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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

☐ 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: 001-35814

Harrow Health, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**45-0567010**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
102 Woodmont Blvd., Suite 610 Nashville, Tennessee	**37205**
(Address of principal executive offices)	(Zip code)

(615) 733-4730
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a small reporting company, or an emerging growth company.

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

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

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

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

Title of each class	Trading Symbol(s)	Name on exchange on which registered
Common Stock, $0.001 par value per share	HROW	The NASDAQ Capital Market

As of August 7, 2020, there were 25,649,671 shares of the registrant's common stock, $0.001 par value, outstanding.

HARROW HEALTH, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

HARROW HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents, including restricted cash of $200	$ 4,102	$ 4,949
Investment in Eton Pharmaceuticals	19,075	25,200
Accounts receivable, net	2,018	2,009
Inventories	3,841	3,301
Prepaid expenses and other current assets	1,333	1,308
Total current assets	30,369	36,767
Property, plant and equipment, net	4,993	5,375
Operating lease right-of-use assets	6,259	6,559
Intangible assets, net	1,960	2,337
Investment in Surface Pharmaceuticals	2,809	3,747
Investment in Melt Pharmaceuticals	2,732	3,968
Goodwill	332	332
TOTAL ASSETS	$ 49,454	$ 59,085
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 5,780	$ 7,702
Accrued payroll and related liabilities	3,169	2,117
Deferred revenue and customer deposits	53	57
Current portion of paycheck protection program loan payable	827	-
Current portion of loan payable, net of unamortized debt discount	2,595	1,772
Current portion of operating lease liabilities	651	629
Current portion of finance lease obligations	8	7
Total current liabilities	13,083	12,284
Operating lease liabilities, net of current portion	6,026	6,338
Finance lease obligations, net of current portion	22	26
Accrued expenses, net of current portion	800	800
Paycheck protection program loan payable, net of current portion	1,140	-
Loan payable, net of current portion and unamortized debt discount	12,987	12,219
TOTAL LIABILITIES	34,058	31,667
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 50,000,000 shares authorized, 25,649,171 and 25,526,931 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	26	26
Additional paid-in capital	102,889	101,728
Accumulated deficit	(87,187)	(74,043)
TOTAL HARROW HEALTH STOCKHOLDERS' EQUITY	15,728	27,711
Noncontrolling interests	(332)	(293)
TOTAL STOCKHOLDERS' EQUITY	15,396	27,418
TOTAL LIABILITIES AND EQUITY	$ 49,454	$ 59,085

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

HARROW HEALTH, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for share and per share data)

	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Revenues:				
Product sales, net	$ 8,049	$ 13,509	$ 19,859	$ 25,792
License	11	7	18	14
Total revenues	8,060	13,516	19,877	25,806
Cost of sales	(3,204)	(5,225)	(6,830)	(9,123)
Gross profit	4,856	8,291	13,047	16,683
Operating expenses:				
Selling, general and administrative	6,954	8,248	15,370	16,791
Research and development	749	810	1,152	1,215
Impairment of intangible assets	363	-	363	-
Total operating expenses	8,066	9,058	16,885	18,006
Loss from operations	(3,210)	(767)	(3,838)	(1,323)
Other income (expense):				
Interest expense, net	(505)	(716)	(1,065)	(1,319)
Investment (loss) gain from Melt Pharmaceuticals, net	(690)	(326)	(1,236)	5,199
Investment loss from Surface Pharmaceuticals, net	(599)	(261)	(938)	(504)
Investment gain (loss) from Eton Pharmaceuticals, net	4,725	(350)	(6,125)	6,230
Other income, net	19	-	19	630
Total other (expense) income, net	2,950	(1,653)	(9,345)	10,236
(Loss) income before income taxes	(260)	(2,420)	(13,183)	8,913
Income tax benefit, net	-	-	-	-
Total net (loss) income including noncontrolling interests	(260)	(2,420)	(13,183)	8,913
Net loss attributable to noncontrolling interest	23	42	39	67
Net (loss) income attributable to Harrow Health, Inc.	$ (237)	$ (2,378)	$ (13,144)	$ 8,980
Basic net (loss) income per share of common stock	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.36
Diluted net (loss) income per share of common stock	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.34
Weighted average number of shares of common stock outstanding, basic	25,893,629	25,216,565	25,867,478	25,030,012
Weighted average number of shares of common stock outstanding, diluted	25,893,629	25,216,565	25,867,478	26,696,683

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

HARROW HEALTH, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Six Months Ended June 30, 2020 and 2019
(In thousands, except for share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Harrow Health, Inc. Stockholders' Equity	Total Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
Balance at March 31, 2019	24,718,649	$ 25	$ 99,887	$ (62,853)	$ 37,059	$ (25)	$ 37,034
Issuance of common stock in connection with:							
Exercise of warrants	399,354	-	17	-	17	-	17
Exercise of employee stock-based options	20,955	-	-	-	-	-	-
Stock-based compensation expense	-	-	367	-	367	-	367
Net loss	-	-	-	(2,378)	(2,378)	(42)	(2,420)
Balance at June 30, 2019	25,138,958	$ 25	$ 100,271	$ (65,231)	$ 35,065	$ (67)	$ 34,998

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Harrow Health, Inc. Stockholders' Equity	Total Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
Balance at March 31, 2020	25,618,918	$ 26	$ 102,261	$ (86,950)	$ 15,337	$ (309)	$ 15,028
Issuance of common stock in connection with:							
Exercise of employee stock-based options	253	-	-	-	-	-	-
Stock-based payment for services provided	30,000	-	83	-	83	-	83
Stock-based compensation expense	-	-	545	-	545	-	545
Net loss	-	-	-	(237)	(237)	(23)	(260)
Balance at June 30, 2020	25,649,171	$ 26	$ 102,889	$ (87,187)	$ 15,728	$ (332)	$ 15,396

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Harrow Health, Inc. Stockholders' Equity	Total Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
Balance at December 31, 2018	24,339,610	$ 24	$ 98,938	$ (74,211)	$ 24,751	$ -	$ 24,751
Issuance of common stock in connection with:							
Exercise of warrants	763,393	1	178	-	179	-	179
Exercise of employee stock-based options	20,955	-	-	-	-	-	-
Stock-based payment for services provided	15,000	-	75	-	75	-	75
Stock-based compensation expense	-	-	1,080	-	1,080	-	1,080
Net income (loss)	-	-	-	8,980	8,980	(67)	8,913
Balance at June 30, 2019	25,138,958	$ 25	$ 100,271	$ (65,231)	$ 35,065	$ (67)	$ 34,998

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Harrow Health, Inc. Stockholders' Equity	Total Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
Balance at December 31, 2019	25,526,931	$ 26	$ 101,728	$ (74,043)	$ 27,711	$ (293)	$ 27,418
Issuance of common stock in connection with:							
Exercise of employee stock-based options	253	-	-	-	-	-	-
Vesting of RSUs	91,987	-	-	-	-	-	-
Stock-based payment for services provided	30,000	-	83	-	83	-	83
Stock-based compensation expense	-	-	1,078	-	1,078	-	1,078
Net loss	-	-	-	(13,144)	(13,144)	(39)	(13,183)
Balance at June 30, 2020	25,649,171	$ 26	$ 102,889	$ (87,187)	$ 15,728	$ (332)	$ 15,396

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

HARROW HEALTH, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income (including noncontrolling interests)	$ (13,183)	$ 8,913
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	913	968
Amortization of intangible assets	88	125
Amortization of operating lease right-of-use assets	341	256
Amortization of debt issuance costs and discount	243	263
Provision for bad debt expense	302	-
Investment loss (gain) from Eton, net	6,125	(6,230)
Investment loss from Surface, net	938	504
Investment loss (gain) from Melt, net	1,236	(5,199)
Loss on sale and disposal of assets	5	76
Interest paid-in-kind on loan payable	348	-
Impairment of intangible assets	363	-
Stock-based payment of consulting services	83	75
Stock-based compensation	1,078	1,080
Changes in assets and liabilities:		
Accounts receivable	(311)	(309)
Inventories	(540)	(818)
Prepaid expenses and other current assets	(25)	(564)
Accounts payable and accrued expenses	(2,253)	830
Accrued payroll and related liabilities	1,052	(707)
Deferred revenue and customer deposits	(4)	105
NET CASH USED IN OPERATING ACTIVITIES	(3,201)	(632)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in patent and trademark assets	(74)	(220)
Purchases of property, plant and equipment	(536)	(565)
NET CASH USED IN INVESTING ACTIVITIES	(610)	(785)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on finance lease obligations	(3)	(375)
Proceeds from SWK debt	1,000	-
Principal payments on loan payable	-	(750)
Payments of costs related to amendment of loan payable	-	(282)
Net proceeds from Payroll Protection Program loan payable	1,967	-
Net proceeds from exercise of warrants	-	179
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,964	(1,228)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(847)	(2,645)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	4,949	6,838
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$ 4,102	$ 4,193
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	$ 3,902	$ 3,993
Restricted cash	200	200
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 4,102	$ 4,193
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ -	$ 8
Cash paid for interest	$ 408	$ 1,053
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Right-of-use asset obtained in exchange for lease obligation	$ 41	$ -
Acquisition of property, plant and equipment with finance lease obligations	$ -	$ 40
Purchase of property, plant and equipment included in accounts payable and accrued expenses	$ -	$ 11

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Company and Background

Harrow Health, Inc. (together with its subsidiaries, partially owned companies and royalty arrangements unless the context indicates or otherwise requires, the "Company" or "Harrow") specializes in the development, production and sale of innovative medications that offer unique competitive advantages and serve unmet needs in the marketplace through its subsidiaries and deconsolidated companies. The Company owns one of the nation's leading ophthalmology-focused pharmaceutical businesses, ImprimisRx. In addition to wholly owning ImprimisRx, the Company also has equity positions in Eton Pharmaceuticals, Inc. ("Eton"), Surface Pharmaceuticals, Inc. ("Surface"), and Melt Pharmaceuticals, Inc. ("Melt"), all companies that began as subsidiaries of Harrow. More recently, the Company founded drug development subsidiaries Mayfield Pharmaceuticals, Inc. ("Mayfield") and Stowe Pharmaceuticals, Inc. ("Stowe"), among others. In 2020, Harrow created Visionology, Inc., which intends to launch an online eye health platform business. Harrow also owns royalty rights in various drug candidates being developed by Surface, Melt and Mayfield. The Company intends to continue to create, and hold equity and royalty rights in, new businesses that commercialize drug candidates that are internally developed or otherwise acquired or licensed from third parties.

Basis of Presentation

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020 or for any other period. For further information, refer to the Company's audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as well as Mayfield (79% majority controlled) and Stowe (70% majority controlled) each subsidiaries of Harrow as of June 30, 2020. The remaining 21% of Mayfield is owned by Elle Pharmaceutical, LLC ("Elle"), TGV-Health, LLC and its affiliated entities (collectively "TGV") or other consultants. Mayfield was organized to develop women's health-focused drug candidates. The remaining 30% of Stowe is owned by TGV. Stowe was organized to develop ophthalmic drug candidates. All inter-company accounts and transactions have been eliminated in consolidation.

Harrow consolidates entities in which it has a controlling financial interest. We consolidate subsidiaries in which we hold and/or control, directly or indirectly, more than 50% of the voting rights. All intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheets at June 30, 2020 and December 31, 2019 and the condensed consolidated statements of operations, stockholders' equity and cash flows for the periods ended June 30, 2020 and 2019 include our accounts and those of our wholly owned subsidiaries as well as Mayfield and Stowe.

Risks, Uncertainties and Liquidity

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. On March 18, 2020, the Centers for Medicare & Medicaid Services ("CMS") released guidance for U.S. healthcare providers to limit all elective medical procedures in order to conserve personal protective equipment and limit exposure to COVID-19 during the pendency of the pandemic. In addition to limiting elective medical procedures, many hospitals and other healthcare providers have strictly limited access to their facilities during the pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and healthcare delivery, led to social distancing recommendations, stay-at-home orders and other restrictive measures, and created significant volatility in financial markets.

Many of the Company's customers use its drugs in procedures impacted by the CMS guidance to limit elective procedures. In addition, the Company and our business partners need access to healthcare providers and facilities to conduct clinical trials and other activities required to achieve regulatory clearance of products under development.

The Company believes reductions in elective procedures in response to CMS guidance have had, and will continue to have, an adverse impact, which may be material, on the Company's financial condition, liquidity and results of operations. The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on its customers, all of which are uncertain and cannot be predicted. As of the date of issuance of this Quarterly Report, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity or results of operations is uncertain. For further information, refer to "Risk Factors" in Part II, Item 1A of this Quarterly Report and information in the Company's other filings with the Securities and Exchange Commission.

The Company has incurred significant operating losses and negative cash flows from operations since its inception. The Company incurred operating losses of $3,838 and $1,323 for the six months ended June 30, 2020 and 2019, respectively, and had an accumulated deficit of $87,187 and $74,043 as of June 30, 2020 and December 31, 2019, respectively. In addition, the Company used cash in operating activities of $3,201 and $632 for the six months ended June 30, 2020 and 2019, respectively.

While there is no assurance, management of the Company believes existing cash resources and restricted cash of $4,102 at June 30, 2020 together with cash generated from revenues, will be sufficient to sustain the Company's planned level of operations for at least the next twelve months. However, estimates of operating expenses and working capital requirements could be incorrect, and the Company could use its cash resources faster than anticipated. Further, some or all of the ongoing or planned activities may not be successful and could result in further losses.

The Company may seek to increase liquidity and capital resources through a variety of means which may include, but are not limited to: the sale of assets, investments and/or businesses, obtaining financing through the issuance of equity, debt, or convertible securities; and working to increase revenue growth through sales. There is no guarantee that the Company will be able to obtain capital when needed on terms management deems acceptable, or at all.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following represents an update for the three and six months ended June 30, 2020 to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Segments

The Company's chief operating decision-maker is its Chief Executive Officer who makes resource allocation decisions and assesses performance based on financial information presented as operating segments. The Company has identified two operating segments as reportable segments. See Note 15 for more information regarding the Company's reportable segments.

Noncontrolling Interests

The Company recognizes any noncontrolling interest as a separate line item in equity in the condensed consolidated financial statements. A noncontrolling interest represents the portion of equity ownership in a less-than-wholly owned subsidiary not attributable to the Company. Generally, any interest that holds less than 50% of the outstanding voting shares is deemed to be a noncontrolling interest; however, there are other factors, such as decision-making rights, that are considered as well. The Company includes the amount of net income (loss) attributable to noncontrolling interests in consolidated net income (loss) on the face of the condensed consolidated statements of operations.

The Company provides in the condensed consolidated statements of stockholders' equity a reconciliation at the beginning and the end of the period of the carrying amount of total equity, equity attributable to the parent, and equity attributable to the noncontrolling interests that separately discloses:

(1) net income or loss;
(2) transactions with owners acting in their capacity as owners, showing separately contributions from and distributions to owners; and
(3) each component of other income or loss.

Basic and Diluted Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing income (loss) attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing the income (loss) attributable to common stockholders for the period by the weighted average number of common and common equivalent shares, such as stock options and warrants, outstanding during the period.

Basic and diluted net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during the period. Common stock equivalents (using the treasury stock or "if converted" method) from stock options, unvested restricted stock units ("RSUs") and warrants were 5,414,504 and 5,331,883 at June 30, 2020 and 2019, respectively, and, except for the six months ended June 30, 2019, are excluded from the calculation of diluted net income (loss) per share for the periods presented, because the effect is anti-dilutive. Included in the basic and diluted net income (loss) per share calculation were RSUs awarded to directors that had vested, but the issuance and delivery of the shares are deferred until the director resigns. The number of shares underlying vested RSUs at June 30, 2020 and 2019 was 251,746 and 304,873, respectively.

The following table shows the computation of basic net income (loss) per share of common stock for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator – net (loss) income attributable to Harrow Health, Inc.	$ (237)	$ (2,378)	$ (13,144)	$ 8,980
Denominator – weighted average number of shares outstanding, basic	25,893,629	25,216,565	25,867,478	25,030,012
Net (loss) income per share, basic	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.36

For the six months ended June 30, 2019, the Company had net income. As a result, the Company computed diluted net income per share using the weighted-average number of common shares and dilutive common equivalent shares outstanding during the period. Diluted common equivalent shares for the six months ended June 30, 2019, consisted of the following:

	For the Six Months Ended June 30, 2019
Diluted shares related to:	
Warrants	1,028,780
Stock options	637,891
Dilutive common equivalent shares	1,666,671

The following table shows the computation of diluted net income (loss) per share of common stock for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator – net (loss) income attributable to Harrow Health, Inc.	$ (237)	$ (2,378)	$ (13,144)	$ 8,980
Denominator – weighted average number of shares outstanding, basic	25,893,629	25,216,565	25,867,478	25,030,012
Dilutive common equivalents	-	-	-	1,666,671
Number of shares used for diluted income (loss) per share computation	25,893,629	25,216,565	25,867,478	26,696,683
Net (loss) income per share, basic	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.34

Investment in Eton Pharmaceuticals, Inc. – Related Party

The Company owns 3,500,000 shares of Eton common stock, which represents approximately 16.7% of the equity and voting interests of Eton as of June 30, 2020. At June 30, 2020 the fair market value of Eton's common stock was $5.45 per share. In accordance with the Accounting Standards Update ("ASU") 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, for the three and six months ended June 30, 2020, the Company recorded an investment gain (loss) from its Eton common stock position of $4,725 and $(6,125), respectively, related to the change in fair market value of the Company's investment in Eton during the measurement periods. As of June 30, 2020, the fair market value of the Company's investment in Eton was $19,075.

Mark Baum, the Company's Chief Executive Officer, is a member of the board of directors of Eton.

Investment in Melt Pharmaceuticals, Inc. – Related Party

In April 2018, the Company formed Melt as a wholly owned subsidiary. In January and March of 2019, Melt entered into definitive stock purchase agreements (collectively, the "Melt Series A Preferred Stock Agreement") with certain investors and closed on the sale of Melt's Series A Preferred Stock (the "Melt Series A Stock"), totaling approximately $11,400 of proceeds (collectively the "Melt Series A Round") at a purchase price of $5.00 per share. As a result, the Company lost voting and ownership control of Melt and ceased consolidating Melt's financial statements.

