

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, 2024

OR

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

For the transition period from to

Commission File Number 001-35366

FORTRESS BIOTECH, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-5157386

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

1111 Kane Concourse Suite 301

Bay Harbor Islands, FL 33154

(Address including zip code of principal executive offices)

(781) 652-4500

(Registrant's telephone number, including area code)

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

Title of Class	Trading Symbol(s)	Exchange Name
Common Stock	FBIO	Nasdaq Capital Market
9.375% Series A Cumulative Redeemable Perpetual Preferred Stock	FBIOF	Nasdaq Capital Market

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

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

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

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

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

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

Class of Stock	Outstanding Shares as of August 9, 2024
Common Stock, \$0.001 par value	22,813,954
9.375% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.001 par value	3,427,138

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q

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SUMMARY OF RISK FACTORS

Our business is subject to risks of which you should be aware before making an investment decision. The risks described below are a summary of the principal risks associated with an investment in us and are not the only risks we face. You should carefully consider these risk factors, the risk factors described in Item 1A, and the other reports and documents that we have filed with the Securities and Exchange Commission (“SEC”). As used below and throughout this filing (including in the risk factors described in Item 1A), the words “we”, “us” and “our” may refer to Fortress Biotech, Inc. individually, to one or more of its subsidiaries and/or partner companies, or to all such entities as a group, as dictated by context.

Risks Inherent in Drug Development

- Many of our product candidates are in early development stages and are subject to time and cost intensive regulation and clinical testing, which may result in the identification of safety or efficacy concerns. As a result, our product candidates may never be successfully developed or commercialized.
- Our competitors may develop treatments for our products’ target indications, which could limit our product candidates’ commercial opportunity and profitability.

Risks Pertaining to the Need for and Impact of Existing and Additional Financing Activities

- We have a history of operating losses and expect such losses to continue in the future.
- We have funded our operations in part through the assumption of debt, and the applicable lending agreements may restrict our operations. Further, the occurrence of any default event under an applicable loan document could adversely affect our business.
- Our research and development (“R&D”) programs will require additional capital, which we may be unable to raise as needed and which may impede our R&D programs, commercialization efforts, or planned acquisitions.
- Our board of directors has paused payments of dividends on our preferred stock, and there can be no assurance that monthly dividend payments will be resumed in a timely manner, or at all.
- If we raise additional capital by issuing equity, equity-linked securities or securities convertible into or exercisable for equity securities, our existing stockholders will be diluted.

Risks Pertaining to Our Existing Revenue Stream from Journey Medical Corporation (“Journey”)

- Our operating income derives primarily from the sale of our partner company Journey’s dermatology products, particularly Qbrexza, Accutane, Amzeeq, Zilxi, Targadox, Luxamend, and Exelderm. Any issues relating to the manufacture, sale, utilization, or reimbursement of Journey’s products (including products liability claims) could significantly impact our operating results.
- A significant portion of Journey’s sales derive from products that are without patent protection and/or are or may become subject to third party generic competition, the introduction of new competitor products, or an increase in market share of existing competitor products, any of which could have a significant adverse effect on our operating income. Three of Journey’s marketed products, Qbrexza, Amzeeq and Zilxi, as well as product candidate DFD-29, a modified release oral minocycline for the treatment of rosacea licensed from Dr. Reddy’s Laboratories, currently have patent protection. Four of Journey’s marketed products, Accutane, Targadox, Luxamend and Exelderm, do not have patent protection or otherwise are not eligible for patent protection. With respect to Journey products that are covered by valid claims of issued patents, such patents may be subject to invalidation, which would harm our operating income.
- Continued sales and coverage, including formulary inclusion without the need for a prior authorization or step edit therapy, of our products for commercial sale will depend in part on the availability of reimbursement from third-party payors, including government payors. Third-party payors are increasingly examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy, and, accordingly, significant uncertainty exists as to the reimbursement status of current and newly approved therapeutics.

Risks Pertaining to our Business Strategy, Structure and Organization

- We have entered, and will likely in the future enter, into certain collaborations or divestitures which may cause a reduction in our business’ size and scope, market share and opportunities in certain markets, or our ability to compete in certain markets and therapeutic categories.

- We and our subsidiaries and partner companies have also entered into, and intend in the future to enter into, arrangements under which we and/or they have agreed to contingent dispositions of such companies and/or their assets. The failure to consummate any such transaction may impair the value of such companies and/or assets, and we may not be able to identify or execute alternative arrangements on favorable terms, if at all. The consummation of any such arrangements with respect to certain product candidates may also result in our eligibility to receive a lower portion of sales (if any) of resulting approved products than if we had developed and commercialized such products ourselves.
- Our growth and success depend on our acquiring or in-licensing products or product candidates and integrating such products into our businesses.
- We act, and are likely to continue acting, as guarantor and/or indemnitor of certain obligations of our subsidiaries and partner companies, including our indemnification of our former subsidiary Caelum with respect to the UTRF litigation, which could require us to pay substantial amounts based on the actions or omissions of said entities.

Risks Pertaining to Reliance on Third Parties

- We rely heavily on third parties for several aspects of our operations, including manufacturing and developing product candidates, conducting clinical trials, and producing commercial product supply. Such reliance on third parties reduces our ability to control every aspect of the drug development process and may hinder our ability to develop and commercialize our products in a cost-effective and timely manner.

Risks Pertaining to Intellectual Property and Potential Disputes with Licensors Thereof

- If we are unable to obtain and maintain patent protection for our technologies and products, or if the scope of the patent protection obtained is not sufficiently broad, our competitors could develop and commercialize technologies and products similar or identical to ours, and our ability to successfully commercialize our technologies and products may be impaired.
- We or our licensors may be subject to costly and time-consuming litigation for infringement of third-party intellectual property rights or to enforce our or our licensors' patents.
- Any dispute with our licensors may affect our ability to develop or commercialize our product candidates.

Risks Pertaining to Generic Competition and Paragraph IV Litigation

- Generic drug companies may submit applications seeking approval to market generic versions of our products.
- In connection with these applications, generic drug companies may seek to challenge the validity and enforceability of our patents through litigation and/or with the United States Patent and Trademark Office ("PTO"). Such challenges may subject us to costly and time-consuming litigation and/or PTO proceedings.
- As a result of the loss of any patent protection from such litigation or PTO proceedings, or the "at-risk" launch by a generic competitor of our products, our products could be sold at significantly lower prices, and we could lose a significant portion of product sales in a short period of time, which could adversely affect our business, financial condition, operating results and prospects.

Risks Pertaining to the Commercialization of Product Candidates

- If our product candidates, if approved, are not broadly accepted by the healthcare community, the revenues from any such products are likely to be limited.
- We may not obtain the desired product labels or intended uses for product promotion, or favorable scheduling classifications desirable to successfully promote our products.
- Even if a product candidate is approved, it may be subject to various post-marketing requirements, including studies or clinical trials, the results of which could cause such products to later be withdrawn from the market.
- Any successful products liability claim related to any of our current or future product candidates may cause us to incur substantial liability and limit the commercialization of such products.

Risks Pertaining to Legislation and Regulation Affecting the Biopharmaceutical and Other Industries

- We operate in a heavily regulated industry, and we cannot predict the impact that any future legislation or administrative or executive action may have on our operations.

General and Other Risks

- We have previously failed to satisfy certain continued listing rules of The Nasdaq Stock Market LLC (“Nasdaq”), and if we again are unable to meet the continued listing requirements, our Common Stock and Preferred Stock may be subject to delisting from The Nasdaq Capital Market if we are unable to regain compliance with such rules. The delisting of our Securities from the Nasdaq may decrease the market liquidity and market price of our Common Stock and Preferred Stock.

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets
(\$ in thousands except for share and per share amounts)

	<u>June 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 76,201	\$ 80,927
Accounts receivable, net	10,465	15,222
Inventory	9,687	10,206
Other receivables - related party	224	167
Prepaid expenses and other current assets	4,649	10,500
Assets held for sale	2,209	—
Total current assets	<u>103,435</u>	<u>117,022</u>
Property, plant and equipment, net	3,546	6,505
Operating lease right-of-use asset, net	14,626	16,990
Restricted cash	2,063	2,438
Intangible assets, net	18,658	20,287
Other assets	3,357	4,284
Total assets	<u>\$ 145,685</u>	<u>\$ 167,526</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$ 68,921	\$ 73,562
Income taxes payable	806	843
Common stock warrant liabilities	172	886
Operating lease liabilities, short-term	2,481	2,523
Partner company convertible preferred shares, short-term, net	—	3,931
Partner company installment payments - licenses, short-term, net	3,000	3,000
Other short-term liabilities	163	163
Total current liabilities	<u>75,543</u>	<u>84,908</u>
Notes payable, long-term, net	67,007	60,856
Operating lease liabilities, long-term	15,934	18,282
Other long-term liabilities	1,799	1,893
Total liabilities	<u>160,283</u>	<u>165,939</u>
Commitments and contingencies (Note 14)		
Stockholders' equity (deficit)		
Cumulative redeemable perpetual preferred stock, \$0.001 par value, 15,000,000 authorized, 5,000,000 designated Series A shares, 3,427,138 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively, liquidation value of \$25.00 per share	3	3
Common stock, \$0.001 par value, 200,000,000 shares authorized, 22,587,038 and 15,093,053 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively	23	15
Additional paid-in-capital	739,086	717,396
Accumulated deficit	(721,235)	(694,870)
Total stockholders' equity attributed to the Company	<u>17,877</u>	<u>22,544</u>
Non-controlling interests	(32,475)	(20,957)
Total stockholders' equity (deficit)	<u>(14,598)</u>	<u>1,587</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 145,685</u>	<u>\$ 167,526</u>

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Operations
(\$ in thousands except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue				
Product revenue, net	\$ 14,855	\$ 16,961	\$ 27,885	\$ 29,126
Collaboration revenue	—	183	—	364
Revenue - related party	41	31	41	66
Other revenue	—	211	—	259
Net revenue	<u>14,896</u>	<u>17,386</u>	<u>27,926</u>	<u>29,815</u>
Operating expenses				
Cost of goods sold - product revenue	6,541	7,767	13,357	14,216
Research and development	12,671	32,139	37,495	67,415
Research and development - licenses acquired	—	3	—	4,233
Selling, general and administrative	20,823	24,439	38,777	49,780
Asset impairment	2,649	3,143	2,649	3,143
Total operating expenses	<u>42,684</u>	<u>67,491</u>	<u>92,278</u>	<u>138,787</u>
Loss from operations	<u>(27,788)</u>	<u>(50,105)</u>	<u>(64,352)</u>	<u>(108,972)</u>
Other income (expense)				
Interest income	734	715	1,567	1,751
Interest expense and financing fee	(2,122)	(6,425)	(4,724)	(10,721)
Change in fair value of warrant liabilities	—	(512)	—	6,166
Gain (loss) on common stock warrant liabilities	70	—	(597)	—
Loss from deconsolidation of subsidiaries	—	(3,369)	—	(3,369)
Other income (expense)	282	395	260	699
Total other income (expense)	<u>(1,036)</u>	<u>(9,196)</u>	<u>(3,494)</u>	<u>(5,474)</u>
Net loss	<u>(28,824)</u>	<u>(59,301)</u>	<u>(67,846)</u>	<u>(114,446)</u>
Net loss attributable to non-controlling interests	17,876	34,525	41,481	68,133
Net loss attributable to Fortress	<u>\$ (10,948)</u>	<u>\$ (24,776)</u>	<u>\$ (26,365)</u>	<u>\$ (46,313)</u>
Net loss attributable to common stockholders	<u>\$ (13,339)</u>	<u>\$ (26,917)</u>	<u>\$ (31,199)</u>	<u>\$ (50,595)</u>
Net loss per common share attributable to common stockholders - basic and diluted	\$ (0.73)	\$ (3.65)	\$ (1.76)	\$ (7.14)
Weighted average common shares outstanding - basic and diluted	18,316,874	7,377,332	17,736,299	7,086,482

