreseeable future, as we advance our current and future product candidates through preclinical and clinical development, manufacture drug product and drug supply, seek regulatory approval for our current and future product candidates, maintain and expand our intellectual property portfolio, hire additional research and development and business personnel, and operate as a public company. We anticipate that we will need to raise additional funding in the future to fund our operations, including the commercialization of any approved product candidates. We are subject to the risks typically related to the development of new products, and we may encounter unforeseen expenses, difficulties, complications, delays, and other unknown factors that may adversely affect our business.

Our future funding requirements will depend on many factors, including, but not limited to:

- the scope, progress, costs and results of our ongoing and planned clinical trials of CT1812, as well as the associated costs, including any unforeseen costs we may incur as a result of preclinical study or clinical trial delays due to the COVID-19 pandemic or other diseases, macroeconomic conditions, global or political instability, such as the ongoing global and regional conflicts, inflation, or other delays;
- the scope, progress, costs and results of preclinical development, laboratory testing and clinical trials for any future product candidates we may decide to pursue;
- the extent to which we develop, in-license or acquire other product candidates and technologies;
- the costs and timing of process development and manufacturing scale-up activities associated with our product candidates and other programs as we advance them through preclinical and clinical development;
- the availability, timing, and receipt of any future NIA grants;
- the number and development requirements of other product candidates that we may pursue;
- the costs, timing and outcome of regulatory review of our product candidates;

- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval;
- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;
- our ability to establish collaborations to commercialize CT1812 or any of our other product candidates outside the United States;
- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims; and
- the additional costs we may incur as a result of operating as a public company, including our efforts to enhance operational systems and hire additional personnel, including enhanced internal controls over financial reporting.

Until such time as we can generate significant revenue from product sales, we expect to finance our operations through a combination of public or private equity offerings, debt financings or other sources, such as potential collaboration agreements and strategic alliances, licensing or similar arrangements with third parties. To the extent available, we expect to continue our pursuit of non-dilutive research contributions, or grants, including additional NIA grant funding. However, we may fail to receive additional NIA grants, or we may be unable to raise additional funds or enter into such other agreements or arrangements when needed on acceptable terms, or at all. Our failure to obtain additional NIA grants or raise capital or enter into such agreements as and when needed could have a material adverse effect on our business, results of operations and financial condition.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be or could be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through collaborations, licenses and other similar arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us and/or may reduce the value of our common stock. Adequate funding may not be available when needed or on terms acceptable to us, or at all. Our ability to raise additional funds may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the COVID-19 pandemic or other diseases, the ongoing global and regional conflicts, inflation, liquidity constraints, failures and instability in U.S. and international financial banking systems, and otherwise. If we fail to obtain necessary capital when needed on acceptable terms, or at all, it could force us to delay, limit, reduce or terminate our product development programs, commercialization efforts or other operations. Insufficient liquidity may also require us to relinquish rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. We cannot assure you that we will ever be profitable or generate positive cash flows from operating activities.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Cash flows used in operating activities	\$ (10,562)	\$ (8,349)
Cash flows used in investing activities	(117)	(161)
Cash flows provided by financing activities	2,082	404
Effect of exchange rate changes on cash and cash equivalents	4	(5)
Net decrease in cash and cash equivalents	<u>\$ (8,593)</u>	<u>\$ (8,111)</u>

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2023 was \$10.6 million, which consisted primarily of a net loss of \$17.6 million, offset primarily by the impact of equity-based compensation of \$3.3 million and a net change of \$3.3 million in operating assets and liabilities. The net change in operating assets and liabilities was primarily due to an increase in grant receivables of \$2.0 million, an increase in prepaid expenses and other assets of \$1.0 million, an increase in accounts payable and accrued expenses of \$1.8 million, and a decrease in deferred grant income and other liabilities of \$1.4 million.

Net cash used in operating activities for the nine months ended September 30, 2022 was \$8.4 million, which consisted primarily of our net loss of \$16.2 million, offset by the impact of equity-based compensation of \$2.7 million and a net change of \$5.0 million in our operating assets and liabilities. The net change in our operating assets and liabilities was primarily due to a decrease in grant receivables of \$0.7 million, a decrease in prepaids and other assets of \$1.5 million, offset by an increase in accounts payable and accrued expenses of \$4.4 million, and an increase in deferred grant income, current and other liabilities of \$2.4 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2023 was \$0.1 million, and net cash used in investing activities was \$0.2 million for the nine months ended September 30, 2022. Overall, the change in net cash used in investing activities was insignificant.

Financing Activities

Net cash provided by financing activities was \$2.1 million for the nine months ended September 30, 2023, and net cash provided by financing activities was \$0.4 million for the nine months ended September 30, 2022. The change in net cash provided by financing activities is primarily related to net proceeds from the issuance of common stock under the ATM program and sale of common stock pursuant to the Lincoln Park Purchase Agreement.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2023 (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 years	Total
Operating lease obligations:	\$ 220	\$ 326	\$ 259	\$ 59	\$ 864
Total:	\$ 220	\$ 326	\$ 259	\$ 59	\$ 864

In October 2022, we entered into an insurance premium financing arrangement with a lender. Under the agreement, we financed \$0.8 million of certain premiums at a 6.85% annual interest rate. Total payments of less than \$0.1 million, including interest and principal, are due monthly from November 2022 through October 2023. As of September 30, 2023, there was no remaining outstanding principal on the loan. In October 2023, we entered into an insurance premium financing arrangement with the same lender whereby we financed \$0.7 million of certain premiums at a 8.65% annual interest rate. Payments of less than \$0.1 million are due monthly from October 2023 through September 2024.

We have entered into an operating leases for office and laboratory facilities under agreements that run through May 31, 2029. The amounts reflected in the table above consist of the future minimum lease payments under the non-cancelable lease arrangements.

On August 31, 2022, we entered into an agreement to lease 2,980 square feet of office space in Pittsburgh, Pennsylvania. The lease has a term of 45 months and commenced on October 1, 2022. The annual base rent under the lease is less than \$0.1 million throughout the term of the lease. Total payments due over the term of the lease are \$0.2 million. Additionally, on August 31, 2022, we modified one of our existing lease agreements with the landlord for approximately

3,706 square feet of lab space at the same location to extend the lease term termination date from June 30, 2023 until June 30, 2026.

On July 1, 2021, we entered into an agreement to lease 2,864 square feet of office space in Purchase, New York. The lease has a term of 89 months and commenced on December 9, 2021. The annual base rent under the lease is less than \$0.1 million for the first lease year and is subject to annual increases of between 1.82% and 2.04%. We provided a security deposit in the form of a Letter of Credit in the amount of less than \$0.1 million pursuant to the terms of the lease.

We enter into contracts in the normal course of business with CROs and other vendors to assist in the performance of our research and development and other services and products for operating purposes. These contracts typically do not contain minimum purchase commitments and generally provide for termination on notice, and therefore are cancelable contracts and not included in the table of contractual obligations.

Critical Accounting Policies and Use of Estimates

The Critical Accounting Policies and Significant Judgements and Estimates included in our Annual Report on Form 10-K have not materially changed. See “Critical Accounting Policies and Use of Estimates” included in Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on March 23, 2023.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Note 2 of the notes to our consolidated financial statements included in this Quarterly Report.

Emerging Growth Company Status

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that we (1) are no longer an emerging growth company or (2) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the earliest to occur of: (1) the last day of the fiscal year in which we have at least \$1.235 billion in annual revenue; (2) the last day of the fiscal year in which we are deemed to be a “large accelerated filer,” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeded \$700.0 million as of the last business day of the second fiscal quarter of such year; (3) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period; and (4) the last day of the fiscal year ending after the fifth anniversary of our IPO.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a “smaller reporting company,” as that term is defined in Rule 229.10(f)(1), we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our President and Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on this evaluation, our President and

Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, to allow for timely decisions regarding required disclosures, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. Based on its evaluation, management has concluded that our internal control over financial reporting was effective as of September 30, 2023.

Changes in Internal Control

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our President and Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met and cannot detect all deviations. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or deviations, if any, within the company have been detected. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any pending legal actions that would, if determined adversely to us, have a material adverse effect on our business and operations.

We may, from time to time, become involved in disputes and proceedings arising in the ordinary course of business. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse effect on our business, results of operations, and financial condition.

Item 1A. Risk Factors

You should carefully consider the risk factors described in our Annual Report under the caption “Item 1A. “Risk Factors.” There have been no material changes in our risk factors included in our Annual Report. The risks described in our Annual Report are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities during the fiscal quarter ended September 30, 2023.

Use of Proceeds from our Initial Public Offering of Common Stock

Our registration statement on Form S-1 (File Nos. 333-257999 and 333-260128) relating to the IPO was declared effective by the SEC on October 7, 2021. There has been no material change in the planned use of proceeds from the IPO from that described in the prospectus, dated October 7, 2021, filed with the SEC pursuant to Rule 424(b) under the Securities Act.

Repurchase of Shares of Company Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial and Accounting Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).					X

* This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

Cognition Therapeutics, Inc.

Date: November 2, 2023

By: /s/ Lisa Ricciardi
Lisa Ricciardi
Chief Executive Officer, President and
Director
(Principal Executive Officer)

Date: November 2, 2023

By: /s/ John Doyle
John Doyle
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa Ricciardi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cognition Therapeutics, Inc. (the “registrant”);
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 2, 2023

By: /s/ Lisa Ricciardi
Lisa Ricciardi
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, John Doyle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cognition Therapeutics, Inc. (the “registrant”);
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 2, 2023

By: /s/ John Doyle
John Doyle
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION 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 Cognition Therapeutics, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lisa Ricciardi, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

By: /s/ Lisa Ricciardi
Lisa Ricciardi
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION 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 Cognition Therapeutics, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Doyle, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2023

By: /s/ John Doyle
John Doyle
Chief Financial Officer
(Principal Financial and Accounting Officer)