In January 2019, the Company deconsolidated Melt and recorded a gain of $5,810 and adjusted the carrying value in Melt to reflect the increased valuation of Melt and the Company's new ownership interest in accordance with Accounting Standard Codification ("ASC") 810-10-40-4(c), *Consolidation*.

The Company owns 3,500,000 common shares of Melt (which is approximately 44% of the equity interests as of June 30, 2020) and uses the equity method of accounting for this investment, as management has determined that the Company has the ability to exercise significant influence over the operating and financial decisions of Melt. Under this method, the Company recognizes earnings and losses in Melt in its condensed consolidated financial statements and adjusts the carrying amount of its investment in Melt accordingly. The Company's share of earnings and losses are based on the Company's ownership interest of Melt. Any intra-entity profits and losses are eliminated. The Company recorded equity in the net loss of Melt of $690 and $1,236 during the three and six months ended June 30, 2020, respectively. The Company recorded equity in the net loss of Melt of $326 and $611 during the three and six months ended June 30, 2019, respectively. As of June 30, 2020, the carrying value of the Company's investment in Melt was $2,732.

See Note 4 for more information and related party disclosure regarding Melt.

Investment in Surface Pharmaceuticals, Inc. – Related Party

The Company owns 3,500,000 common shares (which is approximately 30% of the equity interests as of June 30, 2020) of Surface and uses the equity method of accounting for this investment, as management has determined that the Company has the ability to exercise significant influence over the operating and financial decisions of Surface. Under this method, the Company recognizes earnings and losses in Surface in its condensed consolidated financial statements and adjusts the carrying amount of its investment in Surface accordingly. The Company's share of earnings and losses are based on the Company's ownership interest of Surface. Any intra-entity profits and losses are eliminated. The Company recorded equity in the net loss of Surface of $599 and $938 during the three and six months ended June 30, 2020, respectively. The Company recorded equity in the net loss of Surface of $261 and $504 during the three and six months ended June 30, 2019, respectively. As of June 30, 2020, the carrying value of the Company's investment in Surface was $2,809.

See Note 5 for more information and related party disclosure regarding Surface.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with a forward-looking expected credit loss model which will result in earlier recognition of credit losses. The Company adopted ASU 2016-13 on January 1, 2020, and adoption of the standard did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements*, which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements. The Company adopted ASU 2018-13 on January 1, 2020, and adoption of the standard did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*. This guidance simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the current two-step impairment test under ASC 350. The updated standard eliminates the requirement to calculate a goodwill impairment charge using Step 2. If a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for reporting periods beginning after December 31, 2019 on a prospective basis, and early adoption is permitted. The Company adopted ASU 2017-04 on January 1, 2020, and adoption of the standard did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, as part of its initiative to reduce complexity in accounting standards. The amendments in the ASU are effective for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted. The Company does not expect ASU 2019-12 to have a material impact on its consolidated financial position, results of operations and cash flows.

NOTE 3. REVENUES

The Company accounts for contracts with customers in accordance with ASC 606, *Revenues from Contracts with Customers*. The Company has two primary streams of revenues: (1) revenues recognized from our sale of products within our pharmacy services and (2) revenues recognized from intellectual property license and asset purchase agreements.

Product Revenues from Pharmacy Services

The Company sells prescription drugs directly through our pharmacy and outsourcing facility network. Revenues from our pharmacy services division includes: (i) the portion of the price the client pays directly to us, net of any volume-related or other discounts paid back to the client, (ii) the price paid to us by individuals, and (iii) customer copayments made directly to the pharmacy network. Sales taxes are not included in revenue. Following the core principle of ASC 606, we have identified the following:

1. Identify the contract(s) with a customer: A contract exists with a customer at the time the prescription or order is received by the Company.

2. Identify the performance obligations in the contract: The order received contains the performance obligations to be met, in almost all cases the product the customer is wishing to receive. If we are unable to be meet the performance obligation, the customer is notified.

3. Determine the transaction price: the transaction price is based on the product being sold to the customer, and any related customer discounts. These amounts are pre-determined and built into our order management software.

4. Allocate the transaction price to the performance obligations in the contract: The transaction price associated with the product(s) being ordered is allocated according to the pre-determined amounts.

5. Recognize revenue when (or as) the entity satisfies a performance obligation: At the time of shipment from the pharmacy or outsourcing facility, the performance obligation has been met.

The following revenue recognition policy has been established for the pharmacy services division:

Revenues generated from prescription or office use drugs sold by our pharmacies and outsourcing facility are recognized when the prescription is shipped. At the time of shipment, the pharmacy services division has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments. Determination of criteria (3) and (4) is based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. The Company records reductions to revenue for discounts at the time of the initial sale. Estimated returns and allowances and other adjustments are provided for in the same period during which the related sales are recorded and are based on actual returns history. The rate of returns is analyzed annually to determine historical returns experience. If the historical data we use to calculate these estimates do not properly reflect future returns, then a change in the allowance would be made in the period in which such a determination is made and revenues in that period could be materially affected. The Company will defer any revenues received for a product that has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered and no refund will be required.

Intellectual Property License Revenues

The Company currently holds five intellectual property license and related agreements in which the Company has sold or granted a license which provides a customer with the right to access the Company's intellectual property. License arrangements may include or require non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive license rights to patented or patent pending compounds, technology access fees, and various performance or sales milestones. These arrangements can be multiple-element arrangements, the revenue of which is recognized at the point of time the performance obligation is met.

Non-refundable fees that are not contingent on any future performance by the Company and require no consequential continuing involvement on the part of the Company are recognized as revenue when the license term commences and the licensed data, technology, compounded drug preparation and/or other deliverable is delivered. Such deliverables may include physical quantities of compounded drug preparations, design of the compounded drug preparations and structure-activity relationships, the conceptual framework and mechanism of action, and rights to the patents or patent applications for such compounded drug preparations. The Company defers recognition of non-refundable fees if it has continuing performance obligations without which the technology, right, product or service conveyed in conjunction with the non-refundable fee has no utility to the licensee and that are separate and independent of the Company's performance under the other elements of the arrangement. In addition, if the Company's continued involvement is required, through research and development services that are related to its proprietary know-how and expertise of the delivered technology or can only be performed by the Company, then such non-refundable fees are deferred and recognized over the period of continuing involvement. Guaranteed minimum annual royalties are recognized on a straight-line basis over the applicable term.

Revenue disaggregated by revenue source for the three and six months ended June 30, 2020 and 2019, consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Product sales, net	$ 8,049	$ 13,509	$ 19,859	$ 25,792
License	11	7	18	14
Total revenues	$ 8,060	$ 13,516	$ 19,877	$ 25,806

Deferred revenue and customer deposits at June 30, 2020 and December 31, 2019, was $53 and $57, respectively. All deferred revenue and customer deposit amounts at December 31, 2019 were recognized as revenue during the six months ended June 30, 2020.

NOTE 4. INVESTMENT IN MELT PHARMACEUTICALS, INC. AND AGREEMENTS - RELATED PARTY TRANSACTIONS

In December 2018, the Company entered into an asset purchase agreement with Melt (the “Melt Asset Purchase Agreement”). Pursuant to the terms of the Melt Asset Purchase Agreement, Melt was assigned certain intellectual property and related rights from the Company to develop, formulate, make, sell, and sub-license certain Company conscious sedation and analgesia related formulations (collectively, the “Melt Products”). Under the terms of the Melt Asset Purchase Agreement, Melt is required to make royalty payments to the Company up to 5% of net sales of the Melt Products while any patent rights remain outstanding, as well as other conditions. In January and March 2019, the Company entered into the Melt Series A Preferred Stock Agreement.

In February 2019, the Company and Melt entered into a Management Services Agreement (the “Melt MSA”), whereby the Company provides to Melt certain administrative services and support, including bookkeeping, web services and human resources related activities, and Melt pays the Company a monthly amount of $10.

As of June 30, 2020, the Company was due $785 from Melt for reimbursable expenses and amounts due under the Melt MSA and are included in prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets. During the three and six months ended June 30, 2020, Melt paid the Company $0.

The Company’s Chief Executive Officer, Mark L. Baum, and Chief Medical Officer, Larry Dillaha, are members of the Melt board of directors.

The unaudited condensed results of operations information of Melt is summarized below:

	For the Six Months Ended June 30, 2020
Revenues, net	$ -
Loss from operations	2,574
Net loss	$ (2,574)

The unaudited condensed balance sheet information of Melt is summarized below:

	June 30, 2020
Current assets	$ 4,789
Non-current assets	12
Total assets	$ 4,801
Total liabilities	$ 1,495
Total preferred stock and stockholders' equity	3,306
Total liabilities and stockholders' equity	$ 4,801

NOTE 5. INVESTMENT IN SURFACE PHARMACEUTICALS, INC. AND AGREEMENTS - RELATED PARTY TRANSACTIONS

The Company entered into an asset purchase and license agreement with Surface in 2017, and amended it in April 2018 (the "Surface License Agreements"). Pursuant to the terms of the Surface License Agreements, the Company assigned and licensed to Surface certain intellectual property and related rights to develop, formulate, make, sell, and sub-license ophthalmic formulations (collectively, the "Surface Products"). Surface is required to make royalty payments to the Company of 4%-6% of net sales of the Surface Products while any patent rights remain outstanding.

A Company director, Richard L. Lindstrom, and the Company's Chief Executive Officer, Mark L. Baum, are directors of Surface. Surface is required to make royalty payments to Dr. Lindstrom of 3% of net sales of certain Surface Products while certain patent rights remain outstanding. Dr. Lindstrom is also a principal of Flying L Partners, an affiliate of the funding investor who purchased the Surface Series A Preferred Stock.

The unaudited condensed results of operations information of Surface is summarized below:

	For the Six Months Ended June 30, 2020
Revenues, net	$ -
Loss from operations	3,127
Net loss	$ (3,127)

The unaudited condensed balance sheet information of Surface is summarized below:

	June 30, 2020
Current assets	$ 12,911
Non-current assets	45
Total assets	$ 12,956
Total liabilities	$ 642
Total stockholders' equity	12,314
Total liabilities and stockholders' equity	$ 12,956

NOTE 6. INVENTORIES

Inventories are comprised of finished compounded formulations, over-the-counter and prescription retail pharmacy products, commercial pharmaceutical products, related laboratory supplies and active pharmaceutical ingredients. The composition of inventories as of June 30, 2020 and December 31, 2019 was as follows:

	June 30, 2020	December 31, 2019
Raw materials	$ 2,758	$ 2,405
Work in progress	2	20
Finished goods	1,081	876
Total inventories	$ 3,841	$ 3,301

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	June 30, 2020	December 31, 2019
Prepaid insurance	$ 98	$ 123
Other prepaid expenses	361	358
Receivable due from Melt	785	722
Deposits and other current assets	89	105
Total prepaid expenses and other current assets	$ 1,333	$ 1,308

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following:

	June 30, 2020	December 31, 2019
Property, plant and equipment, net:		
Computer software and hardware	$ 1,760	$ 1,732
Furniture and equipment	463	363
Lab and pharmacy equipment	3,399	3,164
Leasehold improvements	5,674	5,510
	11,296	10,769
Accumulated depreciation and amortization	(6,303)	(5,394)
	$ 4,993	$ 5,375

For the three and six months ended June 30, 2020, depreciation and amortization related to the property, plant and equipment was $465 and $913, respectively. For the three and six months ended June 30, 2019, depreciation and amortization related to the property, plant and equipment was $491 and $968, respectively.

NOTE 9. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at June 30, 2020 consisted of the following:

	Amortization periods (in years)	Cost	Accumulated amortization	Impairment	Net Carrying value
Patents	17-19 years	$ 879	$ (80)	$ (363)	$ 436
Licenses	20 years	50	(6)	-	44
Trademarks	Indefinite	348	-	-	348
Customer relationships	3-15 years	1,519	(388)	-	1,131
Trade name	5 years	5	(5)	-	-
Non-competition clause	3-4 years	50	(50)	-	-
State pharmacy licenses	25 years	8	(7)	-	1
		$ 2,859	$ (536)	$ (363)	$ 1,960

During the three and six months ended June 30, 2020, the Company recorded impairment charges of $363 related to patent filings associated with the products that the Company was no longer actively selling.

Amortization expense for intangible assets for the three and six months ended June 30, 2020 and 2019 was as follows:

	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Patents	$ 8	$ 11	$ 19	$ 15
Licenses	-	1	1	5
Customer relationships	35	51	68	102
Trade name	-	-	-	2
State pharmacy licenses	-	-	-	1
	$ 43	$ 63	$ 88	$ 125

Estimated future amortization expense for the Company's intangible assets at June 30, 2020 is as follows:

Remainder of 2020	$ 85
2021	166
2022	166
2023	166
2024	138
Thereafter	891
	$ 1,612

There have been no changes in the carrying value of the Company's goodwill during the three and six months ended June 30, 2020.

NOTE 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	June 30, 2020	December 31, 2019
Accounts payable	$ 5,530	$ 7,409
Other accrued expenses	-	49
Accrued interest	250	244
Accrued exit fee for note payable	800	800
Total accounts payable and accrued expenses	6,580	8,502
Less: Current portion	(5,780)	(7,702)
Non-current total accrued expenses	$ 800	$ 800

NOTE 11. DEBT

In July 2017, the Company entered into a term loan and security agreement in the principal amount of $16,000 (the “SWK Loan Agreement” or “SWK Loan”) with SWK Funding LLC and its partners (collectively, “SWK”), as lender and collateral agent. The SWK Loan Agreement was fully funded at closing with a five-year term; however, such term could be reduced to four years if certain revenue requirements are not achieved. The SWK Loan is secured by substantially all of the Company’s assets, including its intellectual property rights. The SWK Loan was subsequently amended in May 2019 and again in April 2020 (see below). The SWK Loan bears an interest rate that is equal to the three-month London Inter-Bank Offered Rate (subject to a minimum of 2.00%), plus an applicable margin of 10.00% (the “Margin Rate”); provided that, if, two days prior to a payment date, the Company provides SWK evidence that the Company has achieved a leverage ratio as of such date of less than 4.00:1:00, the Margin Rate shall equal 9.00%; and if the Company has achieved a leverage ratio as of such date of less than 3.00:1:00, the Margin Rate shall equal 7.00%. The leverage ratio means, as of any date of determination, the ratio of: (a) indebtedness as of such date to (b) EBITDA (as defined in the SWK Loan), of the Company for the immediately preceding 12 month period, adding-back (i) actual litigation expenses for the immediately preceding 12 month period, minus (ii) actual litigation expenses for the immediately preceding 3 month period multiplied by 4.

Second Amendment to SWK Loan

On April 1, 2020, the Company and several of its wholly owned subsidiaries entered into a second amendment (the “SWK Amendment”) to the SWK Loan, with SWK. A summary of the material changes contained in the SWK Amendment are as follows:

- SWK agreed to make available to the Company, and the Company drew down on, an additional principal amount of $1,000;
- The definition of the first amortization date was changed to August 14, 2020, permitting the Company to pay interest only on the principal amount loaned for the next payment (payments are due on a quarterly basis) following the SWK Amendment; and
- The interest payment due May 14, 2020 will be paid in kind by increasing the principal amount of the term loans by an amount equal to the interest accrued as of such date.

Paycheck Protection Program Loan

In April 2020, the Company entered into an unsecured promissory note and related Business Loan Agreement with Renasant Bank, as lender, for a loan (the “PPP Loan”) in the principal amount of $1,967 and received cash proceeds of the same amount, pursuant to the Paycheck Protection Program (the “PPP”) under the Federal Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020. The PPP is administered by the U.S. Small Business Administration.

Under the terms of the PPP Loan, interest accrues on the outstanding principal at the rate of 1.0% per annum. The term of the PPP Loan is two years, unless sooner required in connection with an event of default under the PPP Loan. To the extent the PPP Loan amount is not forgiven under the PPP, the Company is obligated to make equal monthly payments of principal and interest, beginning seven months from the date of the PPP Loan, until the maturity date.

The CARES Act and the PPP provide a mechanism for forgiveness of up to the full amount borrowed. Under the PPP, the Company may apply for and be granted forgiveness for all or part of the PPP Loan. The amount of loan proceeds eligible for forgiveness is based on a formula that takes into account a number of factors, including the amount of loan proceeds used by the Company during the eight-week period after the loan origination for certain purposes including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments (it being anticipated that at least 75% of the loan amount will be required to be used for eligible payroll costs); the employer maintaining or rehiring employees and maintaining salaries at certain levels; and other factors. Subject to the other requirements and limitations on loan forgiveness, only loan proceeds spent on payroll and other eligible expenses during the covered eight-week period will qualify for forgiveness. While the Company intends to use proceeds from the PPP Loan for such qualifying expenses, in particular maintaining continuity of its payroll and workforce (including staff critical to the timely production and dispensing of medicines the Company produces), no assurance can be provided that the Company will obtain forgiveness of the PPP Loan in whole or in part.

At June 30, 2020, future minimum payments under the Company's debt agreements were as follows:

	Amount
Remainder of 2020	$ 2,439
2021	5,430
2022	4,437
2023	9,738
Total minimum payments	22,044
Less: amount representing estimated interest	(3,479)
Loans payable, gross	18,565
Less: unamortized discount	(1,016)
Notes payable	17,549
Less: current portion, net of unamortized discount	(3,422)
Loans payable, net of current portion and unamortized debt discount	$ 14,127

For the three and six months ended June 30, 2020, debt discount amortization related to the SWK Loan was $83 and $243, respectively. For the three and six months ended June 30, 2019, debt discount amortization related to the SWK Loan was $125 and $263, respectively.

NOTE 12. LEASES

The Company leases office and laboratory space under the non-cancelable operating leases listed below. These lease agreements have remaining lease terms between one to four years and contain various clauses for renewal at our option.

- An operating lease for 10,200 square feet of office space in San Diego, California that expires in December 2021, with an option to extend the term for a five-year period;

- An operating lease for 4,500 square feet of office and lab space in Irvine, California that expires in December 2020, with an option to extend the term for up to two five-year periods. As part of the Company's restructuring of the Park Compounding, Inc. ("Park") business, the Company assessed its obligations under this lease. As of the date of this Quarterly Report, management expects the Company to sublease this space and has determined that there is a practical ability to do so, and as a result did not recognize any impairment costs related to this lease and the Company's right to use the asset;

- An operating lease for 25,000 square feet of lab, warehouse and office space in Ledgewood, New Jersey that expires in July 2024, with an option to extend the term for two additional five-year periods; and

- An operating lease for 5,500 square feet of office space in Nashville, Tennessee that expires in December 2024, with an option to extend the term for two additional five-year periods.