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit)
(\$ in thousands except for share amounts)

For the Three Months Ended June 30, 2024

	Series A Perpetual Preferred Stock		Common Stock		Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance as of March 31, 2024	3,427,138	\$ 3	19,375,343	\$ 19	\$ 733,290	\$ (710,287)	\$ (26,962)	\$ (3,937)
Stock-based compensation expense	—	—	—	—	4,998	—	—	4,998
Issuance of common stock related to equity plans	—	—	34,293	—	—	—	—	—
Issuance of common stock under ESPP	—	—	29,844	—	51	—	—	51
Issuance of common stock for at-the-market offering, net	—	—	1,092,283	1	1,930	—	—	1,931
Common shares issued for dividend on partner company's convertible preferred shares	—	—	26,930	—	46	—	—	46
Common shares issued for exchange of partner company's convertible preferred shares	—	—	2,028,345	3	3,406	—	—	3,409
Warrants issued in conjunction with exchange of partner company's convertible preferred shares	—	—	—	—	341	—	—	341
Preferred A dividends declared and paid	—	—	—	—	(2,008)	—	—	(2,008)
Partner companies' offerings, net	—	—	—	—	5,265	—	—	5,265
Partner company's at-the-market offering, net	—	—	—	—	295	—	—	295
Partner company's dividends declared and paid	—	—	—	—	(176)	—	—	(176)
Partner companies' proceeds from options and warrants, net	—	—	—	—	4,010	—	—	4,010
Non-controlling interest in partner companies	—	—	—	—	(12,363)	—	12,363	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(17,876)	(17,876)
Net loss attributable to common stockholders	—	—	—	—	—	(10,948)	—	(10,948)
Balance as of June 30, 2024	3,427,138	\$ 3	22,587,038	\$ 23	\$ 739,086	\$ (721,235)	\$ (32,475)	\$ (14,598)

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit)
(\$ in thousands except for share amounts)

For the Three Months Ended June 30, 2023

	Series A Perpetual Preferred Stock		Common Stock		Common Shares Issuable	Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of March 31, 2023	3,427,138	\$ 3	8,694,477	\$ 9	\$ —	\$ 693,554	\$ (655,770)	\$ (17,990)	\$ 19,806
Stock-based compensation expense	—	—	—	—	—	4,217	—	—	4,217
Issuance of common stock related to equity plans	—	—	5,515	—	—	—	—	—	—
Issuance of common stock for public offering, net	—	—	—	—	—	(41)	—	—	(41)
Issuance of common stock for at-the-market offering, net	—	—	66,098	—	—	721	—	—	721
Common shares issued for dividend on partner company's convertible preferred shares	—	—	11,066	—	23	108	—	—	131
Preferred A dividends declared and paid	—	—	—	—	—	(2,008)	—	—	(2,008)
Partner company's offering, net	—	—	—	—	—	14,460	—	—	14,460
Issuance of common stock under partner company's ESPP	—	—	—	—	—	88	—	—	88
Partner company's dividends declared and paid	—	—	—	—	—	(185)	—	—	(185)
Issuance of partner company's common shares for research and development expenses	—	—	—	—	—	3	—	—	3
Partner company's exercise of options for cash	—	—	—	—	—	3	—	—	3
Partner company's warrants issued in conjunction with debt	—	—	—	—	—	272	—	—	272
Deconsolidation of Aevitas non-controlling interest	—	—	—	—	—	—	—	5,891	5,891
Non-controlling interest in partner companies	—	—	—	—	—	(12,172)	—	12,172	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(34,525)	(34,525)
Net loss attributable to common stockholders	—	—	—	—	—	—	(24,776)	—	(24,776)
Balance as of June 30, 2023	3,427,138	\$ 3	8,777,156	\$ 9	\$ 23	\$ 699,020	\$ (680,546)	\$ (34,452)	\$ (15,943)

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit)
(\$ in thousands except for share amounts)

For the Six Months Ended June 30, 2024

	Series A Preferred Stock		Common Stock		Paid-In Capital	Accumulated Deficit	Total Non-Controlling Interests	Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2023	3,427,138	\$ 3	15,093,053	\$ 15	\$ 717,396	\$ (694,870)	\$ (20,957)	\$ 1,587
Stock-based compensation expense	—	—	—	—	9,856	—	—	9,856
Issuance of common stock related to equity plans	—	—	495,761	—	—	—	—	—
Issuance of common stock under ESPP	—	—	29,844	—	51	—	—	51
Issuance of common stock for public offering, net	—	—	3,303,305	3	10,115	—	—	10,118
Issuance of common stock for at-the-market offering, net	—	—	1,554,483	2	2,824	—	—	2,826
Common shares issued for dividend on partner company's convertible preferred shares	—	—	64,747	—	114	—	—	114
Common shares issued for exchange of partner company's convertible preferred shares	—	—	2,028,345	3	3,406	—	—	3,409
Warrants issued in conjunction with exchange of partner company's convertible preferred shares	—	—	—	—	341	—	—	341
Preferred A dividends declared and paid	—	—	—	—	(4,016)	—	—	(4,016)
Partner companies' offerings, net	—	—	—	—	18,002	—	—	18,002
Partner companies' at-the-market offering, net	—	—	—	—	1,779	—	—	1,779
Issuance of common stock under partner company's ESPP	—	—	—	—	133	—	—	133
Partner company's dividends declared and paid	—	—	—	—	(352)	—	—	(352)
Exercise of warrants for cash	—	—	17,500	—	30	—	—	30
Exercise of partner company options and warrants for cash, net	—	—	—	—	9,370	—	—	9,370
Non-controlling interest in partner companies	—	—	—	—	(29,963)	—	29,963	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	(41,481)	(41,481)
Net loss attributable to common stockholders	—	—	—	—	—	(26,365)	—	(26,365)
Balance as of June 30, 2024	3,427,138	\$ 3	22,587,038	\$ 23	\$ 739,086	\$ (721,235)	\$ (32,475)	\$ (14,598)

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity
(\$ in thousands except for share amounts)

For the Six Months Ended June 30, 2023

	Series A Preferred Stock		Common Stock		Common Shares Issuable	Paid-In Capital	Additional Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2022	3,427,138	\$ 3	7,366,283	\$ 7	\$ —	\$ 675,944	\$ (634,233)	\$ 8,304	\$ 50,025
Stock-based compensation expense	—	—	—	—	—	8,948	—	—	8,948
Issuance of common stock related to equity plans	—	—	183,856	—	—	—	—	—	—
Issuance of common stock for public offering, net	—	—	1,109,526	2	—	13,152	—	—	13,154
Issuance of common stock for at-the-market offering, net	—	—	106,425	—	—	1,168	—	—	1,168
Common shares issued for dividend on partner company's convertible preferred shares	—	—	11,066	—	23	108	—	—	131
Preferred A dividends declared and paid	—	—	—	—	—	(4,016)	—	—	(4,016)
Partner company's offering, net	—	—	—	—	—	21,977	—	—	21,977
Partner company's exercise of options for cash	—	—	—	—	—	3	—	—	3
Issuance of common stock under partner company's ESPP	—	—	—	—	—	88	—	—	88
Partner company's dividends declared and paid	—	—	—	—	—	(371)	—	—	(371)
Issuance of partner company's common shares for research and development expenses	—	—	—	—	—	1,233	—	—	1,233
Warrants	—	—	—	—	—	272	—	—	272
Deconsolidation of Aevitas non-controlling interest	—	—	—	—	—	—	—	5,891	5,891
Non-controlling interest in partner companies	—	—	—	—	—	(19,486)	—	19,486	—
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(68,133)	(68,133)
Net loss attributable to common stockholders	—	—	—	—	—	—	(46,313)	—	(46,313)
Balance as of June 30, 2023	3,427,138	\$ 3	8,777,156	\$ 9	\$ 23	\$ 699,020	\$ (680,546)	\$ (34,452)	\$ (15,943)

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(\$ in thousands)

	Six Months Ended June 30,	
	2024	2023
Cash Flows from Operating Activities:		
Net loss	\$ (67,846)	\$ (114,446)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation expense	753	1,476
Loss on disposal of property and equipment	29	—
Bad debt expense	152	574
Amortization of debt discount	1,365	1,867
Accretion of partner company convertible preferred shares	(737)	521
Non-cash interest	—	176
Loss on extinguishment of debt	—	2,796
Amortization of acquired intangible assets	1,629	2,138
Reduction in the carrying amount of operating lease right-of-use assets	1,893	1,052
Stock-based compensation expense	9,856	8,948
Issuance of partner company's common shares for research and development expenses	—	1,233
Expense (income) associated with partner company warrant liabilities	445	(6,166)
Common shares issued for dividend on partner company's convertible preferred shares	114	131
Research and development - licenses acquired, expense	—	3,000
Loss from deconsolidation/dissolution of subsidiaries	—	3,369
Asset impairment loss	2,649	2,923
Increase (decrease) in cash and cash equivalents resulting from changes in operating assets and liabilities:		
Accounts receivable	4,605	10,897
Inventory	519	1,993
Other receivables - related party	(57)	(135)
Prepaid expenses and other current assets	1,837	2,243
Other assets	927	(97)
Accounts payable and accrued expenses	(2,837)	433
Deferred revenue	—	(364)
Income taxes payable	(37)	1
Lease liabilities	(2,390)	(980)
Other long-term liabilities	(94)	(94)
Net cash used in operating activities	<u>(47,225)</u>	<u>(76,511)</u>
Cash Flows from Investing Activities:		
Purchase of research and development licenses	—	(2,000)
Purchase of property and equipment	—	(34)
Other	—	(5)
Acquisition of VYNE products	—	(5,000)
Net cash used in investing activities	<u>—</u>	<u>(7,039)</u>

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(\$ in thousands)

	Six Months Ended June 30,	
	2024	2023
Cash Flows from Financing Activities:		
Payment of Series A perpetual preferred stock dividends	\$ (4,016)	\$ (4,016)
Proceeds from issuance of common stock for public offering, net	10,118	13,248
Proceeds from issuance of common stock for at-the-market offering, net	2,826	1,168
Proceeds from issuance of common stock under ESPP	51	—
Exercise of warrants for cash	30	—
Proceeds from partner companies' ESPP	133	88
Partner company's dividends declared and paid	(352)	(371)
Proceeds from partner companies' sale of stock, options and warrants, net	26,214	24,455
Proceeds from partner companies' at-the-market offering, net	1,779	—
Proceeds from exercise of partner companies' equity grants	—	3
Proceeds from partner company convertible preferred shares	—	854
Stock and warrants issued for exchange of partner company preferred shares	341	—
Payment of debt issuance costs associated with partner company convertible preferred shares	—	(210)
Proceeds from partner company's long-term debt, net	5,000	(90)
Repayment of partner companies' long-term debt	—	(40,375)
Proceeds from partner company's line of credit	—	28,000
Repayment of partner company's line of credit	—	(30,948)
Net cash (used in) provided by financing activities	<u>42,124</u>	<u>(8,194)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	(5,101)	(91,744)
Cash and cash equivalents and restricted cash at beginning of period	83,365	180,954
Cash and cash equivalents and restricted cash at end of period	<u>\$ 78,264</u>	<u>\$ 89,210</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,536	\$ 5,131
Cash paid (refunded) for income taxes	\$ 115	\$ (52)
Supplemental disclosure of non-cash financing and investing activities:		
Exchange of partner company convertible preferred shares for common shares	\$ 3,408	\$ —
Fair value of assets received by partner company in repurchase transaction	\$ 2,209	—
Fair value of supplies received by partner company expensed to research and development	\$ 2,509	—
Partner company accounts receivable write-off related to repurchase transaction	\$ (6,967)	—
Partner company accounts payable write-off related to repurchase transaction	\$ 3,644	—
Partner company's net purchase consideration of assets recorded to accrued other	\$ (1,395)	—
Transfer of assets classified as held for sale	\$ —	\$ 4,348
Settlement of restricted stock units into common stock	\$ —	\$ 3
Unpaid partner company's offering cost	\$ —	\$ 246
Partner company derivative warrant liability associated with partner company convertible preferred shares	\$ —	\$ 33
Prepaid public offering cost	\$ —	\$ 94

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

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Description of Business

Fortress Biotech, Inc. (“Fortress” or the “Company”) is a biopharmaceutical company focused on acquiring and advancing assets to enhance long-term value for shareholders through product revenue, equity holding and dividend and royalty revenue streams. Fortress works in concert with its extensive network of key opinion leaders to identify and evaluate promising products and product candidates for potential acquisition. The Company has executed such arrangements in partnership with some of the world’s foremost universities, research institutes and pharmaceutical companies, including City of Hope National Medical Center (“COH” or “City of Hope”), Fred Hutchinson Cancer Center, Dana-Farber Cancer Institute, Nationwide Children’s Hospital, Cincinnati Children’s Hospital Medical Center, Columbia University, the University of Pennsylvania, AstraZeneca plc and Dr. Reddy’s Laboratories, Ltd.

Following the exclusive license or other acquisition of the intellectual property underpinning a product or product candidate, Fortress leverages its business, scientific, regulatory, legal and finance expertise to help the partners achieve their goals. Partner and subsidiary companies then assess a broad range of strategic arrangements to accelerate and provide additional funding to support research and development, including joint ventures, partnerships, out-licensings, sales transactions, and public and private financings. To date, four partner companies are publicly-traded, and three have consummated strategic partnerships with industry leaders, including AstraZeneca plc as successor-in-interest to Alexion Pharmaceuticals, Inc. (“AstraZeneca”) and Sentyln Therapeutics, Inc. (“Sentyln”).

Our subsidiaries and partner companies that are pursuing development and/or commercialization of biopharmaceutical products and product candidates are: Avenue Therapeutics, Inc. (Nasdaq: ATXI, “Avenue”), Baergic Bio, Inc. (“Baergic”, a subsidiary of Avenue), Cellvation, Inc. (“Cellvation”), Checkpoint Therapeutics, Inc. (Nasdaq: CKPT, “Checkpoint”), Cyprium Therapeutics, Inc. (“Cyprium”), Helocyte, Inc. (“Helocyte”), Journey Medical Corporation (Nasdaq: DERM, “Journey” or “JMC”), Mustang Bio, Inc. (Nasdaq: MBIO, “Mustang”) and Oncogenuity, Inc. (“Oncogenuity”).

As used throughout this filing, the words “we”, “us” and “our” may refer to Fortress individually, to one or more of its subsidiaries and/or partner companies, or to all such entities as a group, as dictated by context. Generally, “subsidiary” refers to a private Fortress subsidiary, “partner company” refers to a public Fortress subsidiary, and “partner” refers to an entity with whom one of the foregoing parties has a significant business relationship, such as an exclusive license or an ongoing product-related payment obligation. The context in which any such term is used throughout this document, however, may dictate a different construal from the foregoing.

Liquidity and Capital Resources

Since inception, the Company’s operations have been financed primarily through the sale of equity and debt securities, from the sale of subsidiaries/partner companies, and the proceeds from the exercise of warrants. The Company has incurred losses from operations and negative cash flows from operating activities since inception and expects to continue to incur substantial losses for the next several years as it continues to fully develop and prepare regulatory filings and obtain regulatory approvals for its existing and new product candidates. The parent Company’s current cash and cash equivalents of \$38.2 million are sufficient to fund the parent entity and private subsidiary operations for at least the next 12 months. However, the Company will need to raise additional funding through strategic relationships, public or private equity or debt financings, sale of partner companies, grants or other arrangements to develop and prepare regulatory filings and obtain regulatory approvals for the existing and new product candidates, fund operating losses, and, if deemed appropriate, establish or secure through third parties manufacturing for the potential products, sales and marketing capabilities. If such funding is not available or not available on terms acceptable to the Company, the Company’s current development plans and plans for expansion of its general and administrative infrastructure may be curtailed. Fortress also has the ability, subject to limitations imposed by Rule 144 of the Securities Act of 1933 and other applicable laws and regulations, to raise money from the sale of common stock of the public companies in which it has ownership positions.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the balances and results for the periods presented. Certain information and footnote disclosures normally included in the Company’s annual financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statement results are not necessarily indicative of results to be expected for the full fiscal year or any future period.

The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited condensed consolidated financial statements have read or have access to the audited financial statements for the preceding fiscal year for each of Avenue, Checkpoint, Mustang and Journey. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K, which was filed with the United States Securities and Exchange Commission (“SEC”) on March 28, 2024 (the “2023 Form 10-K”), from which the Company derived the balance sheet data at December 31, 2023, as well as Checkpoint’s Form 10-K, filed with the SEC on March 22, 2024, Mustang’s Form 10-K, filed with the SEC on March 11, 2024, Avenue’s Form 10-K, filed with the SEC on March 18, 2024, and Journey’s Form 10-K, filed with the SEC on March 29, 2024.

The Company’s unaudited condensed consolidated financial statements include the results of the Company’s subsidiaries for which it has voting control but does not own 100% of the outstanding equity of the subsidiaries. For consolidated entities where the Company owns less than 100% of the subsidiary, but retains voting control, the Company records net loss attributable to non-controlling interests in its consolidated statements of operations and presents non-controlling interests as a component of stockholders’ equity on its consolidated balance sheets. All intercompany income and/or expense items are eliminated entirely in consolidation prior to the allocation of net gain/loss attributable to non-controlling interest, which is based on ownership interests as calculated quarterly for each subsidiary.

Use of Estimates

The preparation of the Company’s unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of expenses during the reporting period. The Company’s significant estimates include, but are not limited to provisions for coupons, chargebacks, wholesaler fees, specialty pharmacy discounts, managed care rebates, product returns, inventory realization, valuation of intangible assets, useful lives assigned to long-lived assets and amortizable intangible assets, fair value of stock options and warrants, stock-based compensation, common stock issued to acquire licenses, accrued expenses and contingencies. Due to the uncertainty inherent in such estimates, actual results may differ from these estimates.

Restricted Cash

The Company records cash held in trust or pledged to secure certain debt obligations as restricted cash. As of June 30, 2024 and December 31, 2023, the Company had \$2.1 million and \$2.4 million, respectively, of restricted cash representing pledges to secure debt obligations and letters of credit in connection with certain office leases, and an undertaking posted by Cyprium to secure potential damages in an injunctive proceeding.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

The following table provides a reconciliation of cash, cash equivalents, and restricted cash from the unaudited condensed consolidated balance sheets to the unaudited condensed consolidated statements of cash flows as of the dates presented:

	June 30,	
	2024	2023
Cash and cash equivalents	\$ 76,201	\$ 78,022
Restricted cash	2,063	11,188
Total cash and cash equivalents and restricted cash	\$ 78,264	\$ 89,210

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies to those previously disclosed in the 2023 Form 10-K other than the following:

Assets Held for Sale

Assets held for sale represent assets that have met the criteria of "held for sale" accounting, as specified by Accounting Standards Codification ("ASC") 360, "Long-lived Assets." As of June 30, 2024, there are \$2.2 million of lab and cell processing equipment, furniture and fixtures and computer equipment that are recorded as assets held for sale. The effect of suspending depreciation on the assets held for sale is immaterial to the results of operations. The assets held for sale are part of Mustang's repurchase of assets from uBriGene (Boston) Biosciences, Inc. ("uBriGene") (see Note 3).

Recently Issued Accounting Pronouncements

Accounting Standards Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires that an entity report segment information in accordance with Topic 280, Segment Reporting. The amendment in the ASU is intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact of the new standard on its financial statement disclosures.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which expands disclosures in an entity's income tax rate reconciliation table and disclosures regarding cash taxes paid both in the U.S. and foreign jurisdictions. The update will be effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that this guidance will have on its financial statement disclosures.

3. Asset Purchase Agreements

Mustang

Agreements with uBriGene

On May 18, 2023, Mustang entered into an Asset Purchase Agreement (the "Original Asset Purchase Agreement") with uBriGene, pursuant to which Mustang agreed to sell its leasehold interest in its cell processing facility located in Worcester, Massachusetts (the "Facility"), and associated assets relating to the manufacturing and production of cell and gene therapies at the Facility to uBriGene (the "Transaction"). Mustang and uBriGene subsequently entered into Amendment No. 1 to the Original Asset Purchase Agreement, dated as of June 29, 2023 ("Amendment No. 1"), and Amendment No. 2 to the Original Asset Purchase Agreement, dated as of July 28, 2023 ("Amendment No. 2," and together with the Original Asset Purchase Agreement and Amendment No. 1, the "Prior Asset Purchase Agreement").

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

On July 28, 2023, pursuant to the Prior Asset Purchase Agreement, Mustang completed the sale of all of its assets that primarily relate to the manufacturing and production of cell and gene therapies at the Facility (such operations, the “Transferred Operations” and such assets, the “Transferred Assets”) to uBriGene for upfront consideration of \$6 million cash (the “Base Amount”). The Transferred Assets included all of Mustang’s assets, except for Mustang’s lease and related leasehold improvements of the Facility and contracts that are primarily used in the Transferred Operations. Mustang recorded a gain of \$1.4 million in connection with the sale of the Transferred Assets and recorded approximately \$0.3 million of the base consideration as deferred income, that was to be recognized upon the transfer of the lease.

In connection with the Prior Asset Purchase Agreement, Mustang and uBriGene submitted a voluntary joint notice to the U.S. Committee on Foreign Investment in the United States (“CFIUS”). Following CFIUS’s review and subsequent investigation of the transactions related to the Prior Asset Purchase Agreement, on May 13, 2024, Mustang, together with uBriGene and CFIUS, executed a National Security Agreement (the “NSA”), pursuant to which Mustang and uBriGene agreed to abandon the transactions related to the Prior Asset Purchase Agreement and the agreements entered into in connection therewith. The NSA obligated uBriGene and Mustang to terminate agreements between the two parties, including the Manufacturing Services Agreement, Quality Services Agreement, and Subcontracting CDMO Agreement. In addition, uBriGene must sell, or otherwise dispose of, the equipment assets purchased within 180 days after the execution of the NSA.

June 2024 Repurchase of Assets

On June 27, 2024 (the “Effective Date”), Mustang entered into an Asset Purchase Agreement (the “Repurchase Agreement”) with uBriGene, pursuant to which Mustang agreed, subject to the terms and conditions set forth therein, to repurchase the Transferred Assets, primarily lab equipment and supplies (collectively, the “Repurchased Assets”). Pursuant to the terms of the Repurchase Agreement, Mustang and uBriGene also terminated existing manufacturing and services agreements.

As consideration for the Repurchase Agreement, Mustang has agreed to pay to uBriGene a total purchase price (the “Purchase Price”) of \$1.4 million, consisting of (i) an upfront payment of \$0.1 million due within five (5) business days of the Effective Date and a (ii) subsequent amount of \$1.3 million due on the date that is twelve (12) months after the closing date (the “Deferred Amount”). In the event that as of the original (or any extended) date on which the Deferred Amount is payable, Mustang has, as of the date of the public reporting of its then-most recent quarterly audited or unaudited financial statements, net assets below \$20 million, then Mustang may, upon written notice to uBriGene, elect to delay its payment obligation of the Deferred Amount by an additional six (6) months, with no limit on the number of such extensions available to Mustang. Notwithstanding the foregoing, if Mustang has not paid the Deferred Amount in full as of the date that is twelve (12) months after closing of the Repurchase Agreement, any amounts that remain outstanding will accrue interest at a rate of 5% per annum beginning on the date that is twelve (12) months after closing and until the Deferred Amount is paid in full. Additionally, in connection with the termination of the agreements described above under the Repurchase Agreement, Mustang agreed to forgive a net receivable from uBriGene of approximately \$3.3 million, comprised of outstanding receivables of \$6.9 million and payables of \$3.6 million, resulting in total purchase consideration in the Repurchase Transactions of approximately \$4.7 million. As of June 30, 2024, the \$1.4 million Purchase Price was recorded in Accrued Expenses - Other (see Note 10).

Mustang allocated the total purchase consideration of \$4.7 million to the Repurchased Assets on a relative fair value basis. Mustang used a third-party to perform a valuation of the repurchased equipment, which resulted in a fair value less costs to sell of approximately \$2.2 million. The remaining purchase consideration of \$2.5 million was allocated to the supplies repurchased. The supplies repurchased with no alternative future use were recognized as research and development expense in an amount of \$2.2 million. Repurchased supplies with an alternative future use of \$0.3 million were also recognized in research and development expense, as Mustang does not have plans to resume operations in the facility, and it intends to dispose of the supplies in a single transaction with the equipment. Mustang concluded that the disposal group, which includes the repurchased equipment assets and associated supplies with an aggregate value of approximately \$2.2 million, met the criteria to be classified as held for sale at the date of acquisition.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

Avenue

InvaGen Pharmaceuticals Inc. (“InvaGen”) Share Repurchase

Under the Share Repurchase Agreement between Avenue and InvaGen Pharmaceuticals, Inc. (“InvaGen”) under which Avenue repurchased all of InvaGen’s shares in Avenue, Avenue agreed to pay InvaGen an additional amount as a contingent fee, payable in the form of seven and a half percent (7.5%) of the net proceeds of future financings, until \$4.0 million in the aggregate is paid to InvaGen. In connection with equity financings in the first half of 2024, Avenue made payments totaling \$0.6 million to InvaGen.

4. Inventory

<i>(\$ in thousands)</i>	June 30, 2024	December 31, 2023
Raw materials	\$ 3,583	\$ 4,640
Work-in-process	296	884
Finished goods	6,213	4,987
Inventory reserve	(405)	(305)
Total inventories	<u>\$ 9,687</u>	<u>\$ 10,206</u>

5. Property and Equipment

<i>(\$ in thousands)</i>	Useful Life (Years)	June 30, 2024	December 31, 2023
Computer equipment	3	\$ 595	\$ 595
Furniture and fixtures	5	1,017	1,017
Leasehold improvements	15	13,175	13,175
Buildings	40	581	581
Construction in progress	N/A	—	29
Total property and equipment		15,368	15,397
Impairment - leasehold improvements		(2,177)	—
Less: Accumulated depreciation		(9,645)	(8,892)
Property and equipment, net		<u>\$ 3,546</u>	<u>\$ 6,505</u>

Fortress' depreciation expense for the three months ended June 30, 2024 and 2023 was approximately \$0.4 million and \$0.8 million, respectively, and for the six months ended June 30, 2024 and 2023 was approximately \$0.8 million and \$1.5 million, respectively. Fortress' depreciation expense is recorded in both research and development expense and general and administrative expense in the condensed consolidated statement of operations.

Impairment of Long-Lived Assets

During the three months ended June 30, 2024, Mustang concluded it had a triggering event requiring assessment of impairment for certain leasehold improvements and the related right of use asset. Mustang assessed the carrying value of the asset group consisting of the leasehold improvements and right-of-use asset in accordance with ASC 360, given the significant changes to Mustang’s operations, operating cash and the repurchase of equipment. The assessment of the recoverability of the asset group concluded that there was impairment on the carrying value of the asset group of approximately \$2.6 million, which was allocated on a pro rata basis using the relative carrying amounts of the assets. Approximately \$2.2 million of the impairment loss was allocated to leasehold improvements, with the remaining \$0.4 million allocated to the right-of-use asset.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

6. Fair Value Measurements

Common Stock Warrant Liabilities

<i>(\$ in thousands)</i>	Warrants liabilities
Balance at December 31, 2023	\$ 886
Change in fair value of common stock warrants - Avenue	(139)
Change in fair value of common stock warrants - Checkpoint	—
Change in fair value of placement agent warrants - Urica	(24)
Exercise of common stock warrants - Avenue	(400)
Exchange of common stock warrants - Urica	(151)
Balance at June 30, 2024	<u>\$ 172</u>

Checkpoint

Checkpoint deemed the placement agent warrants it issued in connection with its registered direct offering (the “December 2022 Placement Agent Warrants”) to be classified as liabilities on the balance sheet as they contain terms for redemption of the underlying security that are outside its control. The December 2022 Placement Agent Warrants were recorded at the time of closing at a fair value determined by using the Black-Scholes model. Checkpoint will revalue the December 2022 Placement Agent Warrants at each reporting period thereafter for as long as they remain outstanding. At June 30, 2024 and December 31, 2023, the liability associated with the December 2022 Placement Agent Warrants was \$0.1 million.

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the warrant liability that are categorized within Level 3 of the fair value hierarchy was as follows:

<i>Checkpoint Warrants</i>	June 30, 2024	December 31, 2023
Exercise price	\$ 5.41	\$ 5.41
Volatility	106.9 %	96.4 %
Expected life in years	3.5	4.0
Risk-free rate	4.5 %	3.8 %

Avenue

Certain of Avenue’s outstanding warrants to purchase shares of its common stock are classified as liabilities on the balance sheet as they contain terms for redemption of the underlying security that are outside of its control. The Black-Scholes model was used to value these Avenue warrants, at the time of issuance and when re-measured at each financial reporting date, up to exercise or expiration of the warrants, with any changes in fair value being recognized in change in fair value of warrant liabilities, a component of other income (expense) in the unaudited condensed consolidated statements of operations.

<i>(\$ in thousands)</i>	Avenue Warrant Liability
Avenue common stock warrant liabilities at December 31, 2023	\$ 586
Exercise of Avenue common warrants	(400)
Change in fair value of common stock warrant liabilities	(139)
Avenue common stock warrant liabilities at June 30, 2024	<u>\$ 47</u>

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the warrant liability that are categorized within Level 3 of the fair value hierarchy was as follows:

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

	<u>June 30, 2024</u>	<u>December 31 2023</u>
Stock price	\$ 3.50	\$ 12.00
Risk-free interest rate	4.52 %	3.84 %
Expected dividend yield	—	—
Expected term in years	3.3	3.8
Expected volatility	160 %	148 %

Urica

The fair value of Urica’s contingently issuable placement agent warrants in connection with Urica’s first close of its preferred offering in December 2022 was measured using a Monte Carlo simulation valuation methodology. A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring Urica’s warrant liability that are categorized within Level 3 of the fair value hierarchy was as follows:

	<u>December 31, 2023</u>
Risk-free interest rate	3.93 %
Expected dividend yield	—
Expected term in years	0.5
Expected volatility	153.6 %

Urica’s outstanding contingently issuable placement agent warrants were exchanged at the time of the exchange of the Urica 8% Cumulative Convertible Class B Preferred Stock on June 27, 2024 (see Note 9) for 202,834 warrants to purchase Fortress common stock at an exercise price of \$1.68. The Fortress common stock warrants have a five-year life, expiring on June 27, 2029.

7. Intangible Assets, net

The Company’s finite-lived intangible assets consist of intangible assets acquired by Journey. The table below provides a summary of the Journey intangible assets for the periods presented:

<u>(\$ in thousands)</u>	<u>Estimated Useful Lives (Years)</u>	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Intangible assets – product licenses	3 to 9	\$ 37,925	\$ 37,925
Accumulated amortization		(16,124)	(14,495)
Accumulated Impairment loss		(3,143)	(3,143)
Net intangible assets		<u>\$ 18,658</u>	<u>\$ 20,287</u>

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

For the three months ended June 30, 2024 and 2023, Journey's amortization expense related to its product licenses was \$0.8 million and \$1.1 million, respectively. For the six months ended June 30, 2024 and 2023, Journey's amortization expense related to its product licenses was \$1.6 million and \$2.1 million, respectively. Journey records amortization expense related to its product licenses as a component of cost of goods sold on the unaudited condensed consolidated statement of operations.

The future amortization of these intangible assets is as follows:

<i>(\$ in thousands)</i>	Total Amortization
Remainder of 2024	\$ 1,628
December 31, 2025	3,257
December 31, 2026	2,471
December 31, 2027	1,775
December 31, 2028	1,595
Thereafter	3,990
Sub-total	\$ 14,716
Asset not yet placed in service	3,942
Total	\$ 18,658

8. License Agreements

In accordance with ASC 730-10-25-1, Research and Development, costs incurred in obtaining technology licenses are charged to research and development expense if the technology licensed has not reached technological feasibility and has no alternative future use. The licenses purchased by Fortress and its subsidiaries and partner companies require substantial completion of research and development, and regulatory and marketing approval efforts, in order to reach technological feasibility. As such, the purchase price of any licenses acquired is classified as research and development-licenses acquired in the unaudited condensed consolidated statement of operations.

9. Debt and Interest

Debt

Total debt consists of the following:

<i>(\$ in thousands)</i>	June 30, 2024	December 31, 2023	Interest rate	Maturity
Oaktree Note	\$ 50,000	\$ 50,000	11.0 %	August - 2025
SWK Term Loan	20,000	15,000	14.9 %	December - 2027
Less: Discount on notes payable	(2,993)	(4,144)		
Total notes payable	\$ 67,007	\$ 60,856		

Oaktree Note

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

In August 2020, Fortress, as borrower, entered into a \$60.0 million senior secured credit agreement with Oaktree Fund Administration, LLC and the lenders from time-to-time thereto (collectively, "Oaktree") (the "Prior Oaktree Agreement" and the debt thereunder, the "Oaktree Note"). The Prior Oaktree Agreement contained customary representations and warranties and customary affirmative and negative covenants as well as certain financial covenants, including, among other things, (i) maintenance of minimum liquidity and (ii) a minimum revenue test that required Journey's annual revenue to be equal to or to exceed annual revenue projections set forth in the Prior Oaktree Agreement. Failure by the Company or Journey, as applicable, to comply with the Prior Oaktree Agreement covenants would result in an event of default, subject to certain cure rights of the Company. The Company was in compliance with all applicable covenants under the Prior Oaktree Agreement as of June 30, 2024.

The Company was required to make quarterly interest-only payments until the fifth anniversary of the closing date of the Oaktree Note, August 27, 2025, at which point the outstanding principal amount would have been due. The Company could have voluntarily prepaid the Oaktree Note at any time subject to a prepayment fee. The Company was required to make mandatory prepayments of the Oaktree Note under various circumstances as defined in the Prior Oaktree Agreement. No mandatory prepayments were required in the six months ended June 30, 2024.

On July 25, 2024, Fortress entered into a \$50.0 million senior secured credit agreement with a maturity date of July 25, 2027 (the "Agreement") with Oaktree. The Company borrowed \$35.0 million under the Agreement on the Closing Date and is eligible to draw up to an additional \$15.0 million at the lenders' discretion to support future business development activities. The Agreement replaces the Prior Oaktree Agreement in which the remaining \$50.0 million balance was repaid in full (see Note 19).

SWK Term Loan

On December 27, 2023 (the "SWK Closing Date"), Journey entered into a Credit Agreement with SWK Funding LLC ("SWK"). The Credit Agreement provides for a term loan facility (the "Credit Facility") in the original principal amount of up to \$20.0 million. On the SWK Closing Date, Journey drew \$15 million. On June 26, 2024, Journey drew the remaining \$5.0 million under the Credit Facility. Loans under the Credit Facility (the "Term Loans") mature on December 27, 2027. The Term Loans accrue interest which is payable quarterly in arrears. The Term Loans bear interest at a rate per annum equal to the three-month term SOFR (subject to a SOFR floor of 5%) plus 7.75%. The interest rate resets quarterly. Interest payments began in February 2024 and are paid quarterly.

On July 9, 2024, Journey entered into an amendment (the "SWK Amendment") to the Credit Facility. The SWK Amendment increased the total amount available under the Credit Facility from \$20.0 million to \$25.0 million. The \$5.0 million available under the SWK Amendment is contractually required to be drawn upon FDA approval of Journey's DFD-29 product candidate, subject to Journey receiving such approval on or before June 30, 2025 (See Note 19).

Beginning in February 2026, Journey is required to repay a portion of the outstanding principal of the Term Loans quarterly in an amount equal to 7.5% of the principal amount of funded Term Loans, with any remaining principal balance due on the maturity date. If the total revenue of Journey, measured on a trailing twelve-month basis, is greater than \$70.0 million as of December 31, 2025, the principal repayment start date is extended from February 2026 to February 2027, at which point Journey is required to repay a portion of the outstanding principal of the Term Loans quarterly in an amount equal to 15% of the principal amount of funded Term Loans, with any remaining principal balance due on the maturity date.

Journey may at any time prepay the outstanding principal balance of the Term Loans in whole or in part. Prepayment of the Term Loans is subject to payment of a prepayment premium equal to (i) 2% of the Term Loans prepaid plus the amount of interest that would have been due through the first anniversary of the SWK Closing Date if the Term Loans are prepaid prior to the first anniversary of the SWK Closing Date, (ii) 1% of the Term Loans prepaid if the Term Loans are prepaid on or after the first anniversary of the SWK Closing Date but prior to the second anniversary of the SWK Closing Date, or (iii) 0% if prepaid thereafter.

Upon repayment in full of the Term Loans, Journey will pay an exit fee equal to 5% of the original principal amount of the Term Loans. Additionally, Journey paid an origination fee of \$0.2 million on the SWK Closing Date and incurred issuance costs of \$0.2 million, both of which have been recorded as a debt discount. Journey is accreting the carrying value of the SWK Term Loan to the original principal balance plus the exit fee over the term of the loan using the effective interest method. The amortization of the discount is accounted for

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as interest expense in the Consolidated Statement of Operations. The effective interest rate on the SWK Term Loan as of June 30, 2024 was 14.9%.

The SWK Credit Facility also includes both revenue and liquidity covenants, restrictions as to payment of dividends, and is secured by substantially all assets of Journey. As of June 30, 2024, Journey was in compliance with the financial covenants under the SWK Credit Facility.

Urica 8% Cumulative Convertible Class B Preferred Offering

In December 2022 and February 2023 Urica closed private offerings of its 8% Cumulative Convertible Class B Preferred Stock (the “Urica Preferred Stock”), at a price of \$25.00 per share (“Subscription Price”) pursuant to which it sold a total of 135,494 shares of Urica Preferred Stock for gross proceeds of \$3.4 million, before deducting underwriting discounts and commissions and offering expenses of approximately \$0.5 million (the “Urica Offering”). A non-cash contingent warrant value of \$0.1 million was also recorded in debt discount (see Note 6).

Dividends on the Urica Preferred Stock were payable monthly by Fortress in shares of Fortress Common Stock based upon a 7.5% discount to the average closing price over the 10-day period preceding the dividend payment date. Dividends were recorded as interest expense. For the three month periods ended June 30, 2024 and 2023, the Company recorded expense of \$0.1 million and \$0.1 million associated with the Urica dividends and for the six month periods ended June 30, 2024 and 2023, the Company recorded expense of \$0.1 million and \$0.1 million associated with the Urica dividends.

The shares mandatorily converted into Urica common stock upon either: (i) a qualified financing pursuant to which Urica raises at least \$20 million in aggregate gross proceeds; or (ii) a sale of Urica. Additionally, in the event that neither such a qualified financing nor a sale of Urica had occurred prior to June 27, 2024, then each holder of Urica Preferred Stock was eligible to receive, at Fortress’ election, one of: (x) a cash payment equal to the product of the Subscription Price and the number of shares of Urica Preferred Stock held by such holder; (y) a number of shares of Fortress common stock equal to the Fortress Share Exchange Amount; or (z) a combination of the foregoing. On June 27, 2024, as neither a qualified financing nor a sale of Urica occurred, Fortress elected to exchange the outstanding shares of Urica Preferred Stock, which was recorded as a liability, into 2,028,345 shares of Fortress common stock.

Interest Expense

Interest expense includes contractual interest, and fees include amortization of the debt discount and amortization of fees associated with loan transaction costs, amortized over the life of the loan. The following table shows the components of interest expense for all debt arrangements during the periods presented:

<i>(\$ in thousands)</i>	Three Months Ended June 30,					
	2024			2023		
	<i>Interest</i>	<i>Fees</i>	<i>Total</i>	<i>Interest</i>	<i>Fees</i>	<i>Total</i>
Oaktree Note	1,390	522	1,912	1,391	712	2,103
Partner company convertible preferred shares	(403)	45	(358)	391	239	630
Partner company installment payments - licenses	—	—	—	85	—	85
Partner company notes payable	499	64	563	3,301	272	3,573
Other	5	—	5	34	—	34
Total Interest Expense and Financing Fee	\$ 1,491	\$ 631	\$ 2,122	\$ 5,202	\$ 1,223	\$ 6,425

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<i>(\$ in thousands)</i>	Six Months Ended June 30,					
	2024			2023		
	<i>Interest</i>	<i>Fees</i>	<i>Total</i>	<i>Interest</i>	<i>Fees</i>	<i>Total</i>
Oaktree Note	2,781	1,024	3,805	2,781	1,136	3,917
Partner company convertible preferred shares	(290)	90	(200)	651	299	950
Partner company installment payments - licenses	—	—	—	176	—	176
Partner company notes payable	985	126	1,111	4,801	432	5,233
Other	8	—	8	113	332	445
Total Interest Expense and Financing Fee	<u>\$ 3,484</u>	<u>\$ 1,240</u>	<u>\$ 4,724</u>	<u>\$ 8,522</u>	<u>\$ 2,199</u>	<u>\$ 10,721</u>

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

<i>(\$ in thousands)</i>	June 30, 2024	December 31, 2023
Accounts payable	\$ 37,957	\$ 34,810
Accrued expenses:		
Professional fees	2,260	1,681
Salaries, bonus and related benefits	4,903	8,531
Research and development	8,547	11,644
Accrued royalties payable	1,656	2,015
Accrued coupon and rebates	6,596	9,987
Return reserve	3,214	4,077
Other ¹	3,788	817
Total accounts payable and accrued expenses	<u>\$ 68,921</u>	<u>\$ 73,562</u>

Note 1: Includes approximately \$1.4 million of accrued consideration related to Mustang's Asset Purchase Agreement with uBriGene (see Note 3) as of June 30, 2024.

11. Non-Controlling Interests

The Company's ownership interests in its consolidated subsidiaries at June 30, 2024 was similar to December 31, 2023, except for Mustang which decreased from 19% to 7.2%.

12. Net Loss per Common Share

Basic and diluted net loss per share attributed to common stockholders is calculated by dividing the net loss attributed to Fortress, less the Series A Preferred dividends and adjusted for subsidiary deemed dividends, by the weighted-average number of shares of Common Stock outstanding during the period, not including unvested restricted stock, and without consideration for Common Stock equivalents. Diluted net loss per share is the same as the basic loss per share due to net losses in all periods. For the three and six months ended June 30, 2024, the effect on the net loss per share calculation from Series A Preferred dividends was \$2.0 million and \$4.0 million, respectively, and partner company deemed dividends were \$0.4 million and \$0.8 million, respectively. For the three and six months ended June 30, 2023, the effect on the net loss per share calculation from Series A Preferred dividends was \$2.0 million and \$4.0 million, respectively, and partner company deemed dividends were \$0.1 million and \$0.3 million, respectively.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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The following shares of potentially dilutive securities, weighted during the six months ended June 30, 2024 and 2023, have been excluded from the computation of diluted weighted average shares outstanding, as the effect of including such securities would be anti-dilutive:

	<u>Six Months Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Warrants to purchase Common Stock	5,769,787	127,296
Options to purchase Common Stock	18,896	36,423
Unvested Restricted Stock	1,693,684	1,374,116
Unvested Restricted Stock Units	273	73
Total	<u><u>7,482,640</u></u>	<u><u>1,537,908</u></u>

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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13. Stockholders' Equity

Stock-based Compensation

As of June 30, 2024, the Company had the following equity compensation plans: the Fortress Biotech, Inc. 2013 Stock Incentive Plan, as amended (the "2013 Plan"), the Fortress Biotech, Inc. 2012 Employee Stock Purchase Plan (the "ESPP") and the Fortress Biotech, Inc. Long Term Incentive Plan ("LTIP"). In May 2024, the Company's Board of Directors and stockholders approved an amendment to the 2013 Plan to increase the number of authorized shares issuable by 10.0 million shares, and approved an amendment to the ESPP to increase the number of shares issuable by 1.0 million. As of June 30, 2024, approximately 10.0 million shares were available for issuance under the 2013 Plan.

The following table summarizes the stock-based compensation expense from stock option, employee stock purchase programs and restricted Common Stock awards and warrants for the periods presented:

<i>(\$ in thousands)</i>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2024	2023	2024	2023
Fortress:				
Employee and non-employee awards	\$ 2,249	\$ 2,271	\$ 4,442	\$ 4,708
Executive awards	273	410	497	817
Partner Companies:				
Avenue	192	27	383	38
Checkpoint	1,171	567	1,881	1,536
Mustang	(619)	45	(542)	280
Journey	1,674	873	3,080	1,519
Other	58	24	115	50
Total stock-based compensation expense	\$ 4,998	\$ 4,217	\$ 9,856	\$ 8,948

For the three months ended June 30, 2024 and 2023, approximately \$0.7 million and \$0.5 million, respectively, of stock-based compensation expense was included in research and development expenses in connection with equity grants made to employees and consultants and approximately \$4.3 million and \$3.7 million, respectively, was included in general and administrative expenses in connection with grants made to employees, members of the board of directors and consultants.

For the six months ended June 30, 2024 and 2023, approximately \$1.7 million and \$1.5 million, respectively, of stock-based compensation expense was included in research and development expenses in connection with equity grants made to employees and consultants and approximately \$8.1 million and \$7.5 million, respectively, was included in general and administrative expenses in connection with grants made to employees, members of the board of directors and consultants.

Stock Options

The following table summarizes Fortress stock option activities excluding activity related to Fortress subsidiaries and partner companies:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Total weighted average intrinsic value</u>	<u>Weighted average remaining contractual life (years)</u>
Options vested and expected to vest at December 31, 2023	18,896	\$ 20.55	\$ —	1.76
Granted	540,000	1.68	16,200	6.71
Options vested and expected to vest at June 30, 2024	558,896	\$ 2.32	\$ 16,200	6.52
Options vested and exercisable at June 30, 2024	18,896	\$ 20.55	\$ —	1.26

As of June 30, 2024 and 2023, Fortress had \$0.6 million and \$0.6 million, respectively, in unrecognized stock-based compensation expense related to options which is expected to be recognized over the remaining weighted-average vesting period of 3.6 years and 5.7 years, respectively.

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Restricted Stock and Restricted Stock Units

The following table summarizes Fortress restricted stock awards and restricted stock units activities, excluding activities related to Fortress subsidiaries and partner companies:

	Number of shares	Weighted average grant price
Unvested balance at December 31, 2023	1,458,700	\$ 28.05
Restricted stock granted	443,024	3.01
Restricted stock vested	(17,303)	35.76
Restricted stock units granted	37,500	1.84
Restricted stock units forfeited	(10,582)	11.43
Restricted stock units vested	(49,684)	39.61
Unvested balance at June 30, 2024	<u>1,861,655</u>	<u>\$ 21.27</u>

As of June 30, 2024 and 2023, the Company had unrecognized stock-based compensation expense related to restricted stock and restricted stock unit awards of approximately \$11.5 million and \$16.0 million, respectively, which is expected to be recognized over the remaining weighted-average vesting period of 1.3 years and 2.0 years, respectively.

Warrants

The following table summarizes Fortress warrant activities, excluding activities related to Fortress subsidiaries and partner companies:

	Number of shares	Weighted average exercise price	Total weighted average intrinsic value	Weighted average remaining contractual life (years)
Outstanding as of December 31, 2023	5,787,289	\$ 1.88	\$ 7,794,450	4.91
Issued	3,506,140	3.12	8,113	—
Exercised	(17,500)	1.70	—	—
Outstanding as of June 30, 2024	9,275,929	\$ 2.35	\$ 64,538	4.46
Exercisable as of June 30, 2024	<u>9,275,929</u>	<u>\$ 2.35</u>	<u>\$ 64,538</u>	<u>4.46</u>

Long-Term Incentive Program ("LTIP")

On July 15, 2015, the Company's stockholders approved the LTIP for the Company's Chairman, President and Chief Executive Officer, Dr. Rosenwald, and Executive Vice Chairman, Strategic Development, Mr. Weiss (amended and restated with stockholder approval on June 7, 2017 and May 23, 2024). The LTIP consists of a program to grant equity interests in the Company and in the Company's subsidiaries, and a performance-based bonus program that is designed to result in performance-based compensation that is deductible without limit under Section 162(m) of the Internal Revenue Code of 1986, as amended.

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On January 1, 2024 and 2023, the Compensation Committee granted 216,465 shares each to Dr. Rosenwald and Mr. Weiss. These equity grants were made in accordance with the LTIP, and each award represents 1% of total outstanding shares of the Company as of the dates of such grants. The shares' original vesting terms includes vesting in full if the employee was either in the service of the Company as an employee, Board member or consultant (or any combination of the foregoing) on the tenth anniversary of the LTIP, or the eligible employee has an involuntary Separation from Service (as defined in the LTIP). The only other vesting condition – one based on the achievement of an increase in the Company's market capitalization – has already been achieved, with respect to each annual award under the LTIP. The shares awarded under the LTIP will also vest in full (and the Company's repurchase option on each tranche of shares granted thereunder will accordingly lapse) upon the occurrence of a Corporate Transaction (as defined in the LTIP), if the eligible employee is in service to the Company on the date of such Corporate Transaction. The fair value of each grant on the grant date was approximately \$0.7 million for the 2024 grant and \$0.8 million for the 2023 grant. For the three months ended June 30, 2024 and 2023, the Company recorded stock compensation expense related to LTIP grants of approximately \$1.7 million and \$1.5 million, respectively, and for the six months ended June 30, 2024 and 2023, the Company recorded stock compensation expense related to LTIP grants of approximately \$3.3 million and \$2.9 million, respectively, on the unaudited condensed consolidated statement of operations.

Capital Raises

2021 Shelf

On July 23, 2021, the Company filed a shelf registration statement (File No. 333-258145) on Form S-3, which was declared effective on July 30, 2021 (the "2021 Shelf"). Approximately \$86.2 million of securities were available for sale under the 2021 Shelf as of June 30, 2024, subject to General Instruction I.B.6. of Form S-3. On May 17, 2024, the Company filed a shelf registration statement (File No. 333-279516) on Form S-3, which was declared effective on May 30, 2024 (the "2024 Shelf"). All \$50.0 million of securities were available for sale under the 2024 Shelf as of June 30, 2024, subject to General Instruction I.B.6. of Form S-3.

At the Market Offering

During the six months ended June 30, 2024, the Company issued and sold approximately 1.6 million shares at an average price of \$1.87 per share for gross proceeds of \$2.9 million. During the six months ended June 30, 2023, the Company issued and sold approximately 0.1 million shares at an average price of \$11.31 for gross proceeds of \$1.2 million.

Registered Direct Offering

In January 2024, Fortress closed a registered direct offering of an aggregate of 3,303,305 shares of its common stock and warrants to purchase up to 3,303,305 shares of its common stock at a combined purchase price of \$3.33 per share of common stock and accompanying warrant priced at-the-market under Nasdaq rules. The warrants have an exercise price of \$3.21 per share, were immediately exercisable, and expire five years following the date of issue. Net proceeds to Fortress, after deducting the placement agent's fees and other offering expenses, were approximately \$10.2 million.

Checkpoint 2023 Shelf Registration Statement

In March 2023, Checkpoint filed a shelf registration statement (File No. 333-270843) on Form S-3 (the "Checkpoint 2023 S-3"), which was declared effective May 5, 2023. Under the Checkpoint 2023 S-3, Checkpoint may sell up to a total of \$150 million of its securities. As of June 30, 2024, approximately \$77.7 million of the securities remains available for sale through the Checkpoint 2023 S-3, subject to General Instruction I.B.6 of Form S-3.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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Checkpoint Registered Direct Offering

In January 2024, Checkpoint closed on a registered direct offering (the “Checkpoint January 2024 Registered Direct Offering”) with a single institutional investor for the issuance and sale of 1,275,000 shares of its common stock and 6,481,233 pre-funded warrants. Each pre-funded warrant was exercisable for one share of Checkpoint common stock. The Checkpoint common stock and the pre-funded warrants were sold together with common stock warrants (the “Checkpoint January 2024 Common Warrants”) to purchase up to 7,756,233 shares of Checkpoint common stock, at a purchase price of \$1.805 per share of common stock and \$1.8049 per pre-funded warrant. The pre-funded warrants were funded in full at closing except for a nominal exercise price of \$0.0001 and are exercisable commencing on the closing date and will terminate when such pre-funded warrants are exercised in full. The Checkpoint January 2024 Common Warrants are exercisable immediately upon issuance and will expire five years following the issuance date and have an exercise price of \$1.68 per share. Checkpoint also issued the placement agent warrants to purchase up to 465,374 shares of common stock with an exercise price of \$2.2563 per share. Net proceeds to Checkpoint from the Checkpoint January 2024 Registered Direct Offering were \$12.6 million after deducting commissions and other transaction costs. As of July 2024, all of the pre-funded warrants from the Checkpoint January 2024 Registered Direct Offering were fully exercised (see Note 19).

Pursuant to the Company’s Founders Agreement with Checkpoint, Checkpoint issued to Fortress 2.5% of the aggregate number of shares of common stock issued in the registered direct offering noted above. Accordingly, Checkpoint issued 193,905 shares of common stock to Fortress for the six months ended June 30, 2024.

Avenue 2021 Shelf Registration Statement

In December 2021, Avenue filed a shelf registration statement (File No. 333-261520) on Form S-3 (the “Avenue 2021 S-3”), which was declared effective on December 10, 2021. As of June 30, 2024, approximately \$24.6 million of the securities were available for sale under the Avenue 2021 S-3, subject to General Instruction I.B.6. of Form S-3.

Avenue 2024 Warrant Exercises and Private Placement

On January 5, 2024, Avenue entered into (i) an inducement offer letter agreement (the “January 2023 Investor Inducement Letter”) with a certain investor (the “January 2023 Investor”) in connection with certain outstanding warrants to purchase up to an aggregate of 25,871 shares of Common Stock, originally issued to the January 2023 Investor on January 31, 2023 (the “January 2023 Warrants”) and (ii) an inducement offer letter agreement (the “November 2023 Investor Inducement Letter Agreement”) and, together with the January 2023 Investor Inducement Letter, the “January 2024 Warrant Inducement”) with certain investors (the “November 2023 Investors”) and, together with the January 2023 Investor, the “Holders”) in connection with certain outstanding warrants to purchase up to an aggregate of 194,667 shares of Common Stock, originally issued to the November 2023 Investors on November 2, 2023 (the “November 2023 Warrants”) and, together with the January 2023 Warrants, the “Existing Warrants”). The January 2023 Warrants had an exercise price of \$116.25 per share, and the November 2023 Warrants had an exercise price of \$22.545 per share.

Pursuant to the January 2024 Warrant Inducement, (i) the January 2023 Investor agreed to exercise its January 2023 Warrants for cash at a reduced exercise price of \$22.545 per share and (ii) the November 2023 Investors agreed to exercise their November 2023 Warrants for cash at the existing exercise price of \$22.545, in each case in consideration for Avenue’s agreement to issue in a private placement (x) Series A Warrants to purchase up to 220,538 shares of Avenue Common Stock and (y) Series B Warrants to purchase up to 220,538 shares of Avenue Common Stock. The net proceeds to Avenue from the exercise of the warrants was approximately \$4.5 million, after deducting placement agent fees and estimated offering costs, but without giving effect to the exercise of the Series A Warrants and Series B Warrants issued in the January 2024 Warrant Inducement.

The fair value of the Series A Warrants and Series B Warrants was allocated between the January 2023 Warrants and the November 2023 Warrants on a weighted basis, with approximately \$0.6 million allocated to the January 2023 Warrants and recorded to loss on common stock warrant liabilities in the condensed consolidated statement of operations, and the approximately \$4.3 million allocated to the November 2023 Warrants deemed to be a dividend such that it was included in net loss attributable to common stockholders in the calculation of net loss per share in the condensed consolidated statement of operations (see Note 12).

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Also in April 2024, Avenue entered into definitive agreements for the immediate exercise of certain of its existing outstanding warrants for cash an aggregate of 689,680 warrants for shares of Avenue's common stock at a reduced exercise price of \$6.20 per share (the "May 2024 Warrant Inducement"). The exercised warrants are comprised of warrants to purchase shares of common stock originally issued by Avenue on October 11, 2022, each having an exercise price of \$116.25 per share, Series A and Series B warrants to purchase shares of common stock originally issued by Avenue on November 2, 2023, each having an exercise price of \$22.545 per share, and warrants to purchase shares of common stock originally issued by Avenue on January 9, 2024, each having an exercise price of \$22.545 per share.

In consideration for the immediate exercise of the warrants for cash in the May 2024 Warrant Inducement, Avenue issued two new unregistered series of warrants to purchase up to a total of 1,379,360 shares of Avenue common stock for a payment of \$0.125 per warrant. The warrants have an exercise price of \$6.20 per share, and terms of eighteen months for one series and five years for the other series. Total net proceeds to Avenue were approximately \$3.7 million after deducting placement agent fees and other expenses payable by Avenue.

In May 2024, Avenue entered into an At-the-Market Offering Agreement (the "Avenue ATM") under which Avenue may offer and sell, from time to time at its sole discretion, up to \$3.9 million of shares of its common stock. The offer and sale of the shares will be made pursuant to a base prospectus forming a part of the 2021 Avenue S-3, and the related prospectus supplement dated May 10, 2024. During the six months ended June 30, 2024, Avenue issued 87,683 shares through the Avenue ATM for net proceeds of \$0.3 million.

Pursuant to the Company's Founders Agreement with Avenue, Avenue issued to Fortress 2.5% of the aggregate number of shares of common stock issued in the warrant exercises noted above. Accordingly, Avenue issued 25,567 shares of common stock to Fortress for the six-month period ended June 30, 2024.

Mustang 2021 Shelf Registration Statement and At-the-Market Offering (the "Mustang ATM")

On April 23, 2021, Mustang filed a shelf registration statement on Form S-3 (File No. 333-255476) (the "Mustang 2021 S-3"), which was declared effective on May 24, 2021. Under the Mustang 2021 S-3, Mustang was able to sell up to a total of \$200.0 million of its securities. In the six months ended June 30, 2024, Mustang sold approximately \$4.4 million of securities under the Mustang 2021 S-3 until its expiration on May 24, 2024.

On May 31, 2024, Mustang filed a shelf registration statement on Form S-3 (File No. 333-279891) (the "Mustang 2024 S-3"), which was declared effective on June 12, 2024. Under the Mustang 2024 S-3, Mustang may sell up to a total of \$40.0 million of its securities. As of June 30, 2024, approximately \$37.5 million of the Mustang 2024 S-3 remains available for sales of securities, subject to General Instruction I.B.6. of Form S-3.

On May 31, 2024, Mustang entered into an At-the-Market Offering Agreement (the "Mustang ATM") relating to the sale of shares of common stock pursuant to the Mustang 2024 S-3. During the six months ended June 30, 2024, Mustang issued no shares through the Mustang ATM.

Mustang Public Offering

In May 2024, Mustang closed on a public offering of 1,160,000 shares of common stock and pre-funded warrants to purchase up to 15,717,638 shares of common stock (or common stock equivalents in lieu thereof), and three series of 16,877,638 warrants each for a total of 50,632,914 warrants with a combined public offering price of \$0.237 per share (or per share common stock equivalent in lieu thereof) and accompanying warrants with an exercise price of \$0.237 per share. The Series A-1 warrants have a five-year term, the Series A-2 warrants have a twenty-four month term, and the Series A-3 warrants have a nine month term. The warrants contain customary anti-dilution adjustments to the exercise price, including share splits, share dividends, rights offerings and pro rata distributions. The net proceeds of the public offering, after deducting the fees and expenses of the placement agent and other offering expenses payable by Mustang was approximately \$3.3 million. All of the 15,717,638 pre-funded warrants were exercised as of June 30, 2024.

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Mustang also amended certain existing warrants to purchase up to 2,588,236 shares of common stock previously issued in October 2023 with an exercise price of \$1.58 per share such that the amended warrants have a reduced exercise price of \$0.237 per share, and have a five-year term from date of shareholder approval.

Mustang Registered Direct Offering

In June 2024, Mustang closed on a registered direct offering of 3,025,000 shares of common stock at \$0.41 per share (or common stock equivalent) priced at-the-market under Nasdaq rules and pre-funded warrants to purchase up to 3,105,000 shares of common stock, at a price per pre-funded warrant equal to \$0.4099, the price per share of common stock, less \$0.001. The pre-funded warrants have an exercise price of \$0.001 per share, became exercisable upon issuance and remain exercisable until exercised in full. In a concurrent private placement, Mustang also agreed to issue and sell unregistered warrants to purchase up to 6,130,000 shares of its common stock, with an exercise price of \$0.41 per share, exercisable beginning on the effective date of stockholder approval of the issuance of the shares upon exercise of the warrants and will expire five years from the date of stockholder approval. Net proceeds were approximately \$2.2 million, after placement agent’s fees and other offering expenses of approximately \$0.3 million. All of the 3,105,000 pre-funded warrants were exercised as of June 30, 2024.

Pursuant to the Company’s Founders Agreement with Mustang, Mustang issued to Fortress 2.5% of the aggregate number of shares of common stock issued in the financings noted above. Accordingly, Mustang issued 575,191 shares of common stock to Fortress for the six-month period ended June 30, 2024.

Journey 2022 Shelf Registration Statement and At-the-Market Offering

On December 30, 2022, Journey filed a shelf registration statement on Form S-3 (File No. 333-269079) (the “Journey 2022 S-3”), which was declared effective on January 26, 2023. The Journey 2022 S-3 covers the offering, issuance and sale by Journey of up to an aggregate of \$150.0 million of Journey’s common stock, preferred stock, debt securities, warrants, and units. In connection with the Journey 2022 S-3, Journey entered into a sales agreement relating to the sale of shares of Journey’s common stock in an at-the-market offering (the “Journey ATM Sales Agreement”). In accordance with the terms of the Journey ATM Sales Agreement, Journey may offer and sell up to 4,900,000 shares of its common stock, par value \$0.0001 per share, from time to time. For the six months ended June 30, 2024, Journey issued and sold approximately 0.3 million shares of common stock at an average price of \$5.28 per share for gross proceeds of \$1.5 million under the Journey ATM Sales Agreement. At June 30, 2024, 3,861,553 shares remain available for issuance under the Journey ATM Sales Agreement.

14. Commitments and Contingencies

Leases

At June 30, 2024, Mustang identified triggering events that required an impairment of the asset group consisting of its’ right-of-use asset and associated leasehold improvements. The assessment concluded that impairment existed as of June 30, 2024, and the impairment loss was allocated to the leasehold improvements and right-of-use assets based on the relative carrying amounts of the assets (see Note 3).

During three and six months ended June 30, 2024 and 2023, the Company recorded the following as lease costs for the periods presented:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 595	\$ 950	\$ 1,235	\$ 1,969
Shared lease costs	(519)	(519)	(1,042)	(1,034)
Variable lease cost	174	199	390	400
Total lease expense	\$ 250	\$ 630	\$ 583	\$ 1,335

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The following tables summarize quantitative information about the Company's operating leases, under the adoption of ASC Topic 842, *Leases*:

	Six Months Ended June 30,	
	2024	2023
<i>(\$ in thousands)</i>		
Operating cash flows from operating leases	\$ (1,850)	\$ (1,762)
Right-of-use assets exchanged for new operating lease liabilities	\$ —	\$ —
Weighted-average remaining lease term – operating leases (years)	4.0	4.4
Weighted-average discount rate – operating leases	6.0 %	6.5 %

	Future Lease Liability
<i>(\$ in thousands)</i>	
Nine Months Ended December 31, 2024	\$ 1,819
Year Ended December 31, 2025	3,542
Year Ended December 31, 2026	3,272
Year Ended December 31, 2027	2,923
Year Ended December 31, 2028	2,967
Other	8,125
Total operating lease liabilities	22,648
Less: present value discount	(4,233)
Net operating lease liabilities, short-term and long-term	<u>\$ 18,415</u>

Indemnification

In accordance with its certificate of incorporation, bylaws and indemnification agreements, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such capacity. There have been no claims to date, and the Company has director and officer insurance to address such claims. The Company and its subsidiaries and partner companies also provide indemnification of contractual counterparties (sometimes without monetary caps) to clinical sites, service providers and licensors.

Legal Proceedings

In the ordinary course of business, the Company and its subsidiaries and partner companies may be subject to both insured and uninsured litigation. Suits and claims may be brought against the Company by customers, suppliers, partners and/or third parties (including tort claims for personal injury arising from clinical trials of the Company's product candidates and property damage) alleging deficiencies in performance, breach of contract, etc., and seeing resulting alleged damages.

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University of Tennessee Research Foundation v. Caelum Biosciences, Inc.

Caelum Biosciences, Inc. (“Caelum”), a former subsidiary of Fortress that was sold to AstraZeneca’s Alexion (“Alexion”) in October 2021, is the defendant in a lawsuit brought by The University of Tennessee Research Foundation (“UTRF”) captioned as *University of Tennessee Research Foundation v. Caelum Biosciences, Inc.*, No. 19-cv-00508, which is pending in the United States District Court for the Eastern District of Tennessee (the “UTRF Litigation”). UTRF brought claims against Caelum, for, *inter alia*, tortious interference and trade secret misappropriation. UTRF primarily alleges that Caelum unauthorizedly used non-patent trade secrets owned by UTRF in the development of Caelum’s 11-1F4 monoclonal antibody, known as CAEL-101. Under the agreement pursuant to which Alexion acquired Caelum (as amended, the “DOSPA”), Fortress has indemnification obligations of Caelum under certain circumstances, including for certain of Caelum’s legal expenses and potential damages arising out of the UTRF Litigation (with such indemnification capped in the aggregate as to Fortress at the amount of Caelum acquisition proceeds received by Fortress – approximately \$57 million to date - and which, at Caelum’s election, may be satisfiable in the form of offsets against future amounts that Caelum may owe Fortress under the DOSPA). Caelum is defending the UTRF Litigation, with Fortress participating in such defense and maintaining a consent right over any potential settlements. Caelum’s legal fees and costs in defending the UTRF Litigation are being reimbursed by Fortress by distribution from a \$15 million escrow account established concurrently with the acquisition of Caelum; Fortress considers the amount remaining in escrow to be in excess of the amount of its anticipated out-of-pocket indemnifiable costs and damages in the UTRF Litigation and therefore has not accrued any liability pertaining to this indemnity. Caelum and Fortress both believe the UTRF Litigation is without merit and intend to continue defending it vigorously (including exhausting all appeals if applicable). A jury trial is scheduled for September 2024 in Knoxville, TN.

15. Related Party Transactions

Founders Agreement

The Company has entered into Founders Agreements and, in some cases, exchange agreements with certain of its subsidiaries as described in the 2023 Form 10-K. The following table summarizes, by partner company/subsidiary, the effective date of the Founders Agreements and Payment-in-Kind (“PIK”) dividend or equity fee payable to the Company in accordance with the terms of the Founders Agreements, exchange agreements, and the subsidiaries’ certificates of incorporation:

Partner Company/Subsidiary	Effective Date 1	PIK Dividend as a % of fully diluted outstanding capitalization	Class of Stock Issued
Avenue	February 17, 2015	2.5 %	Common Stock
Baergic	December 17, 2019 ⁴	- % ²	Common Stock
Cellvation	October 31, 2016	2.5 %	Common Stock
Checkpoint	March 17, 2015	- % ³	Common Stock
Cyprium	March 13, 2017	2.5 %	Common Stock
Helocyte	March 20, 2015	2.5 %	Common Stock
Mustang	March 13, 2015	2.5 %	Common Stock
Oncogenuity	April 22, 2020 ⁴	2.5 %	Common Stock
Urica	November 7, 2017 ⁴	2.5 %	Common Stock

Note 1: Represents the effective date of each subsidiary’s Founders Agreement. Each PIK dividend and equity fee is payable on the annual anniversary of the effective date of the original Founders Agreement or has since been amended to January 1 of each calendar year.

Note 2: Due to the November 2022 consummation of the Contribution Agreement between the Company and Avenue, Avenue is now eligible to receive the PIK dividend and equity fee payable by Baergic.

Note 3: Instead of a PIK dividend, Checkpoint pays the Company an annual equity fee in shares of Checkpoint’s common stock equal to 2.5% of Checkpoint’s fully diluted outstanding capitalization.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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Note 4: Represents the Trigger Date, the date that the Fortress partner company/subsidiary first acquires, whether by license or otherwise, ownership rights in a product.

Management Services Agreements

The Company has entered into Management Services Agreements (the “MSAs”) with certain of its partner companies/subsidiaries as described in the 2023 Form 10-K. The following table summarizes the effective date of each MSA and the annual consulting fee payable by the partner company/subsidiary to the Company in quarterly installments:

<u>Partner Company/Subsidiary</u>	<u>Effective Date</u>	<u>Annual MSA Fee (Income)/Expense</u>
Avenue	February 17, 2015	500
Baergic ¹	March 9, 2017	—
Cellvation	October 31, 2016	500
Checkpoint	March 17, 2015	500
Cyprium	March 13, 2017	500
Helocyte	March 20, 2015	500
Mustang	March 13, 2015	500
Oncogenuity	February 10, 2017	500
Urica	November 7, 2017	500
Fortress		(4,000)
Consolidated (Income)/Expense		<u>\$ —</u>

Note 1: Pursuant to the Share Contribution Agreement between Fortress and Avenue, under which Baergic became a majority-controlled and owned subsidiary of Avenue, Fortress also assigned to Avenue the Founders Agreement previously between Fortress and Baergic, such that Baergic’s annual MSA is now payable to Avenue.

Fees and Stock Grants Received by Fortress

Fees recorded in connection with Fortress’ agreements with its subsidiaries and partner companies are eliminated in consolidation. These include management services fees, issuance of common shares of partner companies in connection with third party raises and annual stock dividend or issuances on the anniversary date of respective Founders Agreements.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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Shared Services Agreement with TG Therapeutics, Inc. ("TGTX")

In July 2015, TGTX and the Company entered into an arrangement to share the cost of certain research and development employees. The Company's Executive Vice Chairman, Strategic Development, is also Executive Chairman and Chief Executive Officer of TGTX. Under the terms of the Agreement, TGTX reimburses the Company for the salary and benefit costs associated with these employees based upon actual hours worked on TGTX related projects. In connection with the shared services agreement, for the three months ended June 30, 2024 and 2023 the Company invoiced TGTX \$0.1 million and \$0.1 million, respectively; for the six months ended June 30, 2024 and 2023 invoiced TGTX \$0.7 million and \$0.2 million, respectively. At June 30, 2024, approximately \$0.1 million is due from TGTX related to this arrangement.

Shared Services Agreement with Journey

On November 12, 2021, Journey and the Company entered into an arrangement to share the cost of certain legal, finance, regulatory, and research and development employees. The Company's Executive Chairman and Chief Executive Officer is also the Executive Chairman of Journey. Under the terms of the arrangement, Journey began reimbursing the Company for the salary and benefit costs associated with these employees based upon actual hours worked on Journey related projects following the completion of their initial public offering in November 2021. In addition, Journey reimburses the Company for various payroll-related costs and selling, general and administrative costs incurred by Fortress for the benefit of Journey. For the three months ended June 30, 2024 and 2023, the Company's employees have provided services to Journey totaling approximately \$8,000 and \$21,000, respectively. For the six months ended June 30, 2024 and 2023, the Company's employees have provided services to Journey totaling approximately \$18,000 and \$36,000, respectively. At June 30, 2024, the total related party receivable was \$0.3 million, and primarily relates to reimbursable expenses incurred by Fortress on behalf of Journey.

Desk Share Agreement with TGTX

The Desk Share Agreement with TGTX, as amended, requires TGTX to pay its share of the average annual rent for office space in New York, NY, based on the actual percentage of the office space occupied by TGTX on a month-by-month basis. For the three months ended June 30, 2024 and 2023, the Company had paid \$0.7 million and \$0.8 million in rent, respectively, and in connection with the Company's Desk Share Agreement with TGTX, has invoiced TGTX approximately \$0.5 million and \$0.5 million, respectively, for its prorated share of the rent base. For the six months ended June 30, 2024 and 2023, the Company had paid \$1.4 million and \$1.4 million in rent, respectively, and in connection with the Company's Desk Share Agreement with TGTX, has invoiced TGTX approximately \$1.0 million and \$1.0 million, respectively, for its prorated share of the rent base. At June 30, 2024, there was no balance due from TGTX related to this arrangement.

Cyprium 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock Dividend Obligation

Pursuant to a private placement in August 2020, Cyprium sold shares of its 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock ("Cyprium PPS"); as of June 30, 2024, there are 300,600 shares of Cyprium PPS outstanding.

Pursuant to the terms of the Cyprium PPS, shareholders on the record date are entitled to receive a monthly cash dividend of \$0.19531 per share which yields an annual dividend of \$2.34375 per share. The Cyprium PPS will automatically be redeemed upon the first (and only the first) bona fide, arm's-length sale of a Priority Review Voucher (a "PRV Sale") issued by the FDA in connection with the approval of CUTX-101, Cyprium's copper histidine product candidate. Upon the PRV Sale, each share of Cyprium PPS will be automatically redeemed in exchange for a payment equal to twice (2x) the \$25.00 liquidation preference, plus accumulated and unpaid dividends to, but excluding, the redemption date.

An optional exchange to Fortress Series A Preferred Stock is available after 24 months from the issuance date so long as a sale of the PRV has not occurred. Additionally, if a PRV Sale has not occurred by September 30, 2024 the Cyprium PPS will either be automatically exchanged for Fortress Series A Preferred Stock or cash at the discretion of Fortress. The Cyprium PPS is fully and unconditionally guaranteed by Fortress.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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16. Segment Information

The Company operates in two reportable segments, Dermatology Product Sales and Pharmaceutical and Biotechnology Product Development. The accounting policies of the Company are consistently applied to all segments. The following tables summarize, for the periods indicated, operating results from continued operations by reportable segment (\$ in thousands):

Three Months Ended June 30, 2024	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Consolidated
Net revenue	\$ 14,855	\$ 41	\$ 14,896
Cost of goods - product revenue	(6,541)	—	(6,541)
Research and development	(913)	(11,758)	(12,671)
Selling, general and administrative	(10,328)	(10,495)	(20,823)
Asset impairment	—	(2,649)	(2,649)
Other expense	(434)	(602)	(1,036)
Segment loss	<u>\$ (3,361)</u>	<u>\$ (25,463)</u>	<u>\$ (28,824)</u>

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Six Months Ended June 30, 2024	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Consolidated
Net revenue	\$ 27,885	\$ 41	\$ 27,926
Cost of goods - product revenue	(13,357)	(0)	(13,357)
Research and development	(8,797)	(28,698)	(37,495)
Selling, general and administrative	(18,748)	(20,029)	(38,777)
Asset impairment	—	(2,649)	(2,649)
Other expense	(786)	(2,708)	(3,494)
Segment loss	\$ (13,803)	\$ (54,043)	\$ (67,846)

Three Months Ended June 30, 2023	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Consolidated
Net revenue	\$ 17,172	\$ 214	\$ 17,386
Cost of goods - product revenue	(7,767)	—	(7,767)
Research and development	(1,774)	(30,368)	(32,142)
Selling, general and administrative	(12,141)	(12,298)	(24,439)
Asset impairment	(3,143)	—	(3,143)
Other expense	(710)	(8,486)	(9,196)
Segment loss	\$ (8,363)	\$ (50,938)	\$ (59,301)

Six Months Ended June 30, 2023	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Consolidated
Net revenue	\$ 29,385	\$ 430	\$ 29,815
Cost of goods - product revenue	(14,216)	—	(14,216)
Research and development	(3,807)	(67,841)	(71,648)
Selling, general and administrative	(25,433)	(24,347)	(49,780)
Asset impairment	(3,143)	—	(3,143)
Other expense	(1,285)	(4,189)	(5,474)
Segment loss	\$ (18,499)	\$ (95,947)	\$ (114,446)

The following tables summarize, for the periods indicated, total assets by reportable segment (\$ in thousands):

June 30, 2024	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Total Assets
Intangible assets, net	\$ 18,658	\$ —	\$ 18,658
Tangible assets	46,531	80,496	127,027
Total segment assets	\$ 65,189	\$ 80,496	\$ 145,685

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December 31, 2023	Dermatology Products Sales	Pharmaceutical and Biotechnology Product Development	Total Assets
Intangible assets, net	\$ 20,287	\$ —	\$ 20,287
Tangible assets	56,562	90,677	147,239
Total segment assets	\$ 76,849	\$ 90,677	\$ 167,526

17. Revenues from Contracts and Significant Customers

Disaggregation of Total Revenue

Journey has the following actively marketed products, Qbrexza, Accutane, Amzeeq, Zilxi, Exelderm, Luxamend, Targadox, and Ximino (until September 2023). All of Journey's product revenues are recorded in the U.S.

The table below summarizes the Company's revenue for the periods presented (\$ in thousands):

	Three months ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue				
Qbrexza	\$ 6,836	\$ 8,079	\$ 11,853	\$ 12,173
Accutane	5,719	5,579	11,538	10,227
Amzeeq	1,205	1,374	1,960	2,568
Zilxi	369	572	642	886
Other / legacy product revenue	726	1,357	1,892	3,272
Collaboration revenue	—	183	—	364
Revenue – related party	41	31	41	66
Other revenue	—	211	—	259
Total net revenue	\$ 14,896	\$ 17,386	\$ 27,926	\$ 29,815

Significant Customers

For the three and six-month periods ending June 30, 2024 and 2023, none of Journey's dermatology products customers accounted for more than 10% of its total gross product revenue.

At June 30, 2024, two of Journey's dermatology products customers accounted for more than 10% of its total accounts receivable balance at 18% and 10.8%. At December 31, 2023, one of the Company's dermatology products customers accounted for more than 10% of its total accounts receivable balance at 13%.

18. Income taxes

The Company and its subsidiaries are subject to US federal and state income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized.

The Company files a consolidated income tax return with subsidiaries for which the Company has an 80% or greater ownership interest. Subsidiaries for which the Company does not have an 80% or more ownership are not included in the Company's consolidated income tax group and file their own separate income tax return. As a result, certain corporate entities included in these financial statements are not able to combine or offset their taxable income or losses with other entities' tax attributes.

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
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Income tax expense for the three and six months ended June 30, 2024 and 2023 is based on the estimated annual effective tax rate, and includes interest related to unrecognized tax benefits. The Company expects a net deferred tax asset with a full valuation allowance and 0% estimated annual effective tax rate for 2024. No income tax expense was recognized for the three and six months ended June 30, 2024 or 2023.

19. Subsequent Events

Fortress

On July 25, 2024, Fortress entered into the \$50.0 million senior secured credit agreement with a maturity date of July 25, 2027 with Oaktree (the “New Oaktree Agreement”). The Company borrowed \$35.0 million under the New Oaktree Agreement on the Closing Date and is eligible to draw up to an additional \$15.0 million at the lenders’ discretion to support future business development activities. The New Oaktree Agreement replaces the Prior Oaktree Agreement in which the remaining \$50.0 million balance was repaid in full.

Under the terms of the New Oaktree Agreement, the loans have a 30-month interest-only period with a maturity date of July 25, 2027, and bear interest at an annual rate equal to the 3-month Secured Overnight Financing Rate (SOFR) plus 7.625% (subject to a 2.50% SOFR floor and a 5.75% SOFR cap). The Company is required to make quarterly interest-only payments until the maturity date, except fifty percent of the then-outstanding principal balance of the loans is due on March 31, 2027, with the remaining principal amount due on the maturity date.

The Company may voluntarily prepay, in whole or in part, the amounts due under the New Oaktree Agreement at any time subject to a prepayment fee. Subject to prior written notice by the Company, to repay any amounts due prior to the maturity date, the Company must pay the sum of (A) the aggregate principal amount of the Loans being prepaid, (B) any accrued but unpaid interest on the principal amount of the Loans being prepaid, (C) any applicable Yield Protection Premium (as defined in the New Oaktree Agreement) and (D) if applicable, other unpaid amounts then due and owing pursuant to the New Oaktree Agreement and the other loan documents (such aggregate amount, the “Prepayment Price”); provided that each partial prepayment of the principal amount of the Loans shall be in an aggregate amount of at least \$5.0 million and integral multiples of \$1.0 million in excess thereof. The Company is required to make mandatory prepayments of the Loans with net cash proceeds from (i) certain casualty events, (ii) certain monetization events, including, among other things, certain asset sales and the sale(s) of priority review vouchers by certain subsidiaries of the Company, and the receipt by the Company of any dividend or other distributions in cash from any of its subsidiaries in excess of \$5.0 million other than in connection with certain monetization events, (iii) debt issuances that are not permitted, and (iv) failure to comply with certain covenants. The lenders may elect to receive warrants to purchase common stock of the Company as an alternative to cash prepayments in some situations where a mandatory prepayment would otherwise be required.

The New Oaktree Agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and dividends and other distributions, subject to certain exceptions. In addition, the New Oaktree Agreement contains certain financial covenants, including, (i) a requirement that the Company maintain a minimum liquidity of \$7.0 million, which may be reduced or increased as described in the New Oaktree Agreement (“the “Liquidity Requirement”), and (ii) that product net sales of Journey meet a consolidated minimum net sales amount of \$50.0 million on a trailing 12-month basis, tested quarterly, which may be reduced or increased as described in the New Oaktree Agreement (the “Minimum Net Sales Test”), subject to certain exclusions. Both the Minimum Net Sales Test and the Liquidity Requirement will be reduced to \$0 while the outstanding principal balance is less than or equal to \$10.0 million. The Liquidