

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

**FORM 10-Q**

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

For the quarterly period ended **March 31, 2019**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-38418**

**COCRYSTAL PHARMA, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**35-2528215**

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

**19805 N. Creek Parkway Bothell, WA**

*(Address of Principal Executive Office)*

**98011**

*(Zip Code)*

Registrant's telephone number, including area code: **(786) 459-1831**

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 (Sec.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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input 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 Act). Yes  No

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	COCP	The Nasdaq Stock Market LLC (The Nasdaq Capital Market)

As of May 10, 2019, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 31,620,646.

COCRYSTAL PHARMA, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2019

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Part I – FINANCIAL INFORMATION

COCRYSTAL PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share data)

	March 31, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 8,571	\$ 2,723
Restricted cash	50	29
Accounts receivable	1,078	-
Prepaid expenses and other current assets	169	191
<b>Total current assets</b>	<b>9,868</b>	<b>2,943</b>
Property and equipment, net	386	384
Deposits	40	40
Operating lease right-of-use assets, net	802	-
Goodwill	65,195	65,195
<b>Total assets</b>	<b>\$ 76,291</b>	<b>\$ 68,562</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,211	\$ 1,077
Deferred rent	-	3
Current maturities of finance lease liabilities	218	214
Current maturities of operating lease liabilities	161	-
Derivative liabilities	163	263
<b>Total current liabilities</b>	<b>1,753</b>	<b>1,557</b>
<b>Long-term liabilities:</b>		
Finance lease liabilities	61	117
Operating lease liabilities	657	-
<b>Total long-term liabilities</b>	<b>718</b>	<b>117</b>
<b>Total liabilities</b>	<b>2,471</b>	<b>1,674</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Common stock, \$.001 par value; 100,000 shares authorized as of March 31, 2019 and December 31, 2018; 31,620 and 29,938 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	32	30
Additional paid-in capital	257,908	253,949
Accumulated deficit	(184,120)	(187,091)
<b>Total stockholders' equity</b>	<b>73,820</b>	<b>66,888</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 76,291</b>	<b>\$ 68,562</b>

See accompanying notes to condensed consolidated financial statements.

**COCRYSTAL PHARMA, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except per share data)

	Three months ended	
	March 31,	
	2019	2018
Revenues:		
Collaboration revenue	\$ 5,078	\$ -
Operating expenses:		
Research and development	878	877
General and administrative	1,323	1,190
Total operating expenses	2,201	2,067
Income (loss) from operations	2,877	(2,067)
Other (expense) income:		
Interest expense, net	(6)	(32)
Gain on settlement of mortgage note receivable	-	106
Change in fair value of derivative liabilities	100	21
Total other income, net	94	95
Income (loss) before income taxes	2,971	(1,972)
Income tax benefit	-	419
Net income (loss)	\$ 2,971	\$ (1,553)
Net income (loss) per common share, basic and diluted	\$ 0.10	\$ (0.06)
Weighted average number of common shares outstanding, basic	30,337	24,384
Weighted average number of common shares outstanding, diluted	30,371	24,384

See accompanying notes to condensed consolidated financial statements.

**COCRYSTAL PHARMA, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited)  
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2018	29,938	\$ 30	\$ 253,949	\$ (187,091)	\$ 66,888
Stock-based compensation	-	-	33	-	33
Sale of common stock, net of transaction costs	1,682	2	3,926	-	3,928
Net income	-	-	-	2,971	2,971
Balance as of March 31, 2019	<u>31,620</u>	<u>\$ 32</u>	<u>\$ 257,908</u>	<u>\$ (184,120)</u>	<u>\$ 73,820</u>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2017	24,275	\$ 24	\$ 243,419	\$ (138,043)	\$ 105,400
Stock-based compensation	-	-	105	-	105
Exercise of common stock options	127	-	184	-	184
Net income	-	-	-	(1,553)	(1,553)
Balance as of March 31, 2018	<u>24,402</u>	<u>\$ 24</u>	<u>\$ 243,708</u>	<u>\$ (139,596)</u>	<u>\$ 104,136</u>

See accompanying notes to condensed consolidated financial statements.

**COCRYSTAL PHARMA, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)  
(in thousands)

	Three months ended March 31,	
	2019	2018
<b>Operating activities:</b>		
Net income (loss)	\$ 2,971	\$ (1,553)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	23	15
Operating lease expense	43	-
Stock-based compensation	33	105
Interest expense, net	-	32
Payments on operating lease liabilities	(27)	-
Gain on settlement of mortgage note receivable	-	(106)
Change in fair value of derivative liabilities	(100)	(21)
Deferred income tax benefit	-	(419)
Changes in operating assets and liabilities:		
Accounts receivable	(1,078)	-
Prepaid expenses and other current assets	22	(98)
Accounts payable and accrued expenses	134	(27)
Deferred rent	(3)	(6)
Net cash provided by (used in) operating activities	2,018	(2,078)
<b>Investing activities:</b>		
Purchases of property and equipment	(25)	(5)
Proceeds from settlement of mortgage note receivable	-	1,400
Net cash (used in) provided by investing activities	(25)	1,395
<b>Financing activities:</b>		
Payments on finance lease liabilities	(52)	-
Proceeds from exercise of stock options	-	184
Proceeds from sale of common stock, net of transaction costs	3,928	-
Proceeds from issuance of convertible notes	-	1,000
Net cash provided by financing activities	3,876	1,184
Net increase in cash and restricted cash	5,869	501
Cash and restricted cash at beginning of period	2,752	777
Cash and restricted cash at end of period	\$ 8,621	\$ 1,278

**SUPPLEMENTAL DISCLOSURE OF NON-CASH OPERATING ACTIVITIES:**

Recognition of operating lease right-of-use assets and operating lease liabilities upon adoption of ASC Topic 842, <i>Leases</i>	\$	833	\$	-
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See accompanying notes to condensed consolidated financial statements.

## COCRYSTAL PHARMA, INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Organization and Business

Cocrystal Pharma, Inc. (“we”, the “Company” or “Cocrystal”), a clinical stage biopharmaceutical company, has been developing novel technologies and approaches to create first-in-class and best-in-class antiviral drug candidates since its initial funding in 2008. Our focus is to pursue the development and commercialization of broad-spectrum antiviral drug candidates that will transform the treatment and prophylaxis of viral diseases in humans. By concentrating our research and development efforts on viral replication inhibitors, we plan to leverage our infrastructure and expertise in these areas.

The Company was formerly incorporated in Nevada under the name Biozone Pharmaceuticals, Inc. (“Biozone”). On January 2, 2014, Biozone Pharmaceuticals, Inc. sold substantially all of its assets to MusclePharm Corporation (“MusclePharm”), and, on the same day, merged with Cocrystal Discovery, Inc. in a transaction accounted for as a reverse merger. Following the merger, the Company assumed Cocrystal Discovery, Inc.’s business plan and operations. On March 18, 2014, the Company reincorporated in Delaware under the name Cocrystal Pharma, Inc.

Effective November 25, 2014, Cocrystal Pharma, Inc. and affiliated entities completed a series of merger transactions as a result of which Cocrystal Pharma, Inc. merged with RFS Pharma, LLC, a Georgia limited liability company (“RFS Pharma”). We refer to the surviving entity of this merger as “Cocrystal” or the “Company.”

On January 18, 2018, the Company’s Board of Directors (the “Board”) filed an amendment (the “Amendment”) with the Delaware Secretary of State to affect a one-for-thirty reverse split (the “Reverse Stock Split”) of the Company’s class of common stock. The Amendment took effect on January 24, 2018. The Reverse Stock Split did not change the authorized number of shares of common stock. Pursuant to the terms of the Company’s then outstanding convertible notes (see Note 7 – Convertible Notes Payable), its options and warrants have been proportionately adjusted to reflect the Reverse Stock Split. A proportionate adjustment was made to the per share exercise price, number of shares issued and shares reserved for issuance under all of the Company’s equity compensation plans.

All per share amounts and number of shares in the condensed consolidated financial statements and related notes presented have been retroactively restated to reflect the Reverse Stock Split.

On January 31, 2019, the Company received an upfront non-refundable payment of \$4,000,000 and anticipates future payments for employees and research expense reimbursements over the term of our collaboration with Merck Sharp & Dohme Corp. (“Merck”), effective January 2, 2019 (refer to Note 10 – Licenses and Collaborations).

The Company’s activities since inception have principally consisted of acquiring potential product and technology rights, raising capital, and performing research and development. Successful completion of the Company’s development programs, obtaining regulatory approvals of its products and, ultimately, the attainment of profitable operations is dependent on future events, including, among other things, its ability to access potential markets, secure financing, develop a customer base, attract, retain and motivate qualified personnel, and develop strategic alliances. Through December 31, 2018, the Company has primarily funded its operations through equity offerings.

The Company’s historical operating results indicate substantial doubt exists related to the Company’s ability to continue as a going concern. The Company has no pharmaceutical products approved for sale, has not generated any revenues to date from pharmaceutical product sales, and has incurred significant operating losses since inception. The Company has earned income from operations of \$2,877,000 and incurred losses from operations of \$2,067,000 in the three months ended March 31, 2019 and 2018, respectively.

The Company will need to continue obtaining adequate capital to fund its operations until it becomes profitable. The Company can give no assurances that the additional capital it is able to raise, if any, will be sufficient to meet its needs, or that any such financing will be obtainable on acceptable terms. If the Company is unable to obtain adequate capital, it could be forced to cease operations or substantially curtail its drug development activities. The Company expects to continue incurring substantial operating losses and negative cash flows from operations over the next several years during its pre-clinical and clinical development phases. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the classification of liabilities should the Company be unable to continue as a going concern.

## **2. Basis of Presentation and Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X set forth by the Securities and Exchange Commission (“SEC”). They do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the interim periods presented are not necessarily indicative of the results of operations for the entire fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2018 filed on April 1, 2019 (“Annual Report”).

### ***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of Cocrystal Pharma, Inc. and its wholly owned subsidiaries: RFS Pharma, LLC, Cocrystal Discovery, Inc., Cocrystal Merger Sub, Inc., Baker Cummins Corp. and Biozone Laboratories, Inc. Intercompany transactions and balances have been eliminated.

### ***Segments***

The Company operates in only one segment. Management uses cash flows as the primary measure to manage its business and does not segment its business for internal reporting or decision-making.

### ***Use of Estimates***

Preparation of the Company’s condensed consolidated financial statements in conformance with U.S. GAAP requires the Company’s management to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the Company’s condensed consolidated financial statements and accompanying notes. The significant estimates in the Company’s condensed consolidated financial statements relate to the valuation of equity awards and derivative liabilities, recoverability of deferred tax assets, estimated useful lives of fixed assets, and forecast assumptions used in the valuation of intangible assets and goodwill. The Company bases estimates and assumptions on historical experience, when available, and on various factors that it believes to be reasonable under the circumstances. The Company evaluates its estimates and assumptions on an ongoing basis, and its actual results may differ from estimates made under different assumptions or conditions.

### ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash deposited in accounts held at two United States financial institutions, which may, at times, exceed federally insured limits of \$250,000 for each institution where accounts are held. At March 31, 2019 and December 31, 2018, our primary operating account held approximately \$8,571,000 and \$2,723,000 and our collateral account balance held at a different institution was \$50,000 and \$29,000, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risks thereof.

### ***Cash and Restricted Cash***

The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents, and the Company held no cash equivalents as of March 31, 2019 and 2018, nor as of December 31, 2018.

The following table provides a reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows (in thousands):

	March 31, 2019	March 31, 2018
Cash	\$ 8,571	\$ 1,249
Restricted cash	50	29
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 8,621</u>	<u>\$ 1,278</u>

Restricted cash represents amounts pledged as collateral for financing arrangements that are currently limited to the issuance of business credit cards. The restriction will end upon the conclusion of these financing arrangements.

#### *Leases*

Prior to January 1, 2019, the Company accounted for leases under Accounting Standards Codification (ASC) 840, Accounting for Leases. Effective from January 1, 2019, the Company adopted the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company adopted ASC 842 using a modified retrospective approach. As a result, the comparative financial information has not been updated and the required disclosures prior to the date of adoption have not been updated and continue to be reported under the accounting standards in effect for those periods. The adoption of ASC 842 on January 1, 2019 resulted in the recognition of operating lease right-of-use assets and lease liabilities of approximately \$833,000 and did not result in a cumulative-effect adjustment to accumulated deficit.

### Fair Value Measurements

FASB Accounting Standards Codification (“ASC”) 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 — quoted prices in active markets for identical assets or liabilities.

Level 2 — other significant observable inputs for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 — significant unobservable inputs that reflect management’s best estimate of what market participants would use to price the assets or liabilities at the measurement date.

The Company categorizes its cash as Level 1 fair value measurements. The Company categorizes its warrants potentially settleable in cash as Level 3 fair value measurements. The warrants potentially settleable in cash are measured at fair value on a recurring basis and are being marked to fair value at each reporting date until they are completely settled or meet the requirements to be accounted for as component of stockholders’ equity. The warrants are valued using the Black-Scholes option pricing model as discussed in Note 9 – Warrants.

The following tables present a summary of fair values of assets and liabilities that are re-measured at fair value at each balance sheet date presented as of March 31, 2019 and December 31, 2018, and their placement within the fair value hierarchy as discussed above (in thousands):

Description	March 31, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash and restricted cash	\$ 8,621	\$ 8,621	\$ -	\$ -
<b>Total assets</b>	<b>\$ 8,621</b>	<b>\$ 8,621</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities:</b>				
Warrants potentially settleable in cash (Note 9)	\$ 163	\$ -	\$ -	\$ 163
<b>Total liabilities</b>	<b>\$ 163</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 163</b>

Description	December 31, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash and restricted cash	\$ 2,752	\$ 2,752	\$ -	\$ -
<b>Total assets</b>	<b>\$ 2,752</b>	<b>\$ 2,752</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities:</b>				
Warrants potentially settleable in cash (Note 9)	\$ 263	\$ -	\$ -	\$ 263
<b>Total liabilities</b>	<b>\$ 263</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 263</b>

The Company has not transferred any financial instruments into or out of Level 3 classification during the three months ended March 31, 2019 and 2018. A reconciliation of the beginning and ending Level 3 liabilities is as follows (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2019	2018
Balance, January 1,	\$ 263	\$ 569
Change in fair value of warrants potentially settleable in cash (Note 9)	(100)	(21)
Balance at March 31,	\$ 163	\$ 548

#### ***Goodwill and In-Process Research and Development***

We account for business combinations using the acquisition method, recording the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets acquired as goodwill. Acquisition-related costs, including banking, legal, accounting, valuation, and other similar costs, are expensed in the periods in which the costs are incurred and included in loss from operations in the condensed consolidated financial statements. The results of operations of the acquired business are included in the condensed consolidated financial statements from the acquisition date.

In November 2014, goodwill and intangible assets for in-process research and development were recorded in connection with the acquisition of RFS Pharma, and have represented a series of awarded patents, filed patent applications and an in-process research programs acquired related to Hepatitis C compound development.

We evaluate indefinite-lived intangible assets and goodwill for impairment annually, as of November 30, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, we may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, we then would proceed with the quantitative impairment test to compare the fair value to the carrying value and record an impairment charge if the carrying value exceeds the fair value.

Fair value is typically estimated using an income approach based on the present value of future discounted cash flows. The significant estimates in the discounted cash flow model primarily include the discount rate, and rates of future revenue and expense growth and/or profitability of the acquired assets. In performing the impairment test, the Company considered, among other factors, the Company's intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of Cocrystal's product candidates.

In-process research and development assets are accounted for as indefinite-lived intangible assets and maintained on the balance sheet until either the underlying project is completed or the asset becomes impaired. If the project is completed, the carrying value of the related intangible assets are amortized to cost of sales over the remaining estimated life of the asset(s), beginning in the period in which the project is completed. If the intangible asset becomes impaired or the related project is abandoned, the carrying value of the underlying intangible asset is written down to its fair value and an impairment charge is recorded in the period in which the impairment occurs and included in operating expenses under research and development within the relative condensed consolidated statement of operations.

The Company has a lead compound, CC-31244, for its Hepatitis C program, which was created at the Company's labs in Bothell, Washington, and not part of the acquisition from RFS Pharma. In 2016, the Company initiated and completed a Phase 1A trial with compound CC-31244, and began a Phase 1B trial with CC-31244 that was completed in 2017. In 2018, the Company began a Phase 2A clinical trial with CC-31244 and recently released interim results in January 2019. In late 2018, the Company concluded that given the success of CC-31244 in clinical trials, the Hepatitis C program would move forward solely with CC-31244 without any of the compounds acquired from RFS Pharma. As part of this decision, the Company abandoned all remaining in process research and development intangible assets recognized by the Company and thereafter, terminated its license with Emory University on December 6, 2018 (see Note 10 – Licenses and Collaborations). This resulted in a \$53,905,000 impairment in the fourth quarter of 2018. At March 31, 2019 and December 31, 2018, there was no in-process research and development on the Company's condensed consolidated balance sheets.

At March 31, 2019 and December 31, 2018, the Company had goodwill of \$65,195,000 included on the Company's condensed consolidated balance sheets.

### **Revenue Recognition**

The Company recognizes revenue from research and development arrangements and grant income. In accordance with Accounting Standards Codification ("ASC") Topic 606—*Revenue from Contracts with Customers* ("Topic 606"), revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods and services.

On January 2, 2019, the Company entered into an Exclusive License and Research Collaboration Agreement (the "Collaboration Agreement") with Merck Sharp & Dohme Corp. ("Merck") to discover and develop certain proprietary influenza A/B antiviral agents. Under the terms of the Collaboration Agreement, Merck will fund research and development for the program, including clinical development, and will be responsible for worldwide commercialization of any products derived from the collaboration. As a result of this agreement, the Company recognized \$5,078,000 in revenues on the condensed consolidated statement of operations as consideration in exchange for conveyance of intellectual property rights of \$4,368,000 and research and development activities of \$710,000, for the three months ended March 31, 2019, respectively, related to influenza A/B program. In addition, included were research and development expenses for the first quarter of 2019 of approximately \$755,000 reimbursable by Merck under the terms of the Collaboration Agreement. The remaining receivable balance was recorded in accordance with ASC Topic 606, *Revenue from Contracts with Customers* and is expected to be recognized ratably over the subsequent seven quarters and received in full. Management reviews accounts receivable regularly to determine, using the specific identification method, if any receivable amounts will potentially be uncollectible and to estimate the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value.

### **Income Taxes**

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. Realization of deferred tax assets is dependent upon future taxable income. A valuation allowance is recognized if it is more likely than not that some portion or all of a deferred tax asset will not be realized based on the weight of available evidence, including expected future earnings. The Company recognizes an uncertain tax position in its financial statements when it concludes that a tax position is more likely than not to be sustained upon examination based solely on its technical merits. Only after a tax position passes the first step of recognition will measurement be required. Under the measurement step, the tax benefit is measured as the largest amount of benefit that is more likely than not to be realized upon effective settlement. This is determined on a cumulative probability basis. The full impact of any change in recognition or measurement is reflected in the period in which such change occurs. The Company elects to accrue any interest or penalties related to income taxes as part of its income tax expense.

As of March 31, 2019, the Company assessed its income tax expense based on its projected future taxable income for the year ended December 31, 2019 and therefore recorded no amount for income tax expense for the three months ended March 31, 2019. In addition, the Company has significant deferred tax assets available to offset income tax expense due to net operating loss carry forwards which are currently subject to a full valuation allowance based on the Company's assessment of future taxable income. Refer to our Annual Report on Form 10-K for the year ended December 31, 2018 for more information.

### **Stock-Based Compensation**

The Company recognizes compensation expense using a fair value-based method for costs related to stock-based payments, including stock options. The fair value of options awarded to employees is measured on the date of grant using the Black-Scholes option pricing model and is recognized as expense over the requisite service period on a straight-line basis.

Use of the Black-Scholes option pricing model requires the input of subjective assumptions including expected volatility, expected term, and a risk-free interest rate. The Company estimates volatility using a blend of its own historical stock price volatility as well as that of market comparable entities since the Company's common stock has limited trading history and limited observable volatility of its own. The expected term of the options is estimated by using the Securities and Exchange Commission Staff Bulletin No. 107's *Simplified Method for Estimate Expected Term*. The risk-free interest rate is estimated using comparable published federal funds rates.

### ***Common Stock Purchase Warrants and Other Derivative Financial Instruments***

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40, *Contracts in Entity's Own Equity*. We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

### ***Recent Accounting Pronouncements***

The following are new FASB Accounting Standards Updates (“ASUs”) that have been adopted by the Company as of March 31, 2019:

In the fourth quarter of 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers* (“Topic 606”), which had no impact on our consolidated financial statements and related footnote disclosures as of and for the year ended December 31, 2018 included in our Annual Report on Form 10-K. In January 2019, the Company recognized collaboration revenue in accordance with Topic 606 as presented in the condensed consolidated statement of operations for the three months ended March 31, 2019.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This ASU provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. Accordingly, this amendment added unit of account guidance in Topic 606 when an entity is assessing whether the collaborative arrangement, or a part of the arrangement, is within the scope of Topic 606. In addition, the amendment provides certain guidance on presenting the collaborative arrangement transaction together with Topic 606. ASU 2018-18 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years and early adoption is permitted. This ASU is to be applied retrospectively to the date of initial application of Topic 606. The Company adopted ASU 2018-18, in the fourth quarter of 2018, which had no impact on our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, nor in the Company’s condensed consolidated financial statements as reported on this Form 10-Q for the three months ended March 31, 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, subsequently amended by ASU No. 2018-01, ASU No. 2018-10 and ASU No. 2018-11 (collectively, “ASC 842”), which requires lessees to recognize most leases on their balance sheets as a right-of-use (“ROU”) asset with a corresponding lease liability. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019 using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients and elected the following accounting policies related to this standard update, a.) the option to not reassess prior conclusions related to the identification, classification and accounting for initial direct costs for leases that commenced prior to January 1, 2019, b.) short-term lease accounting policy election allowing lessees to not recognize ROU assets and liabilities for leases with a term of 12 months or less, and c.) the option to not separate lease and non-lease components for certain equipment lease asset categories. Adoption of ASC 842 resulted in the initial recognition of operating lease right-of-use assets and corresponding lease liabilities of approximately \$833,000 on the Company’s consolidated balance sheet in the first quarter of 2019. The Company’s accounting for finance leases (previously referred to as capital leases under ASC 840) remained substantially unchanged. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 12 – Commitments and Contingencies.

The following are new FASB Accounting Standards Updates that have not been adopted by the Company as of March 31, 2019, and contain detail regarding the effective dates:

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing this ASU and has not yet determined the impact ASU 2018-13 may have on its condensed consolidated financial statements.

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission (“SEC”) did not, or are not expected to, have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

### 3. Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the underlying assets (three to five years) using the straight-line method. As of March 31, 2019 and December 31, 2018, property and equipment consists of (in thousands):

	March 31, 2019	December 31, 2018
Lab equipment (excluding equipment under finance leases)	\$ 960	\$ 945
Finance lease right-of-use lab equipment obtained in exchange for finance lease liabilities	347	347
Computer and office equipment	85	75
Total property and equipment	1,392	1,367
Less: accumulated depreciation and amortization	(1,006)	(983)
Property and equipment, net	\$ 386	\$ 384

Total depreciation and amortization expense was \$23,000 and \$15,000 for the three months ended March 31, 2019 and 2018, which includes amortization expense of \$17,000 and \$6,000 related to finance lease right-of-use lab equipment, respectively. For additional finance leases information, refer to Note 12 – Commitments and Contingencies.

### 4. Mortgage Note Receivable

In June 2014, the Company acquired a mortgage note from a bank for approximately \$2,626,000 which was collateralized by, among other things, the underlying real estate and related improvements. The property subject to the mortgage was owned by an entity managed by Daniel Fisher and his affiliate, 580 Garcia Properties LLC (the primary obligor of the note). The mortgage note had an original maturity date of August 1, 2032 and bore an interest rate of 7.24%.

In February 2018, the Company, Daniel Fisher, and 580 Garcia Properties LLC resolved all outstanding claims and disputes. As part of this settlement, the Company received a payment of \$1,400,000 in exchange for the release of the mortgage note and deed of trust, resulting in a net gain of \$106,000 for disposal of the mortgage note receivable reflected in the condensed consolidated statement of operations for the three months ended March 31, 2018.

### 5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following (in thousands) as of:

	March 31, 2019	December 31, 2018
Accounts payable	\$ 441	\$ 616
Accrued compensation	98	78
Accrued other expenses	672	383
Total accounts payable and accrued expenses	\$ 1,211	\$ 1,077

Accounts payable and accrued other expenses contain unpaid general and administrative expenses and costs related to research and development that have been billed and estimated unbilled, respectively, as of period-end.

## 6. Common Stock

As of March 31, 2019, the Company has authorized 100,000,000 shares of common stock, \$.001 par value per share. The Company had 31,620,646 and 29,938,363 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively.

The holders of common stock are entitled to one vote for each share of common stock held.

On January 18, 2018, the Company effected the Reverse Stock Split. See Note 1.

On May 3, 2018, the Company closed a public offering for gross proceeds and net proceeds of approximately \$8,428,000 and \$7,684,000, respectively. The Company sold 4,210,527 shares of common stock to the underwriter at approximately \$1.767 per share which the underwriter sold to the public at \$1.90 per share and issued the underwriter a warrant to purchase 84,211 shares of common stock at \$2.09 per share over a four year period beginning October 27, 2018. On May 14, 2018 the underwriter exercised the option to purchase an additional 225,000 shares of common stock solely to cover overallocments. As of March 31, 2019, the underwriter has no further option to purchase additional shares.

On March 13, 2019, the Company closed a private placement of 1,602,283 shares of its common stock and received gross proceeds of \$4,182,000, before deducting offering expenses and commissions, resulting in net proceeds of approximately \$3,584,000.

On March 20, 2019, the Company by written notice suspended at-the-market sales of its common stock pursuant to the Distribution Agreement, dated July 19, 2018 by and among the Company, Ladenburg, Barrington, and AGP. The Company also terminated the engagement of Barrington as a sales agent under the Distribution Agreement effective March 21, 2019. The Distribution Agreement remains in place with respect to AGP, subject to the suspension of sales discussed above until further notice is provided by the Company to AGP. In January 2019, we sold 80,000 shares of common stock under the Distribution Agreement and received net proceeds of approximately \$344,000.

## 7. Convertible Notes Payable

The Company accounts for convertible notes payable (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with ASC 470-20, *Debt with Conversion and Other Options*.

On November 24, 2017 and January 31, 2018, the Company entered into securities purchase agreements with two investors, including the Company's former Chairman of the Board, pursuant to which the company sold an aggregate principal of \$1,000,000, and OPKO Health Inc., a related party, (collectively, the "Purchasers"), pursuant to which the Company sold an additional \$1,000,000, of its 8% convertible notes (collectively, "Convertible Notes") due on November 24, 2019 and January 31, 2020, respectively.

The Convertible Notes, with accrued interest, were convertible into common stock for \$8.10 per share at the option of the Purchasers. In the event the Company completed a financing in which the Company received at least \$10,000,000 in gross proceeds and issued common stock or common stock equivalents to the investor (a "Financing") or there is a change of control of the Company (or sale of substantially all of the Company's assets), the outstanding principal amount of the Convertible Notes would automatically convert. Upon the closing of a Financing, the conversion price of the Convertible Notes shall be the lesser of (i) \$8.10 per share or (ii) the price per share of the securities sold in the Financing.

The Company evaluated the embedded conversion features within the Convertible Notes under ASC 815-15 and ASC 815-40 to determine if they required bifurcation as a derivative instrument. The Company determined the embedded conversion features do not meet the definition of a derivative liability, and therefore, do not require bifurcation from the host instrument. In addition, the down-round provision under which the conversion price could be affected by future equity offerings, qualified for a scope exception from derivative accounting with the Company's early adoption of ASU 2017-11, *Simplifying Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity*, during the year ended December 31, 2017. Since the embedded conversion features were not considered derivatives, the convertible notes were accounted for in accordance with ASC 470-20, *Debt with Conversion and Other Options*.

In May 2018, the Company completed a financing and issued a total of 4,435,527 shares of common stock at \$1.90 per share, for gross proceeds and net proceeds of \$8,428,000 and \$7,680,000, respectively. Although the total gross financing amount did not contractually effectuate the conversion feature of the Convertible Notes' securities purchase agreements, the Company allowed Purchasers to convert the Convertible Notes to common stock at the \$1.90 per share price of the May 2018 financing. All outstanding 8% convertible notes were converted to shares of common stock in May 2018 at the aggregate amount of the principal and accrued interest of for approximately \$2,062,000 as of the date of conversion, for a total of 1,085,105 common shares issued. The conversion was approved by disinterested members of the Company's Board of Directors.

## 8. Stock Based Awards

### Equity Incentive Plans

The Company adopted an equity incentive plan in 2007 (the "2007 Plan") under which 1,786,635 shares of common stock had been reserved for issuance to employees and nonemployee directors and consultants of the Company. The Company no longer issues any awards under the 2007 Plan. Holders of outstanding incentive stock options granted under the 2007 Plan are eligible to purchase shares of the Company's common stock at an exercise price equal to no less than the fair market value of such stock on the date of grant. The maximum term of options granted under the 2007 Plan was ten years.

The Company adopted a second equity incentive plan in 2015 (the "2015 Plan") under which 2,705,237 (including 1,038,570 initially transferred from the 2007 Plan) shares of common stock have been reserved for issuance to employees, and nonemployee directors and consultants of the Company. Recipients of incentive stock options granted under the 2015 Plan shall be eligible to purchase shares of the Company's common stock at an exercise price equal to no less than the estimated fair market value of such stock on the date of grant. The maximum term of options granted under the 2015 Plan is ten years. As of March 31, 2019, 1,015,750 options remain available for future grants under the 2015 Plan.

The following table summarizes stock option transactions for the 2007 Plan and 2015 Plan, collectively, for the three months ended March 31, 2019 (in thousands, except per share amounts):

	Number of Shares Available for Grant	Total Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2018	873	1,351	\$ 5.73	\$ 788
Exercised	-	-	-	-
Granted	-	-	-	-
Cancelled	143	(143)	4.16	-
Balance at March 31, 2019	1,016	1,208	\$ 5.91	\$ -

The Company did not grant any options during the three months ended March 31, 2019, nor the three months ended March 31, 2018.

The Company accounts for share-based awards to employees and nonemployees directors and consultants in accordance with the provisions of ASC 718, *Compensation—Stock Compensation*, and under the recently issued guidance following FASB's pronouncement, ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. Under ASC 718, and applicable updates adopted, share-based awards are valued at fair value on the date of grant and that fair value is recognized over the requisite service, or vesting, period. The Company values its equity awards using the Black-Scholes option pricing model, and accounts for forfeitures when they occur. For the three months ended March 31, 2019 and 2018, equity-based compensation expense recorded was \$33,000 and \$105,000, respectively.

As of March 31, 2019, there was approximately \$1,519,000 of total unrecognized compensation expense related to non-vested stock options that is expected to be recognized over a weighted average period of 1.9 years. For options granted and outstanding, there were 1,208,573 options outstanding which were fully vested or expected to vest, with an aggregate intrinsic value of \$0, a weighted average exercise price of \$5.91, and weighted average remaining contractual term of 6.9 years at March 31, 2019. For vested and exercisable options, outstanding shares totaled 374,822, with an aggregate intrinsic value of \$0. These options had a weighted average exercise price of \$12.13 per share and a weighted-average remaining contractual term of 1.2 years at March 31, 2019.

The aggregate intrinsic value of outstanding and exercisable options at March 31, 2019 was calculated based on the closing price of the Company's common stock as reported on The Nasdaq Capital Market on March 29, 2019 of \$2.73 per share less the exercise price of the options. The aggregate intrinsic value is calculated based on the positive difference between the closing fair market value of the Company's common stock and the exercise price of the underlying options.

#### ***Common Stock Reserved for Future Issuance***

The following table presents information concerning common stock available for future issuance (in thousands) as of:

	March 31, 2019	March 31, 2018
Stock options issued and outstanding	1,208	426
Shares authorized for future option grants	1,016	1,813
Convertible notes	-	247
Warrants outstanding	243	209
<b>Total</b>	<b>2,467</b>	<b>2,695</b>

#### **9. Warrants**

The following is a summary of activity in the number of warrants outstanding to purchase the Company's common stock for the three months ended March 31, 2019 (in thousands):

	<b>Warrants Accounted for as: Equity</b>	<b>Warrants Accounted for as: Liabilities</b>		<b>Total</b>
	May 2018 Warrants	October 2013 Warrants	January 2014 Warrants	
Outstanding, December 31, 2018	84	26	133	243
Exercised	-	-	-	-
Granted	-	-	-	-
Expired	-	-	-	-
<b>Outstanding, March 31, 2019</b>	<b>84</b>	<b>26</b>	<b>133</b>	<b>243</b>
Expiration date:	October 27, 2022	October 24, 2023	January 16, 2024	

The following is a summary of activity in the number of warrants outstanding to purchase the Company's common stock for the three months ended March 31, 2018 (in thousands):

	<b>Warrants Accounted for as: Equity</b>	<b>Warrants Accounted for as: Liabilities</b>		<b>Total</b>
	April 2013 Warrants	October 2013 Warrants	January 2014 Warrants	
Outstanding, December 31, 2017	50	26	133	209
Exercised	-	-	-	-
Granted	-	-	-	-
Expired	-	-	-	-
Outstanding, March 31, 2018	<u>50</u>	<u>26</u>	<u>133</u>	<u>209</u>
Expiration date:	April 25, 2018	October 24, 2023	January 16, 2024	

Warrants consist of equity-classified warrants and warrants with the potential to be settled in cash, which are liability-classified warrants. As of March 31, 2019, 159,164 warrants are accounted for as liabilities and 84,211 warrants are accounted for as equity. As of March 31, 2018, 159,164 warrants were accounted for as liabilities and 50,000 warrants were accounted for as equity.

#### ***Warrants Classified as Equity***

Equity-classified warrants consist of stand-alone warrants with rights to buy shares of the Company at a pre-designated price on or before the date of expiration, irrespective of the market price. These purchase warrants are not attached to any debt or equity instruments, thus considered freestanding, and there are no circumstances under ASC 815 that require the warrants to be classified as liabilities or as derivatives. Thus, our May 2018 warrants will be classified as equity, and their value will be carried in the additional paid-in capital account in the stockholders' equity section of the balance sheet.

These warrants were granted to the underwriters and investment brokers for services provided related to the Company's May 2018 equity financing, and collectively grant the right to buy 84,211 shares of our stock at \$2.09 per share for up to four years until expiration from the commencement date of October 27, 2018.

#### ***Warrants Classified as Liabilities***

Liability-classified warrants consist of warrants issued by Biozone in connection with equity financings in October 2013 and January 2014, which were assumed by the Company in connection with its merger with Biozone in January 2014. Warrants accounted for as liabilities have the potential to be settled in cash or are not indexed to the Company's own stock.

The estimated fair value of outstanding warrants accounted for as liabilities is determined at each balance sheet date. Any decrease or increase in the estimated fair value of the warrant liability since the most recent balance sheet date is recorded in the condensed consolidated statement of operations as changes in fair value of derivative liabilities.

The fair value of the warrants classified as liabilities is estimated using the Black-Scholes option-pricing model with the following inputs as of March 31, 2019:

	October 2013 Warrants	January 2014 Warrants
Strike price	\$ 15.00	\$ 15.00
Expected dividend yield	0.00%	0.00%
Contractual term (years)	4.6	4.8
Cumulative volatility	88.49%	88.65%
Risk-free rate	2.20%	2.20%

The fair value of the warrants classified as liabilities is estimated using the Black-Scholes option-pricing model with the following inputs as of March 31, 2018:

	October 2013 Warrants	January 2014 Warrants
Strike price	\$ 15.00	\$ 15.00
Expected dividend yield	0.00%	0.00%
Contractual term (years)	5.6	5.8
Cumulative volatility	86.73%	87.08%
Risk-free rate	2.59%	2.61%

The Company estimates volatility using a blend of its own historical stock price volatility as well as that of market comparable entities since the Company's common stock has limited trading history and limited observable volatility of its own. The expected life assumption is based on the remaining contractual terms of the warrants. The risk-free rate is based on the zero coupon rates in effect at the balance sheet date. The dividend yield used in the pricing model is zero, because the Company has no present intention to pay cash dividends.

## 10. Licenses and Collaborations

### Emory University

On December 6, 2018, we notified Emory University ("Emory") of the termination of our License Agreement with Emory, dated March 7, 2013 (the "License Agreement"). The License Agreement covered patents and patent applications for hepatitis C virus ("HCV") inhibitors, which we no longer consider essential to our HCV program. As part of our HCV program, we continue to focus our efforts on CC-31244, our HCV Non-Nucleoside Polymerase Inhibitor, in Phase 2a clinical trial. The Company had the right to terminate the License Agreement at its sole discretion upon a 90 days' prior written notice and upon payment of all amounts due Emory under the License Agreement through the date of termination. No amounts are due under the License Agreement.

### Merck Sharp & Dohme Corp.

On January 2, 2019, the Company entered into an Exclusive License and Research Collaboration Agreement (the "Collaboration Agreement") with Merck Sharp & Dohme Corp. ("Merck") to discover and develop certain proprietary influenza A/B antiviral agents. Under the terms of the Collaboration Agreement, Merck will fund research and development for the program, including clinical development, and will be responsible for worldwide commercialization of any products derived from the collaboration. Cocrysal received an upfront payment of \$4,000,000 and is eligible to receive payments related to designated development, regulatory and sales milestones with the potential to earn up to \$156,000,000, as well as royalties on product sales. Merck can terminate the Collaboration Agreement at any time prior to the first commercial sale of the first product developed under the Collaboration Agreement, in its sole discretion, without cause.

Additional to the upfront payment received, the Company recognized \$1,078,000 in revenues on the condensed consolidated statement of operations and recorded the same amount in accounts receivable on the condensed consolidated balance sheet, for the three months ended and as of March 31, 2019, respectively, related to influenza A/B program research and development expenses for the first quarter of 2019 of approximately \$755,000 reimbursable by Merck under the terms of the Collaboration Agreement within 45 days of period-end. The remaining receivable balance was recorded in accordance with ASC Topic 606, *Revenue from Contracts with Customers* and is expected to be recognized ratably over the subsequent seven quarters and received in full. Management reviews accounts receivable regularly to determine, using the specific identification method, if any receivable amounts will potentially be uncollectible and to estimate the amount of allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value.

### National Institute of Health

Cocrysal has two Public Health Biological Materials License Agreements with the National Institute of Health. The original License Agreements were dated August 31, 2010 and amended on November 6, 2013. The materials licensed are being used in Norovirus assays to screen potential antiviral agents in our library.

## 11. Net Income (Loss) per Share

The Company accounts for and discloses net income (loss) per common share in accordance with FASB ASC Topic 260, *Earnings Per Share*. Basic income (loss) per common share is computed by dividing income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted net income (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares that would have been outstanding during the period assuming the issuance of common stock for all potential dilutive common shares outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants and the conversion of convertible notes payable.

The following table sets forth the computation of basic and diluted net income (loss) per common share (in thousands, except per share amounts) for the three months ended:

	March 31, 2019	March 31, 2018
Numerator:		
Net income (loss) attributable to common stockholders	\$ 2,971	\$ (1,553)
Denominator:		
Weighted average number of shares outstanding, basic	30,337	24,384
Adjustment for dilutive effects of warrants, outstanding and in-the-money	26	-
Adjustment for dilutive effects of options, exercisable and in-the-money	8	-
Weighted average number of common shares outstanding, diluted	30,371	24,384
Net income (loss) per common share, basic	\$ 0.10	\$ (0.06)
Net income (loss) per common share, diluted	\$ 0.10	\$ (0.06)

The following table sets forth the number of potential common shares excluded from the calculations of net loss per diluted share because their inclusion would be anti-dilutive (in thousands):

	March 31,	
	2019	2018
Outstanding options to purchase common stock	1,200	426
Warrants to purchase common stock	217	209
Notes payable convertible to common stock	-	247
Total	1,417	882

## 12. Commitments and Contingencies

### Commitments

In the ordinary course of business, the Company enters into non-cancelable leases to purchase equipment and for its facilities, including related party leases (see Note 13 – Transactions with Related Parties). As per Note 2, leases are accounted for as operating leases or finance leases, in accordance with ASC 842, *Leases*.

### Operating Leases

The Company leases office space in Miami, Florida and laboratory space in Bothell, Washington under operating leases that expire on August 31, 2021 and January 31, 2024, respectively. The Company recently signed an amendment to the Bothell, Washington lease agreement by extending the lease term for a period of sixty months from February 2019 through January 2024. For operating leases, the weighted average discount rate is 8.0% and the weighted average remaining lease term is 4.5 years.

The following table summarizes the Company's maturities of operating lease liabilities, by year and in aggregate, as of March 31, 2019 (in thousands):

2019 (excluding the three months ended March 31, 2019)	\$	165
2020		225
2021		213
2022		178
2023		183
Thereafter		15
Total operating lease payments		979
Less: present value discount		(161)
Total operating lease liabilities	\$	818

The operating lease liabilities summarized above do not include variable common area maintenance (CAM) charges, which are contractual liabilities under the Company's Bothell, Washington lease. CAM charges for the Bothell, Washington facility are calculated annually based on actual common expenses for the building incurred by the lessor and proportionately billed to tenants based on leased square footage. For the three months ended March 31, 2019 and 2018, approximately \$16,000 and \$17,000 of variable lease expense (CAM) was included in general and administrative operating expenses on the condensed consolidated statements of operations, respectively.

The minimum lease payments above include the amounts that would be paid if the Company maintains its Bothell lease for the five-year term, starting February 2019. The Company has the right to terminate this lease after three years on January 31, 2022, by giving prior notice at least nine months before the early termination date and by paying a termination fee equal to the sum of unamortized leasing commissions and reimbursement for tenant improvements provided by the landlord amortized at 8.0% over the extended term.

On September 1, 2018, the Company entered into a lease agreement with a limited liability company controlled by Dr. Phillip Frost, a director and a principal shareholder of the Company (see Note 13 – Transactions with Related Parties). The lease term is three years with an optional three year extension. On an annualized basis, straight-line rent expense is approximately \$58,000, including fixed and estimable fees and taxes.

The offices and laboratory spaces in Tucker, Georgia were leased from a limited liability company owned by one of Cocystal's former directors, Dr. Raymond Schinazi and previously leased on a month to month basis (see Note 13 – Transactions with Related Parties). The Company closed its offices and laboratory in Tucker, Georgia, and the final lease-related payment was made in October 2018.

As of March 31, 2019, right-of-use assets obtained in exchange for operating lease liabilities and amortization expense recognized for operating leases was \$833,000 and \$31,000, respectively. For the three months ended March 31, 2019 and 2018, operating lease expense, excluding short-term leases, finance leases and CAM charges, totaled approximately \$43,000 and \$42,000, respectively. Additionally, the Company recognized short-term operating lease expense of \$12,000 during the three months ended March 31, 2019, and cash paid for amounts included in the measurement of lease liabilities for operating leases as operating cash out flows in the same period.

#### Finance Leases

In November 2018, the Company entered into two lease agreements to acquire lab equipment with 18 monthly payments of \$18,000 payable through May 27, 2020 and 36 monthly payments of \$1,000 payable through November 21, 2021, respectively. For finance leases, the weighted average discount rate is 8.0% and the weighted average remaining lease term is 1.4 years.

The following table summarizes the Company's maturities of finance lease liabilities, by year and in aggregate, as of March 31, 2019 (in thousands):

2019 (excluding the three months ended March 31, 2019)	\$	174
2020		106
2021		15
Total finance lease payments		295
Less: present value discount		(16)
Total finance lease liabilities	\$	279

The leased lab equipment is depreciable over five years and is presented net of accumulated depreciation on the condensed consolidated balance sheets under property and equipment. As of March 31, 2019, total right-of-use lab equipment and accumulated depreciation recognized under finance leases is \$347,000 and \$23,000, respectively, and depreciation expense for the three months ended March 31, 2019 was \$17,000. As of December 31, 2018, total right-of-use assets exchanged for finance lease liabilities was \$347,000 and accumulated depreciation for lab equipment under finance leases was \$6,000.

At March 31, 2019, the aggregate outstanding balance of finance lease liabilities, current and long-term, is \$279,000 and the Company expects to pay future interest charges of \$16,000 over the remaining finance lease terms. For the three months ended March 31, 2019, the Company paid \$52,000 and \$6,000 in principal and interest, respectively, totaling financing cash out flows of \$58,000 for amounts included in the measurement of lease liabilities for finance leases and added back to net income the \$6,000 of interest expense under cash flows from operating activities. The Company had no leases considered to be finance leases as of March 31, 2018.

### *Contingencies*

From time to time, the Company is a party to, or otherwise involved in, legal proceedings arising in the normal course of business. As of the date of this report, except as described below, the Company is not aware of any proceedings, threatened or pending, against it which, if determined adversely, would have a material effect on its business, results of operations, cash flows or financial position.

On September 20, 2018, Anthony Pepe, individually and on behalf of a class, filed with the United States District Court for the District of New Jersey a complaint against the Company, certain current and former executive officers and directors of the Company and the other defendants named therein for violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. The class consists of the persons and entities who purchased the Company's common stock during the period from September 23, 2013 through September 7, 2018. Pepe also alleges violation of other sections of the Exchange Act by the defendants named in the complaint other than the Company. Pepe seeks damages, pre-judgment and post-judgment interest, reasonable attorneys' fees, expert fees and other costs.

On January 16, 2019, Ms. Susan Church, a stockholder of the Company, filed with the United States District Court for the Western District of Washington a derivative suit against certain current and former executive officers and directors of the Company alleging breach of fiduciary duties, unjust enrichment, waste of corporate assets, and violations of the rules governing proxy solicitation. Church seeks, among other things, money damages, disgorgement of profits from alleged wrongful conduct, including cash bonuses, pre-judgment and post-judgment interest, reasonable attorneys' fees, expert fees and other costs.

On September 7, 2018, the SEC filed with the United States District Court for the Southern District of New York a complaint against Dr. Philip Frost, a director and principal stockholder of the Company, a trust Dr. Frost controls and OPKO Health, Inc., a stockholder of the Company, of which Dr. Frost is the Chief Executive Officer, as well as other defendants named therein. On January 10, 2019, the District Court entered final judgments against these defendants on their consent without admitting or denying the allegations set forth in the complaint. Dr. Frost was permanently enjoined from violating a certain anti-fraud provision of the Securities Act of 1933, future violations of Section 13(d) of the Exchange Act and Rule 13d-1(a) thereunder and participating in penny stock offerings subject to certain exceptions.

In November 2017, Lee Pederson, a former Biozone lawyer, filed a lawsuit in Minnesota against co-defendants the Company, Dr. Phillip Frost, OPKO Health, Inc. and Brian Keller for various allegations. On September 13, 2018, the United States District Court granted the Company and its co-defendants' motion to dismiss Pederson's amended complaint. On October 11, 2018, Pederson filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit.

While the Company intends to defend itself vigorously from the claims in the aforementioned disputes, it is unable to predict the outcome of these legal proceedings. Any potential loss as a result of these legal proceedings cannot be reasonably estimated. As a result, the Company has not recorded a loss contingency for any of the aforementioned claims.

We were recently notified that our insurance company has initially declined to cover the class action and related derivative action described above. The insurance company had previously delayed reimbursing our legal fees related to the SEC subpoena we received in 2015 requesting information, but ultimately paid us that sum and never declined coverage. We have retained specialized insurance legal counsel to analyze and strategize our options. While we cannot quantify the amount of litigation costs, they are likely to be material as would be any adverse judgment or settlement amount.

### **13. Transactions with Related Parties**

Beginning November 2014 to October 2018, the Company leased its Tucker, Georgia facility from a limited liability company owned by one of Cocystal's former directors and principal shareholder, Dr. Raymond Schinazi. As of October 2018, the Company cancelled the leasing arrangement and closed its office and research lab in Tucker, Georgia. Total rent and other expenses paid in connection with this lease was \$0 and \$11,000 for the three months ended March 31, 2019 and 2018, respectively.

In September 2018, the Company leased administrative offices from a limited liability company owned by one of the Company's directors and principal shareholder, Dr. Phillip Frost. The operating lease term is three years with an optional three-year extension. On an annualized basis, straight-line lease expense, including taxes and fees, for this location is approximately \$58,000. In September 2018, the Company paid a lease deposit of \$4,000 and total amounts paid in connection with this operating lease were \$14,000 and \$0 for the three months ended March 31, 2019 and 2018, respectively.

As further explained in Note 7 – Convertible Notes Payable, on November 24, 2017, the Company entered into a securities purchase agreement with a company significantly owned by the Company's former Chairman of the Board and principal shareholder, Dr. Schinazi, pursuant to which the Company sold a principal amount of \$500,000 of 8% convertible notes due November 24, 2019. On January 31, 2018, the Company entered into a securities purchase agreement with OPKO Health, Inc. (the "Purchaser"), a Company affiliated with Dr. Frost, pursuant to which the Company borrowed \$1,000,000 from the Purchaser in exchange for issuing the Purchaser an 8% convertible note due January 31, 2020.

All 8% convertible notes, including accrued interest, were converted to common stock shares in May 2018 at \$1.90 per share. Dr. Schinazi's affiliated Company received 273,367 shares for its 8% convertible notes balance of approximately \$519,000, and OPKO Health, Inc., affiliated with Dr. Frost, received 538,544 shares for its 8% convertible notes balance of approximately \$1,023,000 upon conversion. In the condensed consolidated balance sheets, as of March 31, 2019 and December 31, 2018, no amounts remain in convertible notes payable due to related parties.

### **14. Subsequent Events**

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q and determined that there have been no events that have occurred that would require adjustments to our disclosures in the condensed consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Overview*

Coocrystal Pharma, Inc. (the "Company" or "Coocrystal") is a clinical stage biotechnology company seeking to discover and develop novel antiviral therapeutics as treatments for serious and/or chronic viral diseases. We employ unique structure-based technologies and Nobel Prize winning expertise to create first- and best-in-class antiviral drugs. These technologies are designed to efficiently deliver small molecule therapeutics that are safe, effective and convenient to administer. We have identified promising preclinical and early clinical stage antiviral compounds for unmet medical needs including influenza virus, Hepatitis C virus ("HCV"), and norovirus infections.

### *Research and Development Update*

During the three months ended March 31, 2019, the Company focused its research and development efforts primarily in three areas:

#### Hepatitis C

CC-31244, our HCV Non-Nucleoside Polymerase Inhibitor ("NNI"), is a potential best-in-class pan-genotypic inhibitor of NS5B polymerase for the treatment of HCV infection. It has the potential to be an important component in an all-oral ultra-short HCV combination therapy. The Company filed an Investigational New Drug ("IND") application with the U.S. Food and Drug Administration ("FDA") on February 28, 2018 and received notice from the FDA on March 29, 2018 that its IND was now open and the Company was cleared to initiate its Phase 2a clinical study evaluating CC-31244 for the treatment of HCV infected individuals.

In June 2018, the Company began enrollment in and initiation of patient dosing in its Phase 2a clinical study evaluating CC-31244 for the treatment of HCV infected individuals and completed the enrollment in September 2018. The Phase 2a open-label study was designed to evaluate the safety, tolerability and preliminary efficacy of CC-31244 in combination with Epclusa, an approved HCV drug. Patients are treated with CC-31244 and Epclusa for two weeks and then Epclusa alone for an additional four weeks.

On January 22, 2019 the Company announced safety and preliminary efficacy data for the Phase 2a study. All subjects had completed the six-week treatment regimen. The treatment was well tolerated with no study discontinuations due to adverse events. Eight of 12 subjects achieved the primary efficacy endpoint of sustained virologic response at 12 weeks after completion of treatment (SVR12). SVR12 is defined as undetectable virus in blood 12 weeks after completion of treatment and is considered a virologic cure. The trial is ongoing at the Institute of Human Virology, University of Maryland School of Medicine and final study results are expected in the second quarter of 2019.

In addition, in October 2018, the Company signed a Clinical Trial Agreement for an investigator-initiated study with the Humanity & Health Research Centre in Hong Kong, China. Under the Clinical Trial Agreement, the Phase 2a study of CC-31244 for the treatment of HCV, which is expected to commence during the first half of 2019, will be sponsored and conducted by the Humanity & Health Research Centre in Hong Kong under the guidance of Dr. George Lau, MBBS (HKU), M.D. (HKU), FRCP (Edin, Lond), FHKAM (Med), FHKCP, FAASLD, Chairman of Humanity and Health Medical Centre, Hong Kong. The Company has agreed to provide CC-31244 to be used in the Phase 2a study.

In December 2018, the Company voluntarily terminated a license agreement with Emory University covering the patents and patent applications for HCV inhibitors, which are not essential to our HCV program. See Note 10 – Licenses and Collaborations in the notes to the condensed consolidated financial statements under Item I, above, for more information.

The Company is in partnership discussions for further clinical development of CC-31244.

#### Influenza

We have several preclinical candidates under development for the treatment of influenza infection. CC-42344, a novel PB2 inhibitor, has been selected as a preclinical lead. This candidate binds to a highly conserved PB2 site of influenza polymerase complex (PB1: PB2: PA) and exhibits a novel mechanism of action. CC-42344 showed excellent antiviral activity against influenza A strains, including avian pandemic strains and Tamiflu resistant strains, and has favorable pharmacokinetic profiles. We are currently conducting additional preclinical IND enabling studies and plan to initiate a Phase 1 study during 2020.

On January 2, 2019, the Company entered into an Exclusive License and Research Collaboration Agreement (the “Collaboration Agreement”) with Merck Sharp & Dohme Corp. (“Merck”) to discover and develop certain proprietary influenza A/B antiviral agents. See Note 10 – Licenses and Collaborations in the notes to the condensed consolidated financial statements under Item I, above, for more information. The Company has identified novel inhibitors effective against both strains A and B that are in the preclinical stage. Several of these have potencies approaching single digit nanomolar.

#### Norovirus Infections

We continue to identify and develop non-nucleoside polymerase inhibitors using the Company’s proprietary structure-based drug design technology platform.

### **Results of Operations for the Three Months Ended March 31, 2019 compared to the Three Months Ended March 31, 2018**

#### ***Revenue***

Collaboration revenue recorded for the three months ended March 31, 2019 was \$5,078,000, compared with \$0 for the three months ended March 31, 2018. The revenue from an initial license payment and program services and expense reimbursements received for research and development costs associated with our influenza A/B program in accordance with the Merck Collaboration Agreement executed on January 2, 2019. See Note 10 within the condensed consolidated financial statements for more information.

#### ***Research and Development Expense***

Research and development expense consists primarily of compensation-related costs for our employees dedicated to research and development activities and for our Scientific Advisory Board members, as well as lab supplies, lab services, and facilities and equipment costs.

Total research and development expenses for the three months ended March 31, 2019 were \$878,000, remaining comparable to expenses of \$877,000 for the three months ended March 31, 2018. For the three months ended March 31, 2019, Merck reimbursed us for the research and development expenses related to influenza A/B program. The reimbursement is included in revenue as discussed above.

#### ***General and Administrative Expense***

General and administrative expense includes compensation-related costs for our employees dedicated to general and administrative activities, legal fees, audit and tax fees, consultants and professional services, and general corporate expenses.

General and administrative expenses were approximately \$1,323,000 for the three months ended March 31, 2019, compared with \$1,190,000 for the three months ended March 31, 2018. The increase of \$133,000 was primarily due to increased audit related fees and legal services that included contracts, litigation and patent related matters.

#### ***Interest Expense, Net***

Interest expense was \$6,000 and \$32,000 for the three months ended March 31, 2019 and 2018, respectively. The interest amounts represent interest incurred on finance leased lab equipment in 2019, and interest incurred on convertible notes which were converted to common stock in May 2018 (refer to Note 12 and Note 7, respectively, in the condensed consolidated financial statements). Interest income was negligible for the three months ended March 31, 2019 and 2018.

#### ***Other Income/(Expense)***

Change in the fair value of derivative liabilities for the three months ended March 31, 2019 was \$100,000 compared to \$21,000 for the three months ended March 31, 2018. In accordance with U.S. GAAP, we record other income or expense based upon the computed change in fair value of our outstanding warrants that are accounted for as liabilities. The fair value of our outstanding warrants is inversely related to the fair value of the underlying common stock; as such, an increase in the price of our common stock during a given period generally results in other expense. Conversely, a decrease in the price of our common stock generally results in other income, which is what occurred during both periods.

Other Income for the three months ended March 31, 2018 included a gain of \$106,000 on the disposal of its mortgage note. The Company resolved all outstanding claims and disputes with 580 Garcia Properties, LLC. In exchange, the Company received \$1,400,000 on February 9, 2018 from a third party. At December 31, 2017, the mortgage note receivable balance was \$1,294,000 resulting in the aforementioned gain.

#### ***Income Taxes***

No income tax benefit or expense was recognized for the three months ended March 31, 2019. The Company's effective income tax rate was 0.0% and 21.2% for the three-months ended March 31, 2019 and March 31, 2018, respectively. As a result of the Company's cumulative losses, management has concluded that a full valuation allowance against the Company's net deferred tax assets is appropriate.

For the three months ended March 31, 2018, we recognized an income tax benefit of approximately \$419,000 primarily due to the change in effective federal income tax rates (from 35% to 21%) used to calculate the Company's deferred tax liability which related to acquired in-process research and development considered to be indefinite-lived intangible assets which totaled \$13,163,000 as of March 31, 2018. The Company abandoned the underlying assets associated with in-process research and development ("IPR&D") intangibles in the fourth quarter of 2018, which were then written off along with the Company's associated deferred tax liability.

#### ***Net Income (Loss)***

As a result of the above factors, for the three months ended March 31, 2019, the Company had net income of approximately \$2,971,000 compared to a net loss of approximately \$1,553,000 for the same period in 2018.

#### ***Liquidity and Capital Resources***

Net cash provided by operating activities was \$2,018,000 for the three months ended March 31, 2019 compared to net cash used in operating activities of \$2,078,000 for the same period in 2018. This was primarily due to the revenue resulting from the Collaboration Agreement with Merck (refer to Note 10 – Licenses and Collaborations).

Net cash used for investing activities was approximately \$25,000 for the three months ended March 31, 2019 compared to \$1,395,000 net cash provided by investing activities for the same period in 2018. For the three months ended March 31, 2019, net cash used for investing activities consisted primarily of capital spending for computers and lab equipment. For the three months ended March 31, 2018, net cash provided by investing activities primarily consisted of the proceeds from the sale of the mortgage note asset for \$1,400,000.

For the three months ended March 31, 2019, cash provided by financing activities totaled \$3,876,000. Our 2019 financing activities included approximately \$3,928,000 net proceeds from the issuance of common stock, reduced by payments made on the Company's lease liabilities for financed lab equipment. Net cash provided by financing activities was \$1,184,000 for the three months ended March 31, 2018. Net cash provided by financing activities during 2018 consisted of \$1,000,000 in proceeds from the issuance of convertible notes and \$184,000 in proceeds from the exercise of stock options.

To date we have focused our efforts on research and development activities, including through collaborations with suitable partners. We have never been profitable on an annual basis, have no products approved for sale, have not generated any revenues to date from product sales, and has incurred significant operating losses and negative operating cash flows on an annual basis since inception.

The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and allow it to continue as a going concern. Based on cash on hand as of May 10, 2019 of approximately \$8,500,000, the Company may not have the capital to finance its operations including any unforeseen expenses such as higher than anticipated legal costs and uninsured catastrophe to the Company operations for the next 12 months. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund its operations until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations or substantially curtail its drug development activities. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the classification of liabilities should the Company be unable to continue as a going concern.

Public and private equity offerings have been our principal source of liquidity.

On May 3, 2018, the Company closed a public offering for gross proceeds and net proceeds of approximately \$8,428,000 and \$7,684,000, respectively. The Company sold 4,210,527 shares of common stock to the underwriter at approximately \$1.767 per share which the underwriter sold to the public at \$1.90 per share and issued the underwriter a warrant to purchase 84,211 shares of common stock at \$2.09 per share over a four year period beginning October 27, 2018. On May 14, 2018 the underwriter exercised the option to purchase an additional 225,000 shares of common stock solely to cover overallotments. As of March 31, 2019, the underwriter has no further option to purchase additional shares.

On March 13, 2019, the Company closed a private placement of 1,602,283 shares of its common stock and received gross proceeds of \$4,182,000, before deducting offering expenses and commissions, and net proceeds were approximately \$3,584,000.

On March 20, 2019, the Company by written notice suspended at-the-market sales of its common stock pursuant to the previously disclosed Equity Distribution Agreement, dated July 19, 2018 (the "Distribution Agreement") by and among the Company, Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Barrington Research Associates, Inc. ("Barrington"), and Alliance Global Partners ("AGP"). Previously, on December 14, 2018, the Company received notice from Ladenburg regarding the termination of its engagement as a sales agent under the Distribution Agreement. On March 20, 2019, the Company terminated Barrington's engagement as a sales agent under the Distribution Agreement, effective March 21, 2019. The Distribution Agreement remains in place with respect to AGP, subject to the suspension of sales discussed above until further notice is provided by the Company to AGP. In January 2019, we sold 80,000 shares of common stock under the Distribution Agreement and received net proceeds of approximately \$344,000.

As the Company continues to incur losses, achieving profitability is dependent upon the successful development, approval and commercialization of its product candidates, and achieving a level of revenues adequate to support the Company's cost structure. The Company may never achieve profitability, and unless and until it does, the Company will continue to need to raise additional capital. Management intends to fund future operations through additional private or public equity offerings and may seek additional capital through arrangements with strategic partners or from other sources. There can be no assurances, however, that additional funding will be available on terms acceptable to the Company, or at all. Any equity financing may be very dilutive to existing shareholders.

#### ***Cautionary Note Regarding Forward-Looking Statements***

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the focus and future progress of our drug development activities, expected timing of announcement of final data from our ongoing Phase 2a HCV study at the University of Maryland School of Medicine, the commencement of the Phase 2a HCV study in Hong Kong, the expected efficiency of our internal controls, and liquidity. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "is likely," "will," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors that could cause actual results to differ from those in the forward-looking statements include risks arising from our reliance on continued collaboration with Merck, the availability of products manufactured by third parties, the ability of clinical research organizations to recruit subjects, unanticipated events which adversely affect the timing and success of our regulatory filings, general risks arising from clinical trials, failure to develop products which are deemed safe and effective and other issues which affect our ability to commercialize our product candidates, unexpected adverse events affecting our ability to raise capital, unanticipated litigation and other expenses and factors that affect the capital markets in general and early stage biotechnology companies in particular. Further information on our risk factors is contained in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2018. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

#### ***Critical Accounting Policies and Estimates***

In our Annual Report on Form 10-K for the year ended December 31, 2018, we disclosed our critical accounting policies and estimates upon which our financial statements are derived.

*Accounting estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates

*Goodwill.* As of March 31, 2019, the Company had a goodwill of \$65,195,000. Goodwill is tested at least annually for impairment or when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, by assessing qualitative factors or performing a quantitative analysis in determining whether it is more. The Company's last annual impairment assessment was on November 30, 2018.

*Revenue recognition.* Effective in the fourth quarter of 2018, we adopted Accounting Standards Codification ("ASC") Topic 606-*Revenue from Contracts with Customers*.

Readers are encouraged to review these disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 in conjunction with the review of this report.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures***

Our Chief executive officer and Chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2019. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief executive officer and Chief financial officer concluded that our disclosure controls and procedures were not effective as of March 31, 2019.

### ***Changes in Internal Control Over Financial Reporting***

With input and oversight from the Audit Committee, management is actively implementing a remediation plan to ensure that control deficiencies contributing to the material weaknesses were remediated such that these controls will operate effectively. We are taking, and expect to continue to take the following remediation actions:

- (i) the implementation of additional review procedures designed to enhance the control owner's execution of controls activities, including entity level controls, through the implementation of improved documentation standards evidencing execution of these controls, oversight, and training;
- (ii) improvement of the control activities and procedures associated with the review of complex accounting areas, including proper segregation of duties and assigning personnel with the appropriate experience as preparers and reviewers over analyses relating to such accounting areas;
- (iii) educating and re-training control owners regarding internal control processes to mitigate identified risks and maintaining adequate documentation to evidence the effective design and operation of such processes; and
- (iv) implementing enhanced controls to monitor the effectiveness of the underlying business process controls that are dependent on the data and financial reports generated from the relevant information systems.

We believe that these actions, and the improvements we expect to achieve as a result, will effectively remediate the material weaknesses identified in 2018. However, the material weaknesses in our internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of these material weaknesses will be completed in 2019.

Other than noted above, there were no changes in internal control over financial reporting that occurred during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company is a party to, or otherwise involved in, legal proceedings arising in the normal course of business. During the reporting period, except as set forth below, there have been no material changes to the description of legal proceedings set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “Annual Report”). The following should be read in conjunction with the information provided in Part I, Item 3 of our Annual Report.

On January 16, 2019, Ms. Susan Church, a stockholder of the Company, filed with the United States District Court for the Western District of Washington a derivative suit against certain current and former executive officers and directors of the Company alleging breach of fiduciary duties, unjust enrichment, waste of corporate assets, and violations of the rules governing proxy solicitation. Church seeks, among other things, money damages, disgorgement of profits from alleged wrongful conduct, including cash bonuses, pre-judgment and post-judgment interest, reasonable attorneys’ fees, expert fees and other costs.

### **ITEM 1.A RISK FACTORS**

None.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

All recent sales of unregistered securities have been previously reported.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Form 10-Q.

**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.

**Cocrystal Pharma, Inc.**

Dated: May 10, 2019

By: /s/ Gary Wilcox  
Gary Wilcox  
Chief Executive Officer  
(Principal Executive Officer)

Dated: May 10, 2019

By: /s/ James Martin  
James Martin  
Chief Financial Officer  
(Principal Financial Officer)

**EXHIBIT INDEX**

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Date	Number	
2.1	<a href="#">Agreement and Plan of Merger</a>	8-K	12/1/14	2.1	
3.1	<a href="#">Certificate of Incorporation, as amended</a>	10-Q	8/9/18	3.1	
3.2	<a href="#">Bylaws</a>	8-K	12/1/14	3.4	
10.1	<a href="#">Exclusive License and Research Collaboration Agreement between the Company and Merck Sharp &amp; Dohme Corp., dated January 2, 2019*</a>	10-K	4/1/19	10.12	
10.2	<a href="#">Amendment to Equity Distribution Agreement, dated March 20, 2019</a>	8-K	3/26/19	10.1	
10.3	<a href="#">Securities Purchase Agreement, dated March 11, 2019</a>	8-K	3/11/19	10.1	
31.1	<a href="#">Certification of Principal Executive Officer (302)</a>				Filed
31.2	<a href="#">Certification of Principal Financial Officer (302)</a>				Filed
32.1	<a href="#">Certification of Principal Executive and Principal Financial Officer (906)</a>				Furnished**
101.INS	XBRL Instance Document				Filed
101.SCH	XBRL Taxonomy Extension Schema Document				Filed
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				Filed
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed

\* Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been submitted separately to the SEC.

\*\* This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

Copies of this report (including the financial statements) and any of the exhibits referred to above will be furnished at no cost to our shareholders who make a written request to our Corporate Secretary at Cocrystal Pharma, Inc., 4400 Biscayne Blvd, Suite 101, Miami, FL 33137.



## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Gary Wilcox, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cocrystal Pharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) 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: May 10, 2019

*/s/ Gary Wilcox*

\_\_\_\_\_  
Gary Wilcox  
Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, James Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cocrystal Pharma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) 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: May 10, 2019

*/s/ James Martin*

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James Martin  
Chief Financial Officer  
(Principal Financial Officer)

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**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 Cocrystal Pharma, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, Gary Wilcox, certify, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

*/s/ Gary Wilcox*

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Gary Wilcox  
Chief Executive Officer  
(Principal Executive Officer)

Dated: May 10, 2019

In connection with the quarterly report of Cocrystal Pharma, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof, I, James Martin, certify, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

*/s/ James Martin*

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James Martin  
Chief Financial Officer  
(Principal Financial Officer)

Dated: May 10, 2019

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