In March 2020, the Company amended its New Jersey lease for the expansion of an additional 1,400 square feet of space which is expected to commence in September 2020 and expire in July 2026. The March 2020 lease is not included below since the new lease term has not commenced as of June 30, 2020.

At June 30, 2020, the weighted average incremental borrowing rate and the weighted average remaining lease term for the operating leases held by the Company were 6.32% and 9.85 years, respectively.

During the three and six months ended June 30, 2020, cash paid for amounts included for the operating lease liabilities was $276 and $547 and the Company recorded operating lease expense of $280 and $555 included in selling, general and administrative expenses, respectively.

Future lease payments under operating leases as of June 30, 2020 were as follows**:**

	Operating Leases
Remainder of 2020	$ 556
2021	987
2022	1,008
2023	1,032
2024	1,035
Thereafter	4,465
Total minimum lease payments	9,083
Less: amount representing interest payments	(2,406)
Total operating lease liabilities	6,677
Less: current portion, operating lease liabilities	(651)
Operating lease liabilities, net of current portion	$ 6,026

The Company also has a lease that is included in its lease accounting but is not considered significant.

Future lease payments under finance leases as of June 30, 2020 were as follows**:**

	Finance Leases
Remainder of 2020	$ 5
2021	9
2022	9
2023	9
2024	1
Total minimum lease payments	33
Less: amount representing interest payments	(3)
Present value of future minimum lease payments	30
Less: current portion, finance lease obligation	(8)
Finance lease obligation, net of current portion	$ 22

At June 30, 2020, the incremental borrowing rate and the remaining lease term for the finance lease held by the Company were 6.36% and 3.58 years, respectively.

For the three and six months ended June 30, 2020, depreciation expense related to the equipment held under the finance lease obligation was $2 and $4, respectively.

For each of the three and six months ended June 30, 2020, cash paid and expense recognized for interest expense related to the finance lease obligation was $0 and $1, respectively.

NOTE 13. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock

In May 2020, the Company issued 30,000 shares of its restricted common stock, with a fair value of $167, as consideration for commission expenses incurred during the year ended December 31, 2019 and the six months ended June 30, 2020.

During the six months ended June 30, 2020, the Company issued 253 shares of its common stock upon the cashless exercise of options to purchase 750 shares of common stock, with an exercise price of $3.04 per share, net of 69 shares of common stock withheld for payroll tax withholdings.

During the six months ended June 30, 2020, the Company issued 91,987 shares of its common stock underlying RSUs issued to a director that resigned. The RSUs had previously vested, including 2,429 RSUs during the six months ended June 30, 2020, but the issuance and delivery of the shares were deferred until the director resigned.

During the six months ended June 30, 2020, 17,001 shares of the Company's common stock underlying RSUs issued to directors vested, but the issuance and delivery of these shares are deferred until the director resigns.

Stock Option Plan

On September 17, 2007, the Company's Board of Directors and stockholders adopted the Company's 2007 Incentive Stock and Awards Plan, which was subsequently amended on November 5, 2008, February 26, 2012, July 18, 2012, May 2, 2013 and September 27, 2013 (as amended, the "2007 Plan"). The 2007 Plan reached its term in September 2017, and we can no longer issue additional awards under this plan, however, options previously issued under the 2007 Plan will remain outstanding until they are exercised, reach their maturity or are otherwise cancelled/forfeited. On June 13, 2017, the Company's Board of Directors and stockholders adopted the Company's 2017 Incentive Stock and Awards Plan (the "2017 Plan" together with the 2007 Plan, the "Plans"). As of June 30, 2020, the 2017 Plan provides for the issuance of a maximum of 2,000,000 shares of the Company's common stock. The purpose of the Plans are to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in the Company's development and financial success. Under the Plans, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, non-qualified stock options, restricted stock units and restricted stock. The Plans are administered by the Compensation Committee of the Company's Board of Directors. The Company had 414,382 shares available for future issuances under the 2017 Plan at June 30, 2020.

Stock Options

A summary of stock option activity under the Plans for the six months ended June 30, 2020 is as follows:

	Number of shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding - January 1, 2020	2,656,683	$ 5.30		
Options granted	355,500	$ 6.57		
Options exercised	(750)	$ 3.04		
Options cancelled/forfeited	(8,839)	$ 3.79		
Options outstanding - June 30, 2020	3,002,594	$ 5.46	6.14	$ 3,118
Options exercisable – June 30, 2020	1,779,188	$ 4.53	5.48	$ 2,749
Options vested and expected to vest – June 30, 2020	2,887,635	$ 5.40	6.09	$ 3,107

The aggregate intrinsic value in the table above represents the total pre-tax amount of the proceeds, net of exercise price, which would have been received by option holders if all option holders had exercised and immediately sold all options with an exercise price lower than the market price on June 30, 2020, based on the closing price of the Company's common stock of $5.21 on that date.

During the six months ended June 30, 2020, the Company granted stock options to certain employees and a consultant. The stock options were granted with an exercise price equal to the current market price of the Company's common stock, as reported by the securities exchange on which the common stock was then listed, at the grant date and have contractual terms of 10 years. Vesting terms for options granted to employees and consultants during the three months ended June 30, 2020 generally included one of the following vesting schedules: 25% of the shares subject to the option vest and become exercisable on the first anniversary of the grant date and the remaining 75% of the shares subject to the option vest and become exercisable quarterly in equal installments thereafter over three years; and 100% of the shares subject to the option vest on a quarterly basis in equal installments over three years. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans) and in the event of certain modifications to the option award agreement.

On July 31, 2015, the Company granted to its Chief Executive Officer, Mark Baum, an option (the "Baum Performance Option") to purchase 600,000 shares of the Company's common stock at an exercise price of $7.87 per share under the 2007 Plan subject to the satisfaction of certain market-based vesting criteria. The market-based vesting criteria are separated into five tranches and require that the Company achieve and maintain certain average stock price targets ranging from $9 per share to $15 per share during the five year period following the grant date. On June 4, 2020, the Company amended the Baum Performance Option, to extend the vesting and contractual term by 5 years. The Company treated this amendment as a modification to the Baum Performance Option for accounting purposes. The fair value of the modification was $1,876 using a Monte Carlo Simulation with a five year life, 70% volatility and a risk-free interest rate of 0.40%. The fair value of the modification will be recognized as stock-based compensation expense over the service period.

With the exception of the Baum Performance Option, the fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The expected term of options granted to employees and directors was determined in accordance with the "simplified approach," as the Company has limited, relevant, historical data on employee exercises and post-vesting employment termination behavior. The expected risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The financial statement effect of forfeitures is estimated at the time of grant and revised, if necessary, if the actual effect differs from those estimates. For option grants to employees and directors, the Company assigns a forfeiture rate of 10%. These factors could change in the future, which would affect the determination of stock-based compensation expense in future periods. Utilizing these assumptions, the fair value is determined at the date of grant.

The table below illustrates the fair value per share determined by the Black-Scholes-Merton option pricing model with the following assumptions used for valuing options granted to employees:

	2020
Weighted-average fair value of options granted	$ 3.93
Expected terms (in years)	0.5 – 6.11
Expected volatility	66% - 71%
Risk-free interest rate	0.50% - 1.64%
Dividend yield	-

The following table summarizes information about stock options outstanding and exercisable at June 30, 2020:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.47 - $2.60	778,690	6.15	$ 2.05	699,301	$ 2.08
$2.76 - $4.66	535,283	6.21	$ 3.98	455,531	$ 3.98
$5.49 - $6.36	437,350	7.40	$ 6.15	235,710	$ 6.11
$6.64 - $8.99	1,246,241	5.67	$ 7.85	383,616	$ 8.19
$42.80	5,030	0.12	$ 42.80	5,030	$ 42.80
$1.47 - $42.80	3,002,594	6.14	$ 5.46	1,779,188	$ 4.53

As of June 30, 2020, there was approximately $6,383 of total unrecognized compensation expense related to unvested stock options granted under the Plans. That expense is expected to be recognized over the weighted-average remaining vesting period of 4.09 years. The stock-based compensation expense for all stock options was $271 and $534 during the three and six months ended June 30, 2020, respectively.

Restricted Stock Units

RSU awards are granted subject to certain vesting requirements and other restrictions, including performance and market-based vesting criteria. The grant date fair value of the RSUs, which has been determined based upon the market value of the Company's common stock on the grant date, is expensed over the vesting period of the RSUs.

During the three and six months ended June 30, 2020, the Company's board of directors were granted 68,024 RSUs with a fair market value $400 which vest on a quarterly basis, over one year in equal installments.

During the three and six months ended June 30, 2020, 161,000 RSUs with a fair market value of $1,025 were issued to certain employees; the RSUs vest in full on the third anniversary of the grant date.

During the six months ended June 30, 2020, the Company granted 10,000 RSUs to a new member of its board of directors, with a fair market value of $39 which vest on the one-year anniversary of the date granted.

A summary of the Company's RSU activity and related information for the six months ended June 30, 2020 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs unvested - January 1, 2020	1,411,930	$ 2.76
RSUs granted	239,024	$ 6.13
RSUs vested	(19,430)	$ 7.72
RSUs cancelled/forfeited	-	
RSUs unvested at June 30, 2020	1,631,524	$ 3.19

As of June 30, 2020, the total unrecognized compensation expense related to unvested RSUs was approximately $1,967, which is expected to be recognized over a weighted-average period of 0.5 years, based on estimated and actual vesting schedules of the applicable RSUs. The stock-based compensation for RSUs during the three and six months ended June 30, 2020 was $268 and $527, respectively.

Warrants

From time to time, the Company issues warrants to purchase shares of the Company's common stock to investors, lenders, underwriters and other non-employees for services rendered or to be rendered in the future, or pursuant to settlement agreements.

A summary of warrant activity for the six months ended June 30, 2020 is as follows:

	Number of Shares Subject to Warrants Outstanding	Weighted Avg. Exercise Price
Warrants outstanding - January 1, 2020	780,386	$ 2.12
Granted	-	
Exercised	-	-
Expired	-	
Warrants outstanding and exercisable - June 30, 2020	780,386	$ 2.12
Weighted average remaining contractual life of the outstanding warrants in years - June 30, 2020	4.03	

Warrants outstanding and exercisable as of June 30, 2020 are as follows:

Warrant Series	Issue Date	Warrants Outstanding	Exercise Price	Expiration Date
Lender warrants	5/11/2015	125,000	$ 1.79	5/11/2025
Settlement warrants	8/16/2016	40,000	$ 3.75	8/16/2021
Lender warrants	7/19/2017	615,386	$ 2.08	7/19/2024
		780,386	$ 2.12	

Subsidiary Stock-Based Transactions

Mayfield Pharmaceuticals, Inc.

During the six months ended June 30, 2020, Mayfield repurchased 650,000 shares of its common stock from Elle, for an aggregate purchase price of $1.

During the six months ended June 30, 2020, Mayfield issued 475,000 shares of its restricted common stock, with a fair value of $11, that vest upon various performance-based milestones and over a four-year service period to Mayfield's Chief Executive Officer candidate. During the three and six months ended June 30, 2020, the Company recognized $6 and $17, respectively, in stock-based compensation tied to the Mayfield stock options.

During the six months ended June 30, 2020, 500,000 shares of Mayfield's restricted common stock were forfeited by a consultant.

Stock-Based Compensation Summary

The Company recorded stock-based compensation related to equity instruments granted to employees, directors and consultants as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Employees - selling, general and administrative	$ 436	$ 268	$ 872	$ 906
Directors - selling, general and administrative	96	75	193	150
Consultants - selling, general and administrative	96	24	96	99
Total	$ 628	$ 367	$ 1,161	$ 1,155

NOTE 14. COMMITMENTS AND CONTINGENCIES

Novel Drug Solutions et al.

In April 2018, Novel Drug Solutions, LLC and Eyecare Northwest, PA (collectively "NDS") filed a lawsuit against the Company in the U.S. District Court of Delaware asserting claims for breach of contract. The claims stem from an asset purchase agreement between the Company and NDS entered into in 2013. In July 2019, NDS filed a second amended complaint which added a claim related to its purported termination of the APA. In October 2019, NDS voluntarily dismissed all claims related to breach of contract, leaving only claims related to the scope of the post-termination obligations to be litigated. NDS is seeking unspecified damages, interest, attorney's fees and other costs. The Company believes the claims are meritless and has previously and will continue to dispute all claims asserted against it and intends to vigorously defend against these allegations. Nonetheless, the Company cannot predict the eventual outcome of this litigation and it could result in substantial costs, losses and a diversion of management's resources and attention, which could harm the Company's business and the value of its common stock.

Product and Professional Liability

Product and professional liability litigation represents an inherent risk to all firms in the pharmaceutical and pharmacy industry. We utilize traditional third-party insurance policies with regard to our product and professional liability claims. Such insurance coverage at any given time reflects current market conditions, including cost and availability, when the policy is written.

John Erick et al.

In January 2018, John Erick and Deborah Ferrell, successors-in-interest and heirs of Jade Erick, (collectively "Erick") filed a lawsuit in the San Diego County Superior against Kim Kelly, ND, MPH asserting claims related to the death of Jade Erick. In April 2018, Erick filed an amendment to the lawsuit, naming us as a co-defendant. In September 2018, co-defendant Dr. Kelly filed a cross-complaint against the Company and various entities affiliated with Spectrum Laboratory Products, Inc., Spectrum Chemical Manufacturing Corp. and Spectrum Pharmacy Products, Inc. (collectively "Spectrum"). The cross-complaint seeks indemnity and contribution from the Company and Spectrum. The Company answered the claims filed by Dr. Kelly in October 2018. The case is currently in the discovery phase. Erick is seeking unspecified damages, interest, attorney's fees and other costs. The Company believes the claims are meritless and has previously and will continue to dispute all claims asserted against it and intends to vigorously defend against these allegations. Nonetheless, the Company cannot predict the eventual outcome of this litigation, it could result in substantial costs, losses and a diversion of management's resources and attention, which could harm the Company's business and the value of its common stock.

General and Other

In the ordinary course of business, the Company may face various claims brought by third parties and it may, from time to time, make claims or take legal actions to assert its rights, including intellectual property disputes, contractual disputes and other commercial disputes. Any of these claims could subject the Company to litigation.

Indemnities

In addition to the indemnification provisions contained in the Company's governing documents, the Company generally enters into separate indemnification agreements with each of the Company's directors and officers. These agreements require the Company, among other things, to indemnify the director or officer against specified expenses and liabilities, such as attorneys' fees, judgments, fines and settlements, paid by the individual in connection with any action, suit or proceeding arising out of the individual's status or service as the Company's director or officer, other than liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest, and to advance expenses incurred by the individual in connection with any proceeding against the individual with respect to which the individual may be entitled to indemnification by the Company. The Company also indemnifies its lessors in connection with its facility leases for certain claims arising from the use of the facilities. These indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying condensed consolidated balance sheets.

Klarity License Agreement – Related Party

The Company entered into a license agreement in April 2017 and as amended in April 2018, (the "Klarity License Agreement") with Richard L. Lindstrom, M.D., a member of its Board of Directors. Pursuant to the terms of the Klarity License Agreement, the Company licensed certain intellectual property and related rights from Dr. Lindstrom to develop, formulate, make, sell, and sub-license the topical ophthalmic solution Klarity used to protect and rehabilitate the ocular surface (the "Klarity Product").

Under the terms of the Klarity License Agreement, the Company is required to make royalty payments to Dr. Lindstrom ranging from 3% to 6% of net sales, dependent upon the final formulation of the Klarity Product sold. In addition, the Company is required to make certain milestone payments to Dr. Lindstrom including: (i) an initial payment of $50 upon execution of the Klarity License Agreement, (ii) a second payment of $50 following the first $50 in net sales of the Klarity Product; and (iii) a final payment of $50 following the first $100 in net sales of the Klarity Product. All of the above referenced milestone payments are payable at the Company's election in cash or shares of the Company's restricted common stock. Payments totaling $0 and $55 were made during the three and six months ended June 30, 2020, respectively. Royalty expense of $27 and $56 was incurred during the three and six months ended June 30, 2020, respectively, and is included in accounts payable and is due to Dr. Lindstrom at June 30, 2020.

Injectable Asset Purchase Agreement – Related Party

In December 2019, the Company entered into an asset purchase agreement (the "Lindstrom APA") with Dr. Lindstrom, a member of its Board of Directors. Pursuant to the terms of the Lindstrom APA, the Company acquired certain intellectual property and related rights from Dr. Lindstrom to develop, formulate, make, sell, and sub-license an ophthalmic injectable product (the "Lindstrom Product").

Under the terms of the Lindstrom APA, the Company is required to make royalty payments to Dr. Lindstrom ranging from 2% to 3% of net sales, dependent upon the final formulation and patent protection of the Lindstrom Product sold. In addition, the Company is required to make certain milestone payments to Dr. Lindstrom including an initial payment of $33 upon execution of the Lindstrom APA. Dr. Lindstrom was paid $0 and $7 in cash during the three and six months ended June 30, 2020, respectively, and an additional $42 was payable to Dr. Lindstrom at June 30, 2020. The Company incurred royalty expense of $4 and $42 related to the Lindstrom APA during the three and six months ended June 30, 2020, respectively.

Sales and Marketing Agreements

The Company has entered various sales and marketing agreements with certain organizations, to provide exclusive sales and marketing representation services to Harrow in select geographies in the U.S., in connection with our ophthalmic compounded formulations.

Under the terms of the sales and marketing agreements, the Company is required to make commission payments equal to 10% to 14% of net sales for products above and beyond the initial existing sales amounts. In addition, the Company is required to issue shares of the Company's restricted common stock to certain organizations if net sales in the assigned territory reach certain future milestone levels by the end of their terms, as applicable. Commission expenses of $318 and $921 were incurred under these agreements during the three and six months ended June 30, 2020, respectively, of which $0 and $83 were stock-based payments.

Asset Purchase, License and Related Agreements

The Company has acquired and sourced intellectual property rights related to certain proprietary innovations from certain inventors and related parties (the "Inventors") through multiple asset purchase agreements, license agreements, strategic agreements and commission agreements. In general, these agreements provide that the Inventors will cooperate with the Company in obtaining patent protection for the acquired intellectual property and that the Company will use commercially reasonable efforts to research, develop and commercialize a product based on the acquired intellectual property. In addition, the Company has acquired a right of first refusal on additional intellectual property and drug development opportunities presented by these Inventors.

In consideration for the acquisition of the intellectual property rights, the Company is obligated to make payments to the Inventors based on the completion of certain milestones, generally consisting of: (1) a payment payable within 30 days after the issuance of the first patent in the United States arising from the acquired intellectual property (if any); (2) a payment payable within 30 days after the Company files the first investigational new drug application ("IND") with the U.S. Food and Drug Administration ("FDA") for the first product arising from the acquired intellectual property (if any); (3) for certain of the Inventors, a payment payable within 30 days after the Company files the first new drug application with the FDA for the first product arising from the acquired intellectual property (if any); and (4) certain royalty payments based on the net receipts received by the Company in connection with the sale or licensing of any product based on the acquired intellectual property (if any), after deducting (among other things) the Company's development costs associated with such product. If, following five years after the date of the applicable asset purchase agreement, the Company either (a) for certain of the Inventors, has not filed an IND or, for the remaining Inventors, has not initiated a study where data is derived, or (b) has failed to generate royalty payments to the Inventors for any product based on the acquired intellectual property, the Inventors may terminate the applicable asset purchase agreement and request that the Company re-assign the acquired technology to the Inventors. Royalty expenses of $117 and $261 and $274 and $465 were incurred under these agreements for the three and six months ended June 30, 2020 and 2019, respectively, and $431 and $274 are included in accounts payable at June 30, 2020 and 2019, respectively.

NOTE 15. SEGMENT INFORMATION AND CONCENTRATIONS

Management evaluates performance of the Company based on operating segments. Segment performance for its two operating segments is based on segment contribution. The Company's reportable segments consist of (i) its commercial stage pharmaceutical compounding business (Pharmaceutical Compounding), generally including the operations of the ImprimisRx business; and (ii) its start-up operations associated with pharmaceutical drug development business (Pharmaceutical Drug Development). Segment contribution for the segments represents net revenues less cost of sales, research and development, selling and marketing expenses, and select general and administrative expenses. The Company does not evaluate the following items at the segment level:

- Selling, general and administrative expenses that result from shared infrastructure, including certain expenses associated with legal matters, public company costs (e.g. investor relations), board of directors and principal executive officers and other like shared expenses.

- Operating expenses within selling, general and administrative expenses that result from the impact of corporate initiatives. Corporate initiatives primarily include integration, restructuring, acquisition and other shared costs.

- Other select revenues and operating expenses including research and development expenses, amortization, and asset sales and impairments, net as not all such information has been accounted for at the segment level, or such information has not been used by all segments.

- Total assets including capital expenditures.

The Company defines segment net revenues as pharmaceutical compounded drug sales, licenses and other revenue derived from related agreements.

Cost of sales within segment contribution includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, royalties, shipping and handling costs, manufacturing equipment and tenant improvements depreciation, the write-off of obsolete inventory and other related expenses.

Selling, general and administrative expenses consist mainly of personnel-related costs, marketing and promotion costs, distribution costs, professional service costs, insurance, depreciation, facilities costs, transaction costs, and professional services costs which are general in nature and attributable to the segment.

Segment net revenues, segment operating expenses and segment contribution information consisted of the following for the three and six months ended June 30, 2020:

	For the Three Months Ended June 30, 2020		
	Pharmaceutical Compounding	Pharmaceutical Drug Development	Total
Net revenues	$ 8,060	$ -	$ 8,060
Cost of sales	(3,204)	-	(3,204)
Gross profit	4,856	-	4,856
Operating expenses:			
Selling, general and administrative	4,598	43	4,641
Research and development	497	46	543
Segment contribution	(239)	(89)	(328)
Corporate			2,270
Research and development			206
Amortization			43
Asset sales and impairments, net			363
Operating loss			$ (3,210)

	For the Six Months Ended June 30, 2020		
	Pharmaceutical Compounding	Pharmaceutical Drug Development	Total
Net revenues	$ 19,877	$ -	$ 19,877
Cost of sales	(6,830)	-	(6,830)
Gross profit	13,047	-	13,047
Operating expenses:			
Selling, general and administrative	11,238	87	11,325
Research and development	540	57	597
Segment contribution	1,269	(144)	1,125
Corporate			3,957
Research and development			555
Amortization			88
Asset sales and impairments, net			363
Operating loss			$ (3,838)

	For the Three Months Ended June 30, 2019		
	Pharmaceutical Compounding	Pharmaceutical Drug Development	Total
Net revenues	$ 13,516	$ -	$ 13,516
Cost of sales	(5,225)	-	(5,225)
Gross profit	8,291	-	8,291
Operating expenses:			
Selling, general and administrative	5,804	43	5,847
Research and development	533	127	660
Segment contribution	1,954	(170)	1,784
Corporate			2,342
Research and development			150
Amortization			59
Operating loss			$ (767)

	For the Six Months Ended June 30, 2019		
	Pharmaceutical Compounding	Pharmaceutical Drug Development	Total
Net revenues	$ 25,806	$ -	$ 25,806
Cost of sales	(9,123)	-	(9,123)
Gross profit	16,683	-	16,683
Operating expenses:			
Selling, general and administrative	11,519	86	11,605
Research and development	658	263	921
Segment contribution	4,506	(349)	4,157
Corporate			5,061
Research and development			294
Amortization			125
Operating loss			$ (1,323)

The Company categorizes revenues by geographic area based on selling location. All operations are currently located in the U.S.; therefore, total revenues are attributed to the U.S. All long-lived assets at June 30, 2020 and December 31, 2019 are located in the U.S.

The Company sells its compounded formulations to a large number of customers. No customer accounted for more than 10% of the Company's total pharmacy sales for the three and six months ended June 30, 2020 and 2019.

The Company receives its active pharmaceutical ingredients from three main suppliers. These suppliers collectively accounted for 60% and 70% of active pharmaceutical ingredient purchases during the three and six months ended June 30, 2020, respectively, and 69% and 65% during the three and six months ended June 30, 2019, respectively.

NOTE 16. SUBSEQUENT EVENTS

The Company has performed an evaluation of events occurring subsequent to June 30, 2020 through the filing date of this Quarterly Report. Based on its evaluation, no events other than those described below need to be disclosed.

In July 2020, the Company issued 500 shares of its common stock upon the exercise of options to purchase 500 shares of common stock, with an exercise price of $3.20 per share, and received net proceeds of $2.

Eyepoint Commercial Alliance Agreement

On August 1, 2020, the Company, through its wholly-owned subsidiary ImprimisRx, LLC, entered into a Commercial Alliance Agreement (the "Dexycu Agreement") with Eyepoint Pharmaceuticals, Inc. ("Eyepoint"), pursuant to which Eyepoint granted the Company the non-exclusive right to co-promote DEXYCU® (dexamethasone intraocular suspension) 9% for the treatment of post-operative inflammation following ocular surgery in the United States. Pursuant to the Dexycu Agreement, Eyepoint will pay the Company a fee calculated based on the quarterly sales of DEXCYU in excess of predefined volumes to specific customers of the Company in the U.S. Under the terms of the Dexycu Agreement, the Company shall use commercially reasonable efforts to promote and market DEXCYU in the U.S.

Subject to early termination, the Dexycu Agreement expires on August 1, 2025, subject to specified notice periods and specified limitations, either party may terminate the Dexycu Agreement in the event of (i) uncured material breach by the other party or (ii) if DEXCYU ceases to have "pass-through" payment status. In addition, subject to certain limitations, the Company may terminate the Dexycu Agreement (i) for convenience subject to an extended specified notice period or (ii) in the event Eyepoint undergoes a change of control. Eyepoint may terminate the Dexycu Agreement, subject to specified notice periods and specified limitations, if the Company fails to achieve certain minimum sales levels during specified periods.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"). Our condensed consolidated financial statements have been prepared and, unless otherwise stated, the information derived therefrom as presented in this discussion and analysis is presented, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The information contained in this Quarterly Report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Quarterly Report and in our other reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and subsequent reports, which discuss our business in greater detail. As used in this discussion and analysis, unless the context indicates otherwise, the terms the "Company", "Harrow" "we", "us" and "our" refer to Harrow Health, Inc. and its consolidated subsidiaries, consisting of Park Compounding, Inc., ImprimisRx, LLC, ImprimisRx NJ, LLC dba ImprimisRx, Imprimis NJOF, LLC, Radley Pharmaceuticals, Inc., Mayfield Pharmaceuticals, Inc., and Stowe Pharmaceuticals, Inc. In this discussion and analysis, we refer to our consolidated subsidiaries ImprimisRx, LLC, ImprimisRx NJ, LLC and Imprimis NJOF, LLC collectively as "ImprimisRx."

In addition to historical information, the following discussion contains forward-looking statements regarding future events and our future performance. In some cases, you can identify forward-looking statements by terminology such as "will", "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "forecasts", "potential" or "continue" or the negative of these terms or other comparable terminology. All statements made in this Quarterly Report other than statements of historical fact are forward-looking statements. These forward-looking statements involve risks and uncertainties and reflect only our current views, expectations and assumptions with respect to future events and our future performance. If risks or uncertainties materialize or assumptions prove incorrect, actual results or events could differ materially from those expressed or implied by such forward-looking statements. Risks that could cause actual results to differ from those expressed or implied by the forward-looking statements we make include, among others, risks related to: the impact of the COVID-19 pandemic on our financial condition, liquidity or results of operations; our ability to successfully implement our business plan, develop and commercialize our proprietary formulations in a timely manner or at all, identify and acquire additional proprietary formulations, manage our pharmacy operations, service our debt, obtain financing necessary to operate our business, recruit and retain qualified personnel, manage any growth we may experience and successfully realize the benefits of our previous acquisitions and any other acquisitions and collaborative arrangements we may pursue; competition from pharmaceutical companies, outsourcing facilities and pharmacies; general economic and business conditions; regulatory and legal risks and uncertainties related to our pharmacy operations and the pharmacy and pharmaceutical business in general; physician interest in and market acceptance of our current and any future formulations and compounding pharmacies generally; our limited operating history; and the other risks and uncertainties described under the heading "Risk Factors" in Part II, Item 1A of this Quarterly Report and in our other filings with the Securities and Exchange Commission. You should not place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made and, except as required by law, we undertake no obligation to revise or publicly update any forward-looking statement for any reason.

Overview

Our business specializes in the development, production and sale of innovative medications that offer unique competitive advantages and serve unmet needs in the marketplace through our subsidiaries and deconsolidated companies. We own and operate one of the nation's leading ophthalmology pharmaceutical businesses, ImprimisRx. In addition to wholly owning ImprimisRx, we also have non-controlling equity positions in Eton Pharmaceuticals, Inc. ("Eton"), Surface Pharmaceuticals, Inc. ("Surface"), and Melt Pharmaceuticals, Inc. ("Melt"), all companies that began as subsidiaries of Harrow. More recently, we founded drug development subsidiaries Mayfield Pharmaceuticals, Inc. ("Mayfield") and Stowe Pharmaceuticals, Inc. ("Stowe"), among others. During the second half of 2020, we intend to launch a new business called Visionology. We also own royalty rights in various drug candidates being developed by Surface, Melt and Mayfield. We intend to continue to create and hold equity and royalty rights in new businesses that commercialize drug candidates that are internally developed or otherwise acquired or licensed from third parties.

ImprimisRx

ImprimisRx is our ophthalmology focused prescription pharmaceutical business. We offer to over 9,000 physician customers and their patients critical medicines to meet their needs that are unmet by commercially available drugs. We make our formulations available at prices that are, in most cases, lower than non-customized commercial drugs. Our current ophthalmology formulary includes over twenty compounded formulations, many of which are patented or patent-pending, and are customizable for the specific needs of a patient. Some examples of our compounded medications are various combinations of drugs formulated into one bottle and numerous preservative free formulations. Depending on the formulation, the regulations of a specific state and ultimately the needs of the patient, ImprimisRx products may be dispensed as patient-specific medications from our 503A pharmacy, or for in-office use, made according to current good manufacturing practices (or cGMPs) or other FDA guidance documents, in our FDA-registered New Jersey Outsourcing Facility ("NJOF").

Visionology

Visionology is expected to be an online eye health platform. Visionology will leverage our experience in the ophthalmic pharmaceutical business as well as our relationships with eyecare professionals across the United States. We expect to launch a proof-of-concept model for Visionology during the second half of 2020 within a certain region of the U.S., and if successful, expand the launch on a nationwide basis later in 2020 and/or 2021.

Pharmaceutical Compounding Businesses

Pharmaceutical Compounding

Pharmaceutical compounding is the science of combining different active pharmaceutical ingredients (APIs), all of which are approved by the FDA (either as a finished form product or as a bulk drug ingredient) and excipients, to create specialized pharmaceutical preparations. Physicians and healthcare institutions use compounded drugs when commercially available drugs do not optimally treat a patient's needs. In many cases, compounded drugs, such as ours, have wide market utility and may be clinically appropriate for large patient populations. Examples of compounded formulations include medications with alternative dosage strengths or unique dosage forms, such as topical creams or gels, suspensions, or solutions with more tolerable drug delivery vehicles.

Almost all of our sales revenue is derived from making, selling and dispensing our compounded prescription drug formulations as cash pay transactions between us and our end-user customer. As such, the majority of our commercial transactions do not involve distributors, wholesalers, insurance companies, pharmacy benefit managers or other middle parties. By not being reliant on insurance company formulary inclusion and pharmacy benefit manager payment clawbacks, we are able to simplify the prescription transaction process. We believe the outcome of our business model is a simple transaction, involving a patient-in-need, a physician's diagnosis, a fair price and great service for a quality pharmaceutical product. We sell our products through a network of employees and independent contractors and we dispense our formulations in all 50 states, Puerto Rico and in selected markets outside the United States.

Our Compounding Facilities

Pharmaceutical compounding businesses are governed by Sections 503A and 503B of the Federal Food Drug and Cosmetic Act (the "FDCA"). Section 503A of the FDCA provides that a pharmacy is only permitted to compound a drug for an individually identified patient based on a prescription for a patient, and is only permitted to distribute the drug interstate if the pharmacy is licensed to do so in the states where it is compounded and where the medication is received.

Section 503B of the FDCA provides that a pharmacy engaged in preparing sterile compounded drug formulations may voluntarily elect to register as an "outsourcing facility." Outsourcing facilities are permitted to compound large quantities of drugs without a prescription and distribute them out of state with certain limitations such as the formulation appearing on the FDA's drug shortage list or the bulk drug substances contained in the formulations appearing on the FDA's "clinical need" list. Entities voluntarily registering with FDA as outsourcing facilities are subject to additional requirements that do not apply to compounding pharmacies (operating under Section 503A of the FDCA), including adhering to standards such as current good manufacturing practices (cGMP) or other FDA guidance documents and being subject to regular FDA inspection.

We operate two compounding facilities located in Ledgewood, New Jersey. Our New Jersey operations are comprised of two separate entities and facilities, one of which is registered with the FDA as an outsourcing facility under Section 503B of the FDCA. The other New Jersey facility ("RxNJ"), is a licensed pharmacy operating under Section 503A of the FDCA. All products that we sell, produce and dispense are made in the United States.

We believe that, with our current compounding pharmacy facilities and licenses and FDA registration of NJOF, we have the infrastructure to scale our business appropriately under the current regulatory landscape and meet the potential growth in demand we are targeting. We plan to invest in one or both of our facilities to further their capacity and efficiencies. Also, we may seek to access greater pharmacy and production related redundancy and markets through acquisitions, partnerships or other strategic transactions.

Pharmaceutical Development Businesses

We have ownership interests in Eton, Surface, Melt, Mayfield, and Stowe and hold royalty interests in certain of their drug candidates. These companies are pursuing market approval for their drug candidates under the FDCA, including in some instances under the abbreviated pathway described in Section 505(b)(2) which permits the submission of a new drug application ("NDA") where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. We intend to create additional subsidiaries that will be focused on the development and FDA approval of certain proprietary drug formulations that we currently own, will in-license/acquire and/or otherwise develop.

Consolidated Businesses (Controlling Equity Interests)

Stowe Pharmaceuticals, Inc.

Stowe is a consolidated subsidiary of Harrow that was formed in 2019, focused on the development of its proprietary ophthalmic drug candidate STE-006. STE-006 is a patented, new chemical entity, small molecule topical drug candidate intended to treat various bacterial, fungal, and viral infections in the eye and ear. In initial preclinical models, STE-006 was shown to be significantly more effective compared to current conventional therapies against numerous bacterial and viral pathogens, including strains of methicillin-resistant staphylococcus aureus, or MRSA, and herpes simplex virus. STE-006 has several patents covering matter of composition, methods of production, methods of use and molecule, which are valid until 2038.

We own 2,500,000 shares of Stowe common stock, and control 70% of the equity and voting interests issued and outstanding of Stowe, at June 30, 2020.

Mayfield Pharmaceuticals, Inc.

Mayfield, a consolidated subsidiary of Harrow, is a development-stage pharmaceutical company focused on consequential products that address the conspicuous unmet needs of patients. Its development programs focus on using known molecules in dosage forms for new indications, and by developing new chemical entities with known mechanisms of action. Mayfield recently licensed worldwide rights to a first-in-class antimicrobial drug candidate, called MAY-66, which is being studied to treat recurrent bacterial vaginosis. In February 2019, Mayfield acquired drug formulation assets and intellectual property, including three recently issued patents, for MAY-44, a drug candidate for the treatment of dyspareunia, or pain experienced by women during sexual intercourse. In addition to MAY-44, Mayfield is also developing MAY-88 for patients suffering from interstitial cystitis, which it will acquire from Harrow at the closing of a deconsolidating transaction.

We own 2,500,000 shares of Mayfield common stock, and control 79% of the equity and voting interests issued and outstanding of Mayfield, at June 30, 2020. We are currently pursuing a deconsolidating transaction for Mayfield. We have contracted with an experienced life science executive that we expect to lead Mayfield once deconsolidated.

Radley Pharmaceuticals, Inc.

Radley Pharmaceuticals, Inc. ("Radley"), a consolidated subsidiary of Harrow, is a development-stage pharmaceutical company that has been focused on the development of proprietary drug candidates focused on rare diseases. Radley currently has three drug programs in its pipeline. During the second quarter of 2020, we suspended all activities related to Radley to focus attention and capital on other projects. We intend to resume these activities at the appropriate time, however, no assurance can be provided that activities related to Radley will resume.

De-Consolidated Businesses (Noncontrolling Equity Interests)

Eton Pharmaceuticals, Inc.

Eton is a pharmaceutical company focused on developing and commercializing innovative products utilizing the FDA's 505(b)(2) regulatory pathway. Its pipeline includes several products and drug candidates in various stages of development across a variety of dosage forms. Eton's pipeline is focused on innovative 505(b)(2) products and obtaining FDA marketing approval for currently marketed but unapproved drugs.

In May 2017, Eton closed an offering of its Series A Preferred Stock and we lost our controlling interest in it. In November 2018, Eton completed an initial public offering of its common stock. We own 3,500,000 shares of Eton common stock, which is less than 20% of the equity and voting interests issued and outstanding of Eton as of June 30, 2020.

Surface Pharmaceuticals, Inc.

Surface is a development-stage pharmaceutical company focused on development and commercialization of innovative therapeutics for ocular surface diseases and is seeking FDA approval for the commercialization of its drug candidates through the Section 505(b)(2) regulatory pathway under the FDCA. In 2017 and amended in April 2018, Harrow entered into asset purchase and license agreements (the "Surface License Agreements") and transferred to Surface its current drug pipeline, which consists of three proprietary drug candidates. Surface's patent-pending topical eye drop drug candidates, SURF-100 and SURF-200, utilize a patented delivery vehicle known as Klarity Drops ("Klarity"), that was invented by Harrow board member and Surface's chairman of the board, renowned ophthalmologist Dr. Richard Lindstrom.

During the fourth quarter of 2019, Surface filed an investigational new drug application ("IND") for its drug program SURF-201. SURF-201 is a novel steroid topical eye drop drug candidate for treating pain and inflammation post-ocular surgery. Surface submitted an IND for its lead drug candidate, SURF-100, in May 2020, for treating signs and symptoms associated with chronic dry eye disease. Surface also filed a third IND during the first half of 2020. We expect Surface may release certain clinical data related to these programs near the end of 2020 and beginning of 2021, however such clinical programs were delayed as a result of the ongoing COVID-19 pandemic and as a result, data from these clinical programs will likely be delayed as well.

In May and July 2018, Surface closed on an offering of its Series A Preferred Stock. At that time, we lost our controlling interest and deconsolidated Surface from our consolidated financial statements. We own 3,500,000 shares of Surface which is approximately 30% of the equity and voting interests as of June 30, 2020. We expect Surface to complete another round of financing within the next twelve months.

Melt Pharmaceuticals, Inc.

Melt is a development-stage pharmaceutical company focused on the development and commercialization of proprietary non-intravenous, sedation and anesthesia therapeutics for human medical procedures in hospital, outpatient, and in-office settings. Melt intends to seek regulatory approval for its proprietary technologies, where possible. In December 2018, we entered into an Asset Purchase Agreement with Melt (the "Melt Asset Purchase Agreement"), and Harrow assigned to Melt the underlying intellectual property for Melt's current pipeline, including its lead drug candidate MELT-100. The core intellectual property Melt owns is a patented series of combination non-opioid sedation drug formulations that we estimate to have multitudinous applications. Pursuant to the terms of the Melt Asset Purchase Agreement, Melt is required to make royalty payments to the Company equal to 5% of net sales of MELT-100, while any patent rights remain outstanding, subject to other conditions.

MELT-100 is a novel, sublingually delivered, non-IV, opioid-free drug candidate being developed for procedural sedation. Melt filed an IND in June 2020 and has begun its clinical program for MELT-100. We expect Melt will announce topline data from its Phase 1 study during the fourth quarter of 2020.

In January 2019, Melt closed an offering of its Series A Preferred Stock and we lost our controlling interest in it. We own 3,500,000 shares of Melt common stock, which is approximately 44% of the equity and voting interests issued and outstanding of Melt, as of June 30, 2020. We expect Melt to complete another round of financing within the next twelve months.

Factors Affecting Our Performance

We believe the primary factors affecting our performance are our ability to increase revenues of our proprietary compounded formulations and certain non-proprietary products, grow and gain operating efficiencies in our pharmacy operations, optimize pricing and obtain reimbursement options for our proprietary compounded formulations, and continue to pursue development and commercialization opportunities for certain of our ophthalmology and other assets that we have not yet made commercially available as compounded formulations. We believe we have built a tangible and intangible infrastructure that will allow us to scale revenues efficiently in the long-term. All of these activities will require significant costs and other resources, which we may not have or be able to obtain from operations or other sources. See "Liquidity and Capital Resources" below.

Reimbursement Options

Our proprietary ophthalmic compounded formulations are currently primarily available on a cash-pay basis. However, we work with third-party insurers, pharmacy benefit managers and buying groups to offer patient-specific customizable compounded formulations at accessible prices. We may devote time and other resources to seek reimbursement and patient pay opportunities for these and other compounded formulations and we have hired pharmacy billers to process certain existing reimbursement opportunities for certain formulations. However, we may be unsuccessful in achieving these goals, as many third-party payors have imposed significant restrictions on reimbursement for compounded formulations in recent years. Moreover, third-party payors, including Medicare, are increasingly attempting to contain health care costs by limiting coverage and the level of reimbursement for new drugs and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Further, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act of 2010 (collectively, the "Health Care Reform Law"), may have a considerable impact on the existing U.S. system for the delivery and financing of health care and could conceivable have a material effect on our business. As a result, reimbursement from Medicare, Medicaid and other third-party payors may never be available for any of our products or, if available, may not be sufficient to allow us to sell the products on a competitive basis and at desirable price points. We are communicating with government and third-party payors in order to make our formulations available to more patients and at optimized pricing levels. However, if government and other third-party payors do not provide adequate coverage and reimbursement levels for our formulations, the market acceptance and opportunity for our formulations may be limited.

Additionally, we are making efforts to receive reimbursement and/or optimize the pricing for some of our currently available pharmaceutical compounded formulations, including applying for transitional pass-through reimbursement status for one of our formulations. Pass-through status allows for separate payment (i.e., outside the bundled payment) under Medicare Part B for new drugs and other medical technologies that meet well-established criteria specified by federal regulations governing CMS spending. We had previously expected that CMS would communicate a decision to us prior to July 1, 2020, however, that timeline was delayed which we believe was due to COVID-19 related priorities at CMS (i.e. new policymaking). As of the date of this Report, we expect to hear from CMS before October 1, 2020 regarding whether we will be granted pass-through status for one of these formulations, although we may continue to experience further delays in a decision for our formulation beyond that date. Any efforts to attain optimized pricing or reimbursement for these or any of our other proprietary formulations could fail, which could make our products less attractive or unavailable to some patients or could reduce our margins.

Recent Developments

The following describes certain developments in 2020 to date that are important to understand our financial condition and results of operations as well as operating trends and prospects. See the notes to our condensed consolidated financial statements included in this report for additional information about each of these developments.

COVID-19 Pandemic

A novel strain of coronavirus was first identified in Wuhan, China in December 2019. The disease caused by it, COVID-19, was declared a global pandemic by the World Health Organization in March 2020. On March 18, 2020, CMS released guidance for U.S. healthcare providers to limit all elective medical procedures in order to conserve personal protective equipment and limit exposure to COVID-19 during the pendency of the pandemic. In addition to limiting elective medical procedures, many hospitals and other healthcare providers have strictly limited access to their facilities during the pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and healthcare delivery, led to social distancing recommendation, and created significant volatility in financial markets.

In response to the pandemic and business disruptions, first and foremost, we have prioritized the health and safety of our employees, customers, suppliers and others with whom we partner in our business activities. We have instructed employees to work from home when possible and to maintain recommended physical distancing when working in our facilities. We also have eliminated non-essential in-person contact with customers, suppliers and other third parties.

Many of the Company's customers use its drugs in procedures that were impacted by the CMS guidance to limit elective procedures. In addition, the Company and our business partners need access to healthcare providers and facilities to conduct clinical trials and other activities required to achieve regulatory clearance of products under development. We are carefully monitoring rapidly evolving changes in healthcare delivery systems and may adjust our operating and product development plans accordingly.

Given the unprecedented and dynamic nature of the COVID-19 pandemic, we cannot reasonably estimate the impacts it may have on our financial condition, results of operations or cash flows in the future. However, the reduction in elective procedures in response to CMS guidance has had a material adverse impact, on our revenues, profitability and cash flows, in particular during the second quarter of 2020. The extent and duration of that impact will depend upon the extent of procedure postponements, the duration of the pandemic and any resurgences of it, especially within certain geographies and states that have retained restrictive measures and social distancing policies. In May 2020, some U.S. states and geographies began easing restrictions associated with the COVID-19 pandemic including those restrictions related to elective procedures, as restrictions were lifted in those areas there was a correlation with an increase in our revenues. Despite the recent resurgence of the COVID-19 pandemic in certain parts of the U.S., we are hopeful that the general trend of easing of restrictions will continue, and sales of our products will return to historical norms and historical growth trends, as other states and governmental authorities continue to ease restrictions associated with elective procedures and the COVID-19 pandemic. Assuming the strictest of lockdown scenarios are avoided, we believe we have sufficient liquidity resources to sustain our planned level of operations.

SWK Amendment

In April 2020, the Company and several of its wholly owned subsidiaries entered into a second amendment (the "SWK Amendment") to the term loan and security agreement dated as of July 19, 2017, as amended (the "SWK Loan"), with SWK Funding LLC, as lender and collateral agent, and certain other lenders (collectively, "SWK"). A summary of the material changes contained in the SWK Amendment are as follows:

- SWK agreed to make available to the Company, and the Company drew down on, an additional principal amount of $1,000,000;
- The definition of the first amortization date was changed to August 14, 2020, permitting the Company to pay interest only on the principal amount loaned for the next payment (payments are due on a quarterly basis) following the SWK Amendment; and
- The interest payment due May 14, 2020 will be paid in-kind by increasing the principal amount of the term loans by an amount equal to the interest that has accrued.

PPP Loan

In April 2020, we entered into the PPP Loan with Renasant Bank in the principal amount of $1,967,100 and received cash proceeds of the same amount, pursuant to the PPP under the CARES Act, which was enacted March 27, 2020. The PPP is administered by the U.S. Small Business Administration (the "SBA").

Under the terms of the PPP Loan, interest accrues on the outstanding principal at the rate of 1.0% per annum. The term of the PPP Loan is two years, unless sooner required in connection with an event of default under the PPP Loan. To the extent the PPP Loan amount is not forgiven under the PPP, the Company is obligated to make equal monthly payments of principal and interest, beginning seven months from the date of the PPP Loan, until the maturity date.

The CARES Act and the PPP provide a mechanism for forgiveness of up to the full amount borrowed. Under the PPP, the Company may apply for and be granted forgiveness for all or part of the PPP Loan. The amount of loan proceeds eligible for forgiveness is based on a formula that takes into account a number of factors, including the amount of loan proceeds used by the Company during the eight-week period after the loan origination for certain purposes including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments (it being anticipated that at least 75% of the loan amount will be required to be used for eligible payroll costs); the employer maintaining or rehiring employees and maintaining salaries at certain levels; and other factors. Subject to the other requirements and limitations on loan forgiveness, only loan proceeds spent on payroll and other eligible expenses during the covered eight-week period will qualify for forgiveness. While we used proceeds from the PPP Loan for such qualifying expenses, in particular maintaining continuity of our payroll and workforce (including staff critical to the timely production and dispensing of medicines we make), no assurance can be provided that we will apply for or obtain forgiveness of the PPP Loan in whole or in part.

Eyepoint Commercial Alliance Agreement

On August 1, 2020, our wholly-owned subsidiary ImprimisRx entered into a Commercial Alliance Agreement (the "Dexycu Agreement") with Eyepoint Pharmaceuticals, Inc. ("Eyepoint"), pursuant to which Eyepoint granted ImprimisRx the non-exclusive right to co-promote DEXYCU® (dexamethasone intraocular suspension) 9% for the treatment of post-operative inflammation following ocular surgery in the United States. Pursuant to the Dexycu Agreement, Eyepoint will pay ImprimisRx a fee calculated based on the quarterly sales of DEXCYU in excess of predefined volumes to specific customers of ImprimisRx in the U.S. Under the terms of the Dexycu Agreement, ImprimisRx shall use commercially reasonable efforts to promote and market DEXCYU in the U.S.

Subject to early termination, the Dexycu Agreement expires on August 1, 2025, subject to specified notice periods and specified limitations, either party may terminate the Dexycu Agreement in the event of (i) uncured material breach by the other party or (ii) if DEXCYU ceases to have "pass-through" payment status. In addition, subject to certain limitations, ImprimisRx may terminate the Dexycu Agreement (i) for convenience subject to an extended specified notice period or (ii) in the event Eyepoint undergoes a change of control. Eyepoint may terminate the Dexycu Agreement, subject to specified notice periods and specified limitations, if ImprimisRx fails to achieve certain minimum sales levels during specified periods.

Results of Operations

The following period-to-period comparisons of our financial results for the three and six months ended June 30, 2020 and 2019, are not necessarily indicative of results for the current period or any future period.

Revenues

Our revenues include amounts recorded from sales of proprietary compounded formulations and revenues received from royalty payments owed to us pursuant to out-license arrangements.

The following presents our revenues for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	$ Variance	2020	2019	$ Variance
Product sales, net	$ 8,049,000	$ 13,509,000	$ (5,460,000)	$ 19,859,000	$ 25,792,000	$ (5,933,000)
License revenues	11,000	7,000	4,000	18,000	14,000	4,000
Total revenues	$ 8,060,000	$ 13,516,000	$ (5,456,000)	$ 19,877,000	$ 25,806,000	$ (5,929,000)

The decrease in revenues between periods was largely attributable to the COVID-19 pandemic and CMS guidance to limit elective procedures. Net revenues generated from NJOF totaled $4,870,000 and $12,805,000 during the three and six months ended June 30, 2020, and $8,285,000 and $15,683,000 during the three and six months ended June 30, 2019, respectively.

Cost of Sales

Our cost of sales includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, royalties, shipping and handling costs, manufacturing equipment and tenant improvements depreciation, the write-off of obsolete inventory and other related expenses.

The following presents our cost of sales for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		$	For the Six Months Ended June 30,		$
	2020	2019	Variance	2020	2019	Variance
Cost of sales	$ 3,204,000	$ 5,225,000	$ (2,021,000)	$ 6,830,000	$ 9,123,000	$ (2,293,000)

The decrease in our cost of sales between periods was largely attributable to a decrease in unit volumes sold and partially offset by continued improved utilization of capacity at our compounding facilities.

Gross Profit and Margin

	For the Three Months Ended June 30,		$	For the Six Months Ended June 30,		$
	2020	2019	Variance	2020	2019	Variance
Gross Profit	$ 4,856,000	$ 8,291,000	$ (3,435,000)	$ 13,047,000	$ 16,683,000	$ (3,636,000)
Gross Margin	60%	61%	(1%)	66%	65%	1%

Despite a decrease in unit volumes sold, there was little variability between gross margin between periods. This is largely attributable to increased efficiencies in our production process, extension of beyond using dating, or BUD, of some of our products, and an increase in sales prices.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses include personnel costs, including wages and stock-based compensation, corporate facility expenses, and investor relations, consulting, insurance, filing, legal and accounting fees and expenses as well as costs associated with our marketing activities and sales of our proprietary compounded formulations and other non-proprietary pharmacy products and formulations.

The following presents our selling, general and administrative expenses for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		$	For the Six Months Ended June 30,		$
	2020	2019	Variance	2020	2019	Variance
Selling, general and administrative	$ 6,954,000	$ 8,248,000	$ (1,294,000)	$ 15,370,000	$ 16,791,000	$ (1,421,000)

The decrease in selling, general and administrative expenses between periods was largely attributable to decreased legal expenses incurred associated with ongoing litigation, and sales related expenses.

Research and Development Expenses

Our research and development expenses primarily include expenses related to the development of acquired intellectual property, investigator-initiated research and evaluations and other costs related to the clinical development of our assets.

The following presents our research and development expenses for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		$	For the Six Months Ended June 30,		$
	2020	2019	Variance	2020	2019	Variance
Research and development	$ 749,000	$ 810,000	$ (61,000)	$ 1,152,000	$ 1,215,000	$ (63,000)

Research and development expenses between periods was primarily attributable to formulation development studies for new ophthalmic formulations and clinical programs related to our drug development segment during the three and six months ended June 30, 2020.

Impairment of Intangible Assets

During the three and six months ended June 30, 2020, we recorded a loss of $363,000 related to the impairment of intangible assets related to patent filings associated with the products that we were no longer actively selling.

Interest Expense, net

Interest expense, net was $505,000 and $1,065,000 for the three and six months ended June 30, 2020, compared to $716,000 and $1,319,000 for the same period last year. The decrease during the period ended June 30, 2020 compared to the same period in 2019 was primarily due to interest expense recognition related to a decrease in the amortization of our finance lease obligations.

Investment Gain (Loss) from Melt, net

During the three and six months ended June 30, 2020, we recorded a loss of $690,000 and $1,236,000, respectively, for our share of losses based on our ownership of Melt. During the six months ended June 30, 2019, we recorded a net gain of $5,199,000 related to our investment in Melt. We recorded a gain of $5,810,000 for the deconsolidation of Melt, and a loss of $611,000 for our share of losses based on our ownership of Melt. We began using equity method accounting for our investment in Melt beginning on January 30, 2019, the date we no longer had a controlling interest. Prior to that date, Melt's losses were consolidated within our statements of operations.

Investment Loss from Surface, net

During the three and six months ended June 30, 2020, we recorded a loss of $599,000 and $938,000, respectively, for our share of losses based on our ownership of Surface. During the three and six months ended June 30, 2019, we recorded a loss of $261,000 and $504,000, respectively, for our share of losses based on our ownership of Surface. We began using equity method accounting for our investment in Surface beginning on June 11, 2018, the date we no longer had a controlling interest. Prior to that date, Surface's losses were consolidated within our statements of operations.

Investment Gain (Loss) from Eton, net

We recorded a gain of $4,725,000 and loss of $(6,125,000) related to the change in fair market value of Eton's common stock for the three and six months ended June 30, 2020, respectively. During the three and six months ended June 30, 2019, we recorded a loss of $(350,000) and gain of $6,230,000, respectively, for our share of losses based on our ownership of Eton. We began recording our investment in Eton at fair market value, and ceased equity method accounting for our investment in Eton in November 2018 following Eton's initial public offering and our ownership falling below 20%.

Other Income (Expense), net

During the six months ended June 30, 2019, we recorded other income, net of $630,000. This was the result of income of $630,000 related to expenses that were paid by us and will be reimbursed by Melt following its deconsolidation. During the six months ended June 30, 2020, we recorded other income, net of $19,000. This was the result of income of $19,000 related to equipment from our Park facility that was sold during the six months ended June 30, 2020.

Net Loss

The following table presents our net loss for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator – net loss	$ (237)	$ (2,378)	$ (13,144)	$ 8,980
Net income (loss) per share, basic	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.36
Net income (loss) per share, diluted	$ (0.01)	$ (0.09)	$ (0.51)	$ 0.34

Financial Information About Segments and Geographic Areas

Management evaluates performance of the Company based on operating segments. Segment performance for our two operating segments are based on segment contribution. Our reportable segments consist of (i) our commercial stage pharmaceutical compounding business (Pharmaceutical Compounding), generally including the operations of our ImprimisRx and Park businesses; and (ii) the start-up operations associated with our pharmaceutical drug development business (Pharmaceutical Drug Development). Segment contribution for the segments represents net revenues less cost of sales, research and development, selling and marketing expenses, and select general and administrative expenses. We do not evaluate the following items at the segment level:

- Selling, general and administrative expenses that result from shared infrastructure, including certain expenses associated with litigation and other legal matters, public company costs (e.g. investor relations), board of directors and principal executive officers, and other like shared expenses.

- Operating expenses within selling, general and administrative expenses that result from the impact of corporate initiatives. Corporate initiatives primarily include integration, restructuring, acquisition and other shared costs.

- Other select revenues and operating expenses including research and development expenses, amortization, and asset sales and impairments, net as not all such information has been accounted for at the segment level, or such information has not been used by all segments.

- Total assets including capital expenditures.

The Company defines segment net revenues as pharmaceutical compounded drug sales, licenses and other revenue derived from related agreements.

Cost of sales within segment contribution includes direct and indirect costs to manufacture formulations and sell products, including active pharmaceutical ingredients, personnel costs, packaging, storage, royalties, shipping and handling costs, manufacturing equipment and tenant improvements depreciation, the write-off of obsolete inventory and other related expenses.

Selling, general and administrative expenses consist mainly of personnel-related costs, marketing and promotion costs, distribution costs, professional service costs, insurance, depreciation, facilities costs, transaction costs, and professional services costs which are general in nature and attributable to the segment.

See Note 15 to our condensed consolidated financial statements included in this Quarterly Report for more information about our reportable segments.

Liquidity and Capital Resources

Liquidity

Our cash on hand (including restricted cash) at June 30, 2020 was $4,102,000, compared to $4,949,000 at December 31, 2019. Since inception, July 24, 1998, through June 30, 2020, we have incurred aggregate losses of $87,187,000. These losses are primarily due to selling, general and administrative, and research and development expenses incurred in connection with developing and seeking regulatory approval for a former drug candidate, which activities we discontinued in 2013, the development and commercialization of novel compounded formulations and the development of our pharmacy operations.

As of the date of this Quarterly Report, we believe that cash and cash equivalents of $3,902,000 and restricted investments of $200,000, totaling approximately $4,102,000 at June 30, 2020 together with cash generated from revenues, will be sufficient to sustain our planned level of operations and capital expenditures for at least the next 12 months. We also may consider the sale of certain assets including, but not limited to, part of, or all of, our ownership interest in Eton, Surface, Melt, and/or any of our consolidated subsidiaries. However, our plans for this period may change, our estimates of our operating expenses, capital expenditures and working capital requirements could be inaccurate, we may pursue acquisitions of pharmacies or other strategic transactions that involve large expenditures or we may experience growth more quickly or on a larger scale than we expect, any of which could result in the depletion of capital resources more rapidly than anticipated and could require us to seek additional financing earlier than we expect to support our operations.

We expect to use our current cash position and funds generated from our operations and any financing to pursue our business plan, which includes developing and commercializing compounded formulations and technologies, integrating and developing our compounding operations, pursuing potential future strategic transactions as opportunities arise, including potential acquisitions of additional pharmacy, outsourcing facilities, drug company and manufacturers, and/or assets or technologies, and otherwise fund our operations. We may also use our resources to conduct clinical trials or other studies in support of our formulations or any drug candidate for which we pursue FDA approval, to pursue additional development programs or to explore other development opportunities.

Net Cash Flow

The following provides detailed information about our net cash flows:

	For the Six Months Ended June 30,	
	2020	2019
Net cash (used in) provided by:		
Operating activities	$ (3,201,000)	$ (632,000)
Investing activities	(610,000)	(785,000)
Financing activities	2,964,000	(1,228,000)
Net change in cash and cash equivalents	(847,000)	(2,645,000)
Cash and cash equivalents at beginning of the period	4,949,000	6,838,000
Cash and cash equivalents at end of the period	$ 4,102,000	$ 4,193,000

Operating Activities

Net cash used in operating activities was $(3,201,000), compared to $(632,000) in operating activities during the same period in the prior year. The increase in net cash used in operating activities during the periods was mainly attributed to the decrease in revenue during the quarter ended June 30, 2020 due to the COVID-19 pandemic and decrease in elective surgical procedures during that period.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2020 and 2019 was $(610,000) and $(785,000), respectively. Cash used in investing activities in 2020 and 2019 was primarily associated with equipment purchases and upgrades and investments in our intellectual property portfolio.

Financing Activities

Net cash provided by (used in) financing activities during the six months ended June 30, 2020 and 2019 was $2,964,000 and $(1,228,000), respectively. Cash provided by financing activities during the six months ended June 30, 2020 was related to proceeds received from the amendment to our loan and security agreement with SWK as well as proceeds received from the PPP Loan.

Sources of Capital

Our principal sources of cash consist of cash provided by operating activities from our pharmaceutical compounding business. We may also sell some or all of our ownership interests in Eton, Surface, Melt or our other subsidiaries. We produced cash from operations during 2018 and 2019; however, we currently are experiencing a downturn in revenues mostly as a result of the COVID-19 pandemic which will have an impact on our ability to produce cash in the current year. In addition, prior to 2017, we had not generated sufficient revenues to support our operations and may not be able to do so in the future.

The changing trends and overall economic outlook in light of the COVID-19 pandemic, including the related interim stay-at-home orders and bans on elective surgeries, have created uncertainty surrounding our operating outlook and may impact our future operating results. As a result, we may need significant additional capital to support our business plan and fund our proposed business operations. We may receive additional proceeds from the exercise of stock purchase warrants that are currently outstanding. We may also seek additional financing from a variety of sources, including other equity or debt financings, funding from corporate partnerships or licensing arrangements, sales of assets or any other financing transaction. If we issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience substantial dilution, and the newly issued equity or debt securities may have more favorable terms or rights, preferences and privileges senior to those of our existing stockholders. If we raise additional funds through collaboration or licensing arrangements or sales of assets, we may be required to relinquish potentially valuable rights to our product candidates or proprietary technologies or formulations, or grant licenses on terms that are not favorable to us. If we raise funds by incurring additional debt, we may be required to pay significant interest expenses and our leverage relative to our earnings or to our equity capitalization may increase. Obtaining commercial loans, assuming they would be available, would increase our liabilities and future cash commitments and may impose restrictions on our activities, such as the financial and operating covenants included in the agreements governing the SWK Loan. Further, we may incur substantial costs in pursuing future capital and/or financing transactions, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which would adversely impact our financial results.

We may be unable to obtain financing when necessary as a result of, among other things, our performance, general economic conditions, conditions in the pharmaceuticals and pharmacy industries, or our operating history, including our past bankruptcy proceedings. In addition, the fact that we have a limited history of profitability could further impact the availability or cost to us of future financings. As a result, sufficient funds may not be available when needed from any source or, if available, such funds may not be available on terms that are acceptable to us. If we are unable to raise funds to satisfy our capital needs when needed, then we may need to forego pursuit of potentially valuable development or acquisition opportunities, we may not be able to continue to operate our business pursuant to our business plan, which would require us to modify our operations to reduce spending to a sustainable level by, among other things, delaying, scaling back or eliminating some or all of our ongoing or planned investments in corporate infrastructure, business development, sales and marketing and other activities, or we may be forced to discontinue our operations entirely.

Recently Issued and Adopted Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, 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.

Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as they existed on June 30, 2020. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of June 30, 2020, the end of the period covered by this report.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal control over financial reporting due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 pandemic on our internal controls to minimize the impact on their design and operating effectiveness.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Novel Drug Solutions et al.

In April 2018, Novel Drug Solutions, LLC and Eyecare Northwest, PA, (collectively "NDS") filed a lawsuit against us in the U.S. District Court of Delaware asserting claims for breach of contract. The claims stem from an asset purchase agreement between us and NDS entered into in 2013. In July 2019, NDS filed a second amended complaint which added a claim related to its purported termination of the APA. In October 2019, NDS voluntarily dismissed all claims related to breach of contract, leaving only claims related to the scope of the post termination obligations to be litigated. NDS is seeking unspecified damages, interest, attorney's fees and other costs. We believe the claims are meritless and have previously and will continue to dispute all claims asserted against us and intend to vigorously defend against these allegations. Nonetheless, we cannot predict the eventual outcome of this litigation and it could result in substantial costs, losses and a diversion of management's resources and attention, which could harm the Company's business and the value of its common stock.

Product and Professional Liability

Product and professional liability litigation represents an inherent risk to all firms in the pharmaceutical and pharmacy industry. We utilize traditional third-party insurance policies with regard to our product and professional liability claims. Such insurance coverage at any given time reflects current market conditions, including cost and availability, when the policy is written.

John Erick et al.

In January 2018, John Erick and Deborah Ferrell, successors-in-interest and heirs of Jade Erick, (collectively "Erick") filed a lawsuit in the San Diego County Superior against Kim Kelly, ND, MPH asserting claims related to death of Jade Erick. In April 2018, Erick filed an amendment to the lawsuit, naming us as a co-defendant. In September 2018, co-defendant Dr. Kelly filed a cross-complaint against us and various Spectrum entities. The cross-complaint seeks indemnity and contribution from us and Spectrum. We answered the claims filed by Dr. Kelly in October 2018. The case is currently in the discovery phase. Erick is seeking unspecified damages, interest, attorney's fees and other costs. We believe the claims are meritless and have previously and will continue to dispute all claims asserted against us and intend to vigorously defend against these allegations. Nonetheless, we cannot predict the eventual outcome of this litigation and it could result in substantial costs, losses and a diversion of management's resources and attention, which could harm the Company's business and the value of its common stock.

General and Other

In the ordinary course of business, we may face various claims brought by third parties and we may, from time to time, make claims or take legal actions to assert our rights, including intellectual property disputes, contractual disputes and other commercial disputes. Any of these claims could subject us to litigation.

Item 1A. Risk Factors

You should carefully consider the following risk factors in addition to the other information contained in this Quarterly Report. Our business, financial condition, results of operations and stock price could be materially adversely affected by any of these risks. You should consider all of the factors described in this section as well as the risk factors and the other information in our Quarterly Report on Form 10-Q for the three months ended March 31, 2020 and our Annual Report on Form 10-K including our audited financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" when evaluating our business. If any of the following risks actually occurs, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline and you may lose all or part of your investments. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

The COVID-19 pandemic has had an adverse effect on our business and results of operations and is expected to continue to have further adverse effects, which could be material, on our business, results of operations, financial condition, liquidity, and capital investments.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted supply chains and created significant volatility in financial markets. We have implemented business policies intended to protect our employees from the spread of COVID-19. Those policies include employees working from home when possible and employees in our facilities increasing physical distancing.

On March 18, 2020, the Centers for Medicare & Medicaid Services ("CMS") released guidance for U.S. healthcare providers to limit all elective medical procedures in order to conserve personal protective equipment and limit exposure to COVID-19 during the pendency of the pandemic. Many of our customers use our products in procedures impacted by the guidance. In addition to limiting medical procedures, many hospitals and other healthcare providers have strictly limited access to their facilities during the pandemic. We cannot predict the duration or scope of the pandemic, actions that may be taken by governments and businesses in response to the pandemic, or the impacts of the pandemic on healthcare systems. The impacts of the pandemic may include, but are not limited to:

- Reduced revenues from our customers, including our major customers, whose products are impacted by CMS guidance to limit elective medical procedures;
- Diminished ability or willingness of third parties to market, distribute and sell our products, due to reduced demand from, or lack of access to, healthcare facilities and providers;
- Diminished ability, or inability, to complete clinical trials and other activities required to achieve regulatory clearance of our products under development due to lack of access to healthcare facilities, healthcare providers and patients;
- Diminished or lost access to third party service providers that we use in our research and development or marketing efforts;
- Reduced cash flow from our operations due to reductions in revenues or collections from our customers and increases in operating costs related to actions we have taken in response to the pandemic;
- Reduced business productivity due to inefficiencies in employees working from home or increasing physical distancing and other pandemic response protocols in our production facilities;
- Increased susceptibility to the risk of information technology security breaches and other disruptions due to increased volumes of remote access to our information systems from our employees working at home;
- Inability to source sufficient components used in our products due to disruptions in supply chains;
- Diminished ability to identify, evaluate and acquire, or effectively integrate, complementary businesses, products, materials or technologies due to travel restrictions, physical distancing protocols, and lack of access to third party service providers related to our development activities;
- Loss of manufacturing capacity, which could lead to failures to meet product delivery commitments, or increased operating costs if one of our facilities were to experience a COVID-19 outbreak;
- Difficulties in assessing and securing intellectual property rights due to lack of access to, or delayed responsiveness of, third party service providers or governmental agencies;
- Diminished ability to retain personnel over concerns about workplace exposure to COVID-19, or to hire and effectively train new personnel, due to physical distancing protocols; and
- Impairment of goodwill or other assets due to reductions in the fair value of our reporting units.

These and other factors relating to, or arising from, the pandemic could have material adverse effects on our business, results of operations, cash flows, financial condition, and capital investments. Actual or anticipated adverse effects on our cash flows or financial condition may lead us to seek additional funding. Any future debt financing into which we enter may impose upon us covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. We cannot be certain that additional funding will be available on acceptable terms, if at all. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or otherwise curtail our operations. Any of these events could materially harm our business and operating results.

Our business is significantly impacted by state and federal statutes and regulations.

Our proprietary formulations are comprised of active pharmaceutical ingredients that are components of drugs that have received marketing approval from the FDA, although our proprietary compounded formulations have not themselves received FDA approval. FDA approval is not required in order to market and sell our compounded formulations. In the future we may choose to pursue FDA approval to market and sell certain potential drug candidates. The marketing and sale of compounded formulations is subject to and must comply with extensive state and federal statutes and regulations governing compounding pharmacies. These statutes and regulations include, among other things, restrictions on compounding for office use or in advance of receiving a patient-specific prescription or, for outsourcing facilities, requirements regarding preparation, such as regular FDA inspections and cGMP requirements, prohibitions on compounding drugs that are essentially copies of FDA-approved drugs, limitations on the volume of compounded formulations that may be sold across state lines, and prohibitions on wholesaling or reselling. These and other restrictions on the activities of compounding pharmacies and outsourcing facilities may significantly limit the market available for compounded formulations, compared to the market available for FDA-approved drugs.

Our pharmacy business is impacted by federal and state laws and regulations governing the following: the purchase, distribution, management, compounding, dispensing, reimbursement, marketing and labeling of prescription drugs and related services including; FDA and/or state regulation affecting the pharmacy and pharmaceutical industries, including state pharmacy licensure and registration or permit standards; rules and regulations issued pursuant to HIPAA and other state and federal laws related to the use, disclosure and transmission of health information; and state and federal controlled substance laws. Our failure to comply with any of these laws and regulations could severely limit or curtail our pharmacy operations, which would materially harm our business and prospects. Further, our business could be adversely affected by changes in these or any newly enacted laws and regulations, and federal and state agency interpretations of the statutes and regulations. Statutory or regulatory changes could require us to make changes to our business model and operations and/or could require us to incur significantly increased costs to comply with such regulations.

On July 30, 2020, FDA issued a notice for comments related to certain bulk drug substances to be removed from the 503B Bulk's List (or Category 1 List). Included in this notice for comment were certain bulk drug substances which we currently use in some of our compounded products. In the event one or more of these bulk substances are ultimately removed from the Category 1 List, we intend to utilize commercially available versions of these substances or similar active pharmaceutical ingredients as replacements of the bulk powders contained in our sterile products. In addition, nothing in the FDA's notice affects the dispensing of bulk powder-containing products from our 503A pharmacy. Nonetheless, if all or some of the bulk drug substances we use are removed from the 503B Bulk's List, this may result in a disruption in our operations, revenues and cash flows.

Our loan under the Paycheck Protection Program may not be forgiven or may subject us to challenges and investigations regarding qualification for the loan.

In April 2020, we received the PPP Loan, which was established under the CARES Act in the principal amount of $1,967,000. Pursuant to Section 1106 of the CARES Act we may apply for and be granted forgiveness for all or a portion of the PPP Loan. Such forgiveness will be determined, subject to limitations, based on the use of the loan proceeds for qualifying expenses, which include payroll costs, rent, and utility costs over the allowable measurement period following receipt of the loan proceeds.

The SBA continues to develop and issue new and updated guidance regarding the PPP Loan application and forgiveness process, including guidance regarding required borrower certifications and requirements for forgiveness of loans made under the program. Given the evolving nature of the guidance and depending upon our ability to use the loan proceeds for qualifying expenses, we cannot give any assurance that our PPP Loan will be forgiven in whole or in part.

Additionally, the PPP Loan application required us to certify that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. While we made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan and that our receipt of the PPP Loan is consistent with the broad objectives of the Paycheck Protection Program of the CARES Act, the certification described above does not contain any objective criteria and is subject to interpretation. In addition, the SBA has stated that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good faith belief that we satisfied all eligibility requirements for the PPP Loan, we are found to have been ineligible to receive the PPP Loan or in violation of any of the laws or regulations that apply to us in connection with the PPP Loan, including the False Claims Act, we may be subject to penalties, including significant civil, criminal and administrative penalties and would be required to repay the PPP Loan. In the event that we seek forgiveness of all or a portion of the PPP Loan, we will also be required to make certain certifications which will be subject to audit and review by governmental entities and could subject us to significant penalties and liabilities if found to be inaccurate, including being required to repay the PPP Loan. In addition, our receipt of the PPP Loan may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could materially harm our business, results of operations and financial condition.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our operations, and those of contract research organizations (or CROs), contractors and consultants, could be subject to power shortages, telecommunications failures, wildfires, water shortages, floods, earthquakes, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics, such as the COVID-19 pandemic, and other natural or man-made disasters or business interruptions for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. Our ability to obtain clinical supplies of our product candidates could be disrupted if the operations of our contract manufacturers or cell line storage facilities are affected by a man-made or natural disaster or other business interruption.

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.

From time to time, including recently as a result of the COVID-19 pandemic, global credit and financial markets have experienced extreme volatility and disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. Our general business strategy may be adversely affected by any such economic downturn, volatile business environment and continued unpredictable and unstable market conditions. If the equity and credit markets deteriorate it may make any debt or equity financing more difficult to complete, more costly, and more dilutive. In the event the Company or one of its subsidiaries needed to access additional capital, failure to secure financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon development plans. In addition, there is a risk that one or more of our current service providers, manufacturers and other partners may not survive an economic downturn, which could directly affect our ability to attain our operating goals on schedule and on budget.

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

In May 2020, the Company issued 30,000 shares of its restricted common stock, with a fair value of $167, as consideration for commission expenses incurred during the year ended December 31, 2019 and the six months ended June 30, 2020. These securities have not been registered under the Securities Act and have been issued in reliance on an exemption from the registration requirements of the Securities Act afforded by Section 4(a)(2) thereof. These securities may not be offered or sold in the United States in the absence of an effective registration statement or exemption from applicable registration requirements. In determining that each of the issuances qualified for an exemption under Section 4(a)(2) of the Securities Act, we relied on the fact that the securities were offered to a single individual or entity in consideration for amounts payable by the Company and certain representations and warranties of each investor.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1*	Business Loan Agreement with Renasant Bank pursuant to the Paycheck Protection Program, dated April 27, 2020
10.2	Second Amendment, dated as of April 1, 2020, to the Loan and Security Agreement by and among Harrow Health, Inc., several of its wholly-owned subsidiaries and the Lenders named therein (incorporated herein by reference to Exhibit 10 to the Current Report on Form 8-K of Harrow Health, Inc. filed with the Securities and Exchange Commission on April 3, 2020)
31.1*	Certification of Mark L. Baum, principal executive officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2*	Certification of Andrew R. Boll, principal financial and accounting officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Mark L. Baum, principal executive officer, and Andrew R. Boll, principal financial and accounting officer.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, has been formatted in Inline XBRL.

* Filed herewith.
** Furnished herewith.

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.

Harrow Health, Inc.

Dated: August 10, 2020

By: */s/ Mark L. Baum*
Mark L. Baum
Chief Executive Officer and Director
(Principal Executive Officer)

By: */s/ Andrew R. Boll*
Andrew R. Boll
Chief Financial Officer (Principal Financial and Accounting Officer)

BUSINESS LOAN AGREEMENT

LOAN UNDER PAYCHECK PROTECTION PROGRAM UNDER TITLE I OF THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

Loan No-45412671-01

Borrower: Harrow Health, Inc. If Borrower is not identified above, Borrower shall mean the sole proprietorship, entity or other organization identified in the Note as Borrower and that signs as Borrower in the space provided at the end of this Agreement.	Lender: Renasant Bank Tupelo Corporate Office 209 Troy St P.O. Box 709 Tupelo, MS 38802 (877) 367-53 71

THIS BUSINESS LOAN AGREEMENT, dated as of the date of the Note (as defined herein), is made and executed between the Borrower named above (or if Borrower is not identified above, the Borrower identified in the Note that signs in the space provided at the end of the Agreement) ("Borrower") and Renasant Bank ("Lender") on the following terms and conditions. Please refer to "Definitions" at the end of this Agreement for definitions of capitalized terms used herein without definition. This Agreement shall be effective as of the date of the Note and shall continue in full force and effect until such time as Borrower's Loan in favor of Lender has been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

Borrower has applied to Lender for a commercial loan under the PPP as evidenced by the Note. Borrower understands and agrees that: (A) in granting, renewing, or extending the Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement, the Note and the other Related Documents; (B) the granting, renewing, or extending of the Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; (C) such Loan shall be and remain subject to the terms and conditions of this Agreement; and (D) Borrower must be eligible for participation in the PPP as_a condition precedent for the Loan.

LOAN TERMS; CERTAIN PROVISIONS OF NOTE TO BE DISREGARDED. The Loan is evidenced by the Note, which Note sets forth the principal amount of the Loan, the interest rate thereon, the payment terms for the Loan and other terms. Borrower's Note is based on a form of promissory note approved by the SBA for PPP Loans; however, the SBA did not update this form of promissory note to reflect certain features of the PPP. As a result, and as described in this section, certain provisions of the Note may be disregarded.

Deferral· Prepayment. Borrower will not be required to make Loan payments during the 180-day period following the date of the initial Advance under the Note ("DeferralPeriod"), and as stated in the Note, the first payment shall be due in the seventh month following the date of the Note. During the Deferral Period the outstanding principal balance will accrue interest as provided in the Note. Borrower may disregard any reference in the Note to prepayment penalties. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse" or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note.

Collateral. The Note and Loan are not secured by any property of Borrower. Accordingly, Borrower may disregard references in the Note to "Collateral" and provisions relating thereto.

Guaranty. No person or entity (other than SBA) has provided a guarantee of payment or performance of this Note. Accordingly, Borrower may disregard all references in the Note to "Guarantor'' or "guarantee"and provisions relating thereto.

Late Fees. While Lender is the holder of the Note, the provisions of the Note with respect to a late fee for Borrower's failure to make any payment on this Note when due shall be disregarded and, instead, the applicable provision on late charges in this Agreement shall control.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents. For the avoidance of doubt, Borrower acknowledges that, notwithstanding anything to the contrary herein, no Advances other than the initial Advance are contemplated or required by the Note.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note, the Application and this Agreement; and (2) all such Related Documents as Lender may require for the Loan, all in form and substance satisfactory to Lender, Lender's counsel or the SBA. Borrower agrees that, in the event the SBA subsequently publishes guidance, rules, regulations or a loan authorization for **loans made pursuant to the PPP requiring a form of note, loan documents or terms in addition to or different from the terms of the Related Documents, then promptly on request of Lender Borrower shall execute a replacement promissory note or modifications of the Related Documents or such other loan documents as Lender may request in order to meet such new SBA requirements; Borrower further agrees that, until such replacement documents are so executed by Borrower and any other required parties, the Related Documents shall be deemed to contain such additional or different terms as required under such subsequent SBA guidance, rules, regulations and/or loan authorization form.**

Representations and Warranties. The representations and warranties set forth in this Agreement, the Related Documents, and in any document or certificate delivered to Lender under or in connection with this Agreement or the Loan are or shall be true and correct.

No Event of Default. There shall not exist at the time of any Advance or request for forgiveness of up to all of the principal portion of the Loan under Section 1106 of the CARES Act a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan and at au times any Indebtedness under the Note exists:

Business Activities. Borrower maintains an office at the address shown in the Application, which, unless Borrower designates otherwise in writing, is the principal office is the office at which Borrower keeps its books and records. Borrower will notify Lender prior to any change in the location of Borrower's principal office address or any change in Borrower's name. Borrower shall do all things necessary to comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities, including, without limitation,' the CARES Act and the eligibility requirements of the PPP. Borrower has not been determined by the Secretary or Homeland Security or the Attorney General to have engaged in a pattern or practice of hiring an alien, recruiting an alien or referring an alien for a fee for employment in the United States, knowing that the person is an unauthorized alien.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: _____ (none if blank).

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents do not conflict with, result in a violation of, or constitute a default under (1-) any provision of any agreement or other instrument binding upon Borrower, (2) Borrower's governing documents, or (3) any law, governmental regulation, court decree, or order applicable to Borrower. Borrower shall provide to Lender any of the governing documents of Borrower and such resolutions or certifications as to the authority of Borrower and its designated representatives to apply for a loan under the PPP and execute and deliver any and all of the Related Documents and otherwise perform as required therein; all in form and subi,tance satisfactory to Lender, Lender's counsel, or the SBA

Financial Information. All of Borrower's payroll and financial information supplied to Lender was or shall be true and accurate when submitted. Since the date of the Application, there has been no material adverse change negatively impacting Borrower's eligibility for a PPP loan.

Legal Effect. This Agreement, the Note, the Related Documents and any other instrument or agreement Borrower is required to give under this Agreement or that is otherwise provided in connection with the Loan, when delivered will constitute legal, valid, and binding obligations of Borrower and its successors, representatives and assigns, enforceable against any such party in accordance with their respective terms.

Litigation and Claims. No material litigation, claim, investigation, administrative proceeding or similar act ion (including those for unpaid taxes) against Borrower is pending or threatened. Since the date of the Application, no event has occurred which may materially adversely affect Borrower's financial condition, results of operations, organization, operation or fixed assets, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing. Without limiting the generality of the fore going, Borrower is not in bankruptcy proceedings or has not had a receiver appointed nor is Borrower insolvent.

Taxes. To the best of Borrower's knowledge, all of Borrower's all federal, state and other tax returns and reports that are or were required to be filed have been filed or Borrower has filed appropriate extensions, and all taxes (including, but not lim ited to, ad valorem and personal property taxes), assessments and other governmental charges as shown on said returns or in any manner due to be paid have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Signatures. If the Application, the Note, this Agreement or any Related Documents are executed and the Loan closeq_ and funded based on scanned or facsimile signature submitted by Borrower to Lender, Borrower represents that such scanned or facsimile signatures are genuine and authentic signatures of the persons who have purported to sign; that Borrower has retained and safeguarded the original of the documents submitted with such documents submitted with such scanned or facsimile signatures with such originals containing "wet" signatures of the persons who have purported to sign; and that Borrower shall provide the originai' of such documents with "wet" signatures, or on request of Lender, shall execute via "wet" signature execution any replacement documents, and any such replacement documents shall be controlling and supersede those earlier submitted with scanned or facsimile signatures and shall be fully enforceable for any and all purposes.

Reaffirmation of Application. Borrower reaffirms and restates for purposes of this Agreement and at the time of each Advance and at the time of any request for forgiveness of up to all of the principal portion of the Loan under Section 1106 of the CARES Act, each and every representation, warranty, acknowledgement and certification in the Application and Related Documents and agrees to timely and fully perform each of its covenants and agreements stated therein. Without limiting the generality of the foregoing, Borrower represents and warrants that all information Borrower provided in the Application and in all supporting documents delivered in connection therewith is true and accurate and that all documents purported to be filings with the Internal Revenue Service are identical to the actual filings submitted to the IRS. Borrower acknowledges that knowingly making a false statement to obtain a loan under the PPP is punishable by law.

Borrower Acknowledgment. Borrower is a sophisticated person, entity or organization and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk relating to the PPP and is making an informed business decision in connection therewith. Borrower understands that it should seek and has had the opportunity to seek its own legal and/or accounting advice in making a determination to apply for a Loan under the PPP. Borrower has made an independent investigation and review of the terms and conditions of the PPP and all other matters and acknowledges that Borrower has not relied on any representations, warranties or other information provided by Lender with respect to (a) the Application and Borrower's eligibility for the Loan under the PPP, (b) calculation of eligible loan amount, (c) evaluation of whether Loan may be eligible for forgiveness, in whole or in part (as discussed herein), or (d) any other matter with respect to Borrower's Loan.

NO RELATIONSHIP BETWEEN BORROWER AND LENDER OR ANY LENDER ASSOCIATE. TO THE BEST OF BORROWER'S KNOWLEDGE AFTER DUE INQUIRY, NO OFFICER OR DIRECTOR OF LENDER, NOR ANY CLOSE RELATIVE OF ANY SUCH INDIVIDUAL (SPOUSE, PARENT, CHILD OR SIBLING, OR SPOUSE OF ANY OF THE FOREGOING) HAS ANY EQUITY OR OTHER OWNERSHIP INTEREST IN BORROWER. If after the date of the Note subsequent rules, regulations, or guidance under the PPP suspend, waive or otherwise make ineffective as to loans under the PPP the regulations prohibiting a lender to make loans to a borrower in which Lender or any Associate (as defined in 13 CFR § 120.110) of Lender, then the foregoing representation shall no longer have any force or effect.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Use of Proceeds. Use all Loan proceeds solely for Borrower's business operations in a manner that is consistent with the Application, the Note and otherwise as permitted by the PPP, unless specifically consented to the contrary by Lender in writing. Subject in all respects to the PPP, Borrower may use Loan proceeds for (i) Payroll Costs (as defined under the PPP), (ii) costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums, (iii) mortgage interest payments, (iv) rent payments, (v) utility payments, (vi) interest payments on any other debt obligations that were incurred before February 15, 2020; and/or (vi) refinancing an· SBA Economic Injury Disaster Loan made between January 31, 2020 and April 3, 2020; provided, that, unless otherwise provided under the PPP, at least 75% of the Loan proceeds shall be used for Payroll Costs (for purposes of determining this percentage, the amount of any refinanced Economic Injury Disaster Loan shall be included).

Additional Information. Furnish such additional information and statements as Lender may request from time to time including, without limitation, any information required to be supplied to Lender for Borrower's application for loan forgiveness of up to all of the principal portion of the Loan under Section 1106 of the CARES Act, such as payroll costs, covered mortgage payments, covered rent payments, and covered utilities as such are described in the PPP.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and the elig ibility of the Loan under the PPP, including without limitation, the CARES Act.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, instruments, documents and other agreements, and take such other actions, as Lender or its attorneys may reasonably request from time to time to evidence and document Borrower's obligations under this Agreement, the eligibility of the Loan under the PPP, a request by Borrower for forgiveness of up to all of the principal portion of the Loan under Section 1106 of the CARES Act or otherwise to carry out the provisions and intent hereof.

Equal Opportunity. Borrower will post SBA form 722, Equal Opportunity Poster, where it is clearly visible to employees, applicants for employment, and the general public and comply with SBA form 793, Notice to New SBA Borrowers.

DEFAULT. Any default under the Note shall constitute an Event of Default under this Agreement. In addition, the following shall constitute an Events of Default hereunder:

Payment Default. Borrower fails to make any payment when due under the Loan and Note evidencing the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death Dissolution or Insolvency. The death of an individual Borrower or the dissolution or termination of Borrower's existence or its insolvency.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any of Borrower's properties and assets. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Loan Eligibility. The Loan for any reason is no longer an eligible Loan under the PPP.

EFFECT OF AN EVENT OF DEFAULT. In addition to the remedies provided in the Note upon the occurrence of a default thereunder, an Event of Default hereunder shall have the following effects. Except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will at the sole option and discretion of Lend er terminate, and, at Lender's sole option and discretion, all Indebtedness immediately will become due and pay able, all without notice of any kind to Borrower. In the case of an Event of Default of the type described in the "Death, Dissolution or Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies available at law, in equ ity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower shall not affect Lender's right to declare a default and to exercise its rights and remedies.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement rem ain s in effect, Borrower will not:

Agreements. Enter into any agreement containing any provisions which would be violated or breach ed by the performance of Borrower's obligations under this Agreement or in connection herewith or impair Borrower's eligibility for the Loan.

Eligibility of Loan. Take any action or omit to take any ction that would impair the eligibility of the Loan under the PPP.

Other actions. Take any action or omit to take any action that would cause any representation and warranty under this Agreement or the Related Documents to be inaccurate or untrue or which would impair Borrower's obligations to perform its obligations under this Agreement and the Note.

LOAN FORGIVENESS. Under Section 1106 of the CARES Act, Borrower may be eligible for forgiveness of up to all of the principal portion of the Loan; interest accrued on any principal amount forgiven shall also be forgiven. Any application for such forgiveness must be submitted in accordance with the terms and conditions of the CARES Act, the Initial Guidance, the Interim Final Rule, and any subsequent guidance or rules published in connection with the CARES Act or the PPP. Borrower may request forgiveness beginning no earlier than eight weeks after the date of the Note. The maximum amount that may be eligible for forgiveness shall be based on Borrower's Payroll Costs and Borrower's qualifying mortga ge interest, rent expenses, and utilities expenses paid by Borrower during the eight week period beginning on the day of the origination of the Loan (the "Measurement Period") (lo be qualifying, the mortgage interest, rent expense or utilities (meaning a service for the distribution of electricity, gas, water, transportation, telephone or internet access) must relate to a mortgage of Borrower on real or personal property in existence, a leasing agreement in force and utilities in service, as the case may be, prior to February 15, 2020 and excludes any prepayment of mortgage interest). The PPP may cap the actual amount of non-Payroll Costs that may be forgiven (ii is anticipated that amounts of Loan proceeds used for non-Payroll Costs in excess of 25 % of Loan proceeds will not be forgivable). In addit ion, the actual amount forgiven will be reduced (a) in proportion to any reduction in the average number of Borrower's full-time employees per month employed during the Measurement Period compared to the average number of full-time employees Borrower employed per month during either (I) the period beginning February 15, 2019 and ending June 30, 2019 or (II) the Reriod beginning January 1, 20 20 and ending February 29, 2020, and (b) by the reduction in pay of any employee of Borrower in excess of 25% of the employee's compensation during the most recent quarter during which the employee was employed before the Measurement Period (excluding employees who received during any pay period in 2019 a wages or salary at an annualized rate of more than $100,000). provided, however, that such reductions in the forgivable amount of the Loan shall not apply if before June 30, 2020 Borrower rehires workers previously terminated from February 15, 2020 through April 26, 2020 or restores employment and salary levels to pre-February 15, 2020 levels. In connection with any such request for forgiveness, Borrower must deliver Lender such information as Lender may request in accordance with the requirements for loan forgiveness then in effect under the PPP (which, as of the date hereof, may include (x) tax documentation sufficient to demonstrate Borrower's Payroll Costs, such as IRS Forms 941 covering the Measurement Period, and (y) evidence of the payment of qualifying mortgage interest, rent and utilities during the Measurement Period (such as cancelled checks, payment receipts and bank statements)) as well as a certification by an authorized officer of Borrower, in form and substance satisfactory to Lender, certifying that such the information submitted to Lender is true and accurate in all material respects and that Borrower utilized the funds to be forgiven in order to retain employees on its payroll and to make eligible mortgage interest, rent and utility payments. In addition, as provided under the "Signatures" heading in the Representations and Warranties section above, if the Loan was closed and funded based on scanned or facsimile signatures of the Application, the Note, this Agreement or any Related Documents, then Lender may also require Borrower to deliver the original copies, containing "wet" signatures, of any such document. NOTWITHSTANDING THE FOREGOING, IN ALL EVENTS THE TERMS AND CONDITIONS OF ANY FORGIVENESS OF THE **LOAN SHALL BE SUBJECT TO THE RULES, REGULATIONS AND GUIDANCE ISSUED UNDER THE PPP AND IN EFFECT AS OF THE DATE OF BORROWER'S REQUEST FOR FORGIVENESS, AND LENDER WILL PROCESS AND RESPOND TO ALL REQUESTS FOR FORGIVENESS STRICTLY IN ACCORDANCE WITH THE PPP.**

Lender shall notify Borrower in writing within sixty (60) days of Lender's receipt of all required documentation from Borrower of its decision regarding Borrower's request for forgiveness under Section 1106 of the CARES Act. If Lender denies Borrower's forgiveness request, in whole or in part, ("Lender Denial") and Borrower objects a Lender Denial, in whole or in part ("Borrower Objection"), Borrower must notify Lender in within thirty (30) days of receipt by Borrower of a Lender Denial or Borrower shall have waived any such objection, claim or defense arising from or related to such Lender Denial and shall be barred from later asserting any such objection as a claim against Lender or a defense to the Indebtedness. Except when the SBA is the holder of the Note, any claim or defense asserted by Borrower related to a Lender Denial and Borrower Objection shall be determined in accordance with the provis ions set forth in the "Arbitration" section below upon the election and demand of Lender. In the event of any legal challenge to the Lender Denial in any judicial or arbitration proceeding, Lender, in addition to whatever other defenses it may have, shall also be entitled to assert any and all defenses which could have been asserted by the SBA had it been the SBA that made the determination as to Borrower's request for forgiveness rather than Lender, and the same standard of review shall apply to review of the Lender Denial that would have applied had the SBA that made the determination as to Borrower's request for forgiveness rather than Lender. For avoidance of doubt, Borrower may not assert any claims against Lender as a result of the Lender Denial unless such claims could also have been asserted against the SBA.

Borrower understands and acknowledges that the formula used to calculate the amount of the loan Borrower was eligible for under the PPP (2.5 times Borrower's average monthly Payroll Costs over a specified period, as provided in the Application) is different from the formula used to calculate the amount of the Loan that may be forgiven (as summarized above, based on the PPP rules, regulations and guidance as currently in effect). **BORROWER UNDERSTANDS AND AGREES THAT BORROWER SHALL REMAIN LIABLE FOR THE PAYMENT IN FULL OF ANY AND ALL AMOUNTS OF PRINCIPAL AND INTEREST THAT ARE DEEMED NOT FORGIVABLE FOR ANY REASON UNDER THE PPP. ALL UNFORGIVEN AMOUNTS OF PRINCIPAL AND INTEREST REMAINING OUTSTANDING OR ACCRUING AFTER LENDER HAS MADE A DETERMINATION AS TO THE AMOUNT OF THE LOAN THAT CAN BE FORGIVEN SHALL BE DUE AND PAYABLE TO LENDER IN ACCORDANCE WITH THE TERMS OF THE NOTE.**

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Entire Agreement· Amendment. This Agreement and any attachments hereto, together with Note and the other Related Documents, together constitute the entire agreement of the parties as to the matters set forth herein and therein and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties. No amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the amendm ent.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Construction. Should any provision of this Agreement require judicial interpretation, the parties hereto agree that the court interpreting or construing the same shall not apply a presumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that a document is to be more strictly construed against the party who itself or through its agents prepared the same, it being agreed that Borrower, Lender and their respective agents have participated in the preparation hereof.

Consent to Sale or Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of the Loan or one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender, including, without limitation, the SBA, Treasury or any other federal agency or instrumentality of the United States of America. Lender may provide, without any limitation whatsoever, to any such purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements gove rn ing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespect ive of the f13ilure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender. Borrower shall execute, acknowledge and deliver any and all instruments reasonably requested by Lender in connection therewith, and to the extent, if any, specified in any such assignment or participation, such assignee(s) or participant(s) shall have the same rights and benefits with respect to this Agreement and the Related Documents as such assignee(s) or participant(s)) would have if such assignee(s) or participant(s) were Lender hereunder. Lender may disseminate any information it now has or hereafter obtains pertaining to the Loan, Borrower, to Lender's affiliates or to any regulatory body having jurisdiction over Lender.

Governing Law. Prior to the SBA becoming holder of the Note, the Note, this Agreement and the Related Documents will be interpreted and enforced under the laws of the state in which the branch of Lender to which the Application was submitted (whether by hand or via email or facsimile) is located. When SBA is the holder, this Agreement and the Related Documents will be interpreted and enforced under federal law, including SBA regulations. SBA or Lender may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any immunity from state or local control, penalty, tax or liability. As to this Agreement, Borrower may not claim or assert against SBA any local or state law to deny any obligation: defeat any claim of SBA, or preempt federal law. Any clause in this Agreement requiring arbitration is not enforceable when the SBAis the holder of the Note.

No Waiver. Lender shall not be deemed to have waived any rights under this Agreement or the Note unless such waiver is in writing and signed by Lender. No delay or omission on the part of Lender in exercising ariy right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower shall constitute a waiver of any of Lender's rights or of any of Borrower's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in Lender's sole discretion.

Notices. Any notice required to be given under this Agreement shall be given in writing and shall be effective when actually delivered, when actually received by facsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown at the beginning of this Agreement (or in the Note). A party may change its address for notices under this Agreement by giving formal written to the other party, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address.

Electronic Transmission of Data. Lender and Borrower agree that certain data related to the Loan (including confidential information, documents, applications and reports) may be transmitted electronically, including transmission over the internet to the parties, the parties' affiliates, agents and representatives. Borrower acknowledges and agrees that (a) there are risks associated with the use of electronic transmission and that Lender does not control the method of transmittal of service providers, (b) Lender has no obligation or responsibility whatsoever and assumes no duty or obligation for the security, receipt or third party interception of any such transmission, and (c) Borrower will release, hold harmless and indemnify Lender from any claim, damage or loss, including that arising in whole or part from Lender's strict liability or sole, comparative or contributory negligence, which is related to the electronic transmission of data.

Severability. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, IF ANY PROVISION OF THE NOTE, THIS AGREEMENT OR ANY RELATED DOCUMENT IS INCONSISTENT WITH OR PROHIBITED BY THE PPP, THEN SUCH PROVISION SHALL BE DEEMED NULL AND VOID AND STRICKEN FROM THE NOTE, THIS AGREEMENT OR THE RELATED DOCUMENT, AS APPLICABLE, AS IF IT HAD NEVER EXISTED, AND THE REMAINDER OF SUCH DOCUMENT SHALL REMAIN IN FULL FORCE AND EFFECT. In addition, if a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity, or enforceability of any other provision of this Agreement.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and permitted assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender. Any purported assignment by Borrower without such prior Lender consent shall be void ab iniitio.

Survival of Representations and Warranties. Borrower understands and agrees that in extending Loan Advances, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the extension of Loan Advances and *delivery* to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as the Note shall be paid in full or until this Agreement shall be tenminated in the manner provided above, whichever is the last to occur.

No Inference of Extension Past Maturity Date. Notwithstanding any other provision herein, the terms, conditions, and requirements provided for herein that would, by their express tenms, be applicable to time periods after the Maturity Date of the Note, are not to be interpreted as an inference that Lender has agreed to any extension, automatic or otherwise, to the extension of the Maturity Date. Lender has not agreed and is under no obligation to extend the Maturity Date of the Note.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waiver of Right To Trial By Jury. EXCEPT WHEN SBA IS THE HOLDER OF THE NOTE OR WHEN EXPRESSLY PROHIBITED BY APPLICABLE LAW, EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING UNDER THIS AGREEMENT OR ANY RELATED DOCUMENT, OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

Non-Control. In no event shall Lender's rights hereunder be deemed to indicate that Lender is in control of the business, management or properties of Borrower or has power over the daily management functions and operating decisions made by Borrower, all such rights and powers being hereby expressly reserved to Borrower.

Holidays. In any case where the date for any action required to be performed under this Agreement or under any other Related Document shall be, in the city where the performance is to be made, a Saturday, a Sunday, a legal holiday or a day on which banking institutions are authorized by law to close, then such performance may be made on the next succeeding business day.

State Specific Provisions. The following state law specific terms shall control in the event of a conflict between the terms of the Note or any other conflicting terms of this Agreement:

If Florida law governs the Note and the Loan, then the following provision applies: Garnishment. Borrower consents to the issuance of a continuing writ of garnishment or attachment against Borrower's disposable earnings, in accordance with Section 222.11, Florida Statutes, in order to satisfy, in whole or in part, any money judgment entered in favor of Lender.

If Georgia law governs the Note and the Loan, then the following provision applies to the Note: Attorneys' Fees· Expenses. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's costs of collection, including court costs and fifteen percent (15%) of the principal plus accrued interest as attorneys; fees, if any sums owing under the Note are collected by or through an attorney at law, whether or not there is a lawsuit, and legal expenses for bankruptcy proceedings, including efforts to modify or vacate any (automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

ARBITRATION. Provided that SBA is not the holder of the Note, any claim or defense asserted by Borrower arising out of or relating in any way to a Lender Denial and Borrower Objection shall be exclusively resolved by arbitration as provided in the following paragraphs of this Section upon the election and written demand of Lender.

Borrower and Lender shall first attempt to resolve any dispute arising from or related to a Lender Denial and Borrower Objection by informal, non-binding mediation as provided in this paragraph 2. Within thirty (30) days of delivery and receipt of a Borrower Objection, management level representatives of both parties shall meet at an agreed location (or buy such other virtual or telephonic means as the parties may agree) to attempt to resolve the Borrower Objection in good faith. Should the dispute not be resolved within thirty (30) days after delivery and receipt of a Borrower Objection, Lender may thereafter, at its election and demand, seek to resolve any claim or defense arising from or related to such Borrower Objection exclusively through arbitration.

Lender's assertion of a claim under the Note in any court shall not be deemed to have waived its right to s eek arbitration as provided in the preceding sentence should Borrower assert the Lender Denial or Borrower Objection as claim again st Lender or d efense to the Indebtedness in any judicial proceeding. This agreement to arbitrate shall be specifically enforceable. Lender may apply to any court with jurisdiction for interim or conservatory relief, including without limitation a proceeding to. compel arbitration.

The arbitration shall be: (a) conducted by one arbitrator if the amount in controversy is less than $500,000, or (b) three arbitrators if the amount in controversy is greater than $500,000. If the parties are not able to agree upon the selection of an arbitrator, within thirty days of commencement of an arbitration proceeding by service of a demand for arbitration, the American Arbitration Association shall select the arbitrator in accordance with the terms of this Agreement. For three arbitrators, each party shall select an arbitrator within fifteen (15) days of comm encement of the arbitration who shall serve as a neutral arbitrator and the two designated arbitrators shall select a third neutral arbitrator within twenty (20) days of their sel ection if the parties cannot agree on a third arbitrator. If the two arbitrators cannot agree on selection of a third arbitrator within twenty (20) days of their appointment, the American Arbitration Association shall select such arbitrator in accordance with the terms of this Agreement. The arb itrator(s) shall have ten years of experience in business accounting or commercial loan transactions and also shall have served as an arbitrator at least three times prior to their service as an arbitrator in this arbitration. The arbitration shall be conducted in accordance with the then existing Commercial Rules of the American Arbitration Association in Atlanta, Georgia.

It is the intent of the parties that, barring extraordinary circumstances, arbitration proceedings will be concluded within ninety (90) days from the date the arbitrator(s) are appointed. The arbitrator(s) may extend this time limit in the interests of justice. Failure to adhere to this time limit shall not constitute a basis for challenging the award. Except as may be required by law, neither a party nor its representatives may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties. The parties shall be entitled to discovery in the arbitration. The arbitrator(s) shall be entitled to establish reasonable limits on discovery. Any party shall be entitled to depose any expert who will testify in the arbitration proceeding but shall pay the regular hourly rate of such expert during such deposition. In addition to the foregoing, any Party shall be entitled to take the deposition of a witness who will testify at the arbitration but who is unavailable to testify at the hearing to preserve such witness' testimony for the arbitration hearing. The parties shall exchange a copy of all exhibits for the arbitration hearing and shall identify each witness who will testify at the arbitration, with a summary of the anticipated testimony of such witness ten days before the arbitration hearing. The arbitrator(s) shall have no authority to award punitive/consequential /special /indirect damages or to issue injunctive or other equitable relief.

Each party shall pay its own proportionate share of arbitrator fees and expenses (plus the fees and expenses of the arbitrator it designated (if there are three arbitrators) and the arbitration fees and expenses of the American Arbitration Association. The arbitrator(s) shall be entitled to award the foregoing arbitration and administrative fees and expenses as damages in his/her discretion. It is specifically understood and agreed that any party may enforce any award rendered pursuant to the arbitration provisions of this Section by bringing suit in any court of competent jurisdiction. This Section shall survive the termination or cancellation of this Agreement.

PROHIBITION AGAINST CERTAIN PROCEEDINGS: N01WITHSTANDING ANY OTHER LANGUAGE IN THIS ARBITRATION PROVISION TO THE CONTRARY, FOR CLAIMS SUBJECT TO ARBITRATION: (1) BORROWER MAY NOT PARTICIPATE IN A CLASS ACTION IN COURT OR IN A CLASS-WIDE ARBITRATION, EITHER AS A PLAINTIFF, CLASS REPRESENTATIVE OR CLASS MEMBER; (2) BORROWER MAY NOT ACT AS A PRIVATE ATTORNEY GENERAL IN COURT OR IN ARBITRATION; (3) CLAIMS BROUGHT BY OR AGAINST BORROWER MAY NOT BE JOINED OR CONSOLIDATED WITH CLAIMS BROUGHT BY OR AGAINST ANY OTHER PERSON; AND (4) THE ARBITRATOR(S) SHALL HAVE NO POWER OR AUTHORITY TO CONDUCT A CLASS-WIDE ARBITRATION, PRIVATE ATTORNEY GENERAL ARBITRATION OR MULTIPLE-PARTY ARBITRATION.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of Am erica. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance witn generally accepted accounting principles as in effect on the date hereof:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borro wer or on Borrower's behalf under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Application. The word "Application' shall mean the loan application completed by Borrower for the Loan under the PPP on the form prescribed by SBA with assistance from the Treasury Department.

Borrower. The word “Borrower” means the sole proprietorship or business entity identified either in the heading of this Agreement or the signature space which proprietorship or entity shall be one and the same person or entity as identified in the Note and includes all co-signers and co-makers signing the Note and all their successors and assigns.

CARES Act. The words “CARES Act” shall mean the Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 124 Stat. 281 (Mar. 27, 2020).

Event of Default. The words “Event of Default” mean any default under the Note and the events of default set forth in the “Events of Default” section of this Agreement.

Indebtedness. The word “Indebtedness” means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or any of the Related Documents.

Initial PPP Guidance. The words “Initial PPP Guidance” shall mean the guidance published by the Treasury Department on March 31, 2020, concerning the PPP, which may be found at httosJ/home.treasurv.eov/policv-issues/too-prioriti es/cares-act/ assistance-for-small- busin esses.

Interim Final Rule. The word “Interim Final Rule” shall mean the Interim Final Rule regarding the PPP published by SBA on April 2, 2020, which may be found at Docket No. SBA-2020-0015, 13 CFR Part 120, RIN 3245-AH34 (httosJ/homet.reasUN.2ov/s ystem/fil es/l 36/PPP-IFRN%20FINAL.pdfl.

Lender. The word “Lender” means Renasant Bank, its successors and assigns.

Loan. The word “Loan” shall mean that certain loan extended by Lender to Borrower under the provisions of the PPP.

Maturity Date. The words “Maturity Date” shall mean the date the last payment is due under the Note as provided therein.

Note. The word “Note” means the promissory note or notes given by Borrower to Lender in connection with the Loan, together with all replacements of, renewals of, extensions of, modifications of, refinancing of, consolidations of, and substitutions for the note or credit agreement.

PPP. “PPP” shall mean, collectively, the Paycheck Protection Program enacted under Title I of the CARES Act and implemented by the SBA with assistance from the Treasury Department and the rules, regulations and guidance issued by the SBA and Treasury Department thereunder, including, without limitation, the Initial PPP Guidance and the Interim Final Rule (and recognizing that, if subsequent rules, regulations or guidance contradict or conflict with earlier rules, regulations and guidance, such subsequent rules, regulations or guidance shall deemed to be controlling except to the extent that it is expressly provided that Lender may rely on the earlier rule, regulation or guidance notwithstanding such contradiction or conflict).

Related Documents. The words “Related Documents” mean all applications promissory notes, loan agreements, and all other instruments, agreements and documents, whether now or hereafter existing, executed or submitted to Lender in connection with the Loan and shall include the Application, the Note, and this Agreement, together with all replacements of, renewals of, extensions of, modifications of, refinancing of, consolidations of, and substitutions for such documents.

SBA. The word “SBA” shall mean the Small Business Administration, a governmental agency of the United States.

Treasury Department. The word ‘Treasury Department” shall mean the Department ofT reasury which is an executive department of the United States federal government.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS.

BORROWER NAME: Harrow Health, Inc.	LENDER: RENASANT BANK
By: */s/ Andrew R. Boll*	By: */s/ Tony Sharpe*
Title: CFO	Title: Branch Manager Lender

EXHIBIT 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark L. Baum, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Harrow Health, 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 the report any change in this 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: August 10, 2020

/s/ Mark L. Baum

Mark L. Baum
Chief Executive Officer
Principal Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER UNDER SECTION 302 OF THE SARBANES-OXLEY ACT

I, Andrew R. Boll, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Harrow Health, 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 the report any change in this 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: August 10, 2020

/s/ Andrew R. Boll

Andrew R. Boll
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION REQUIRED BY
SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his capacity as the specified officer of Harrow Health, Inc. (the "Company"), that, to the best of his knowledge, the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended June 30, 2020 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: August 10, 2020

/s/ Mark L. Baum
Mark L. Baum
Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2020

/s/ Andrew R. Boll
Andrew R. Boll
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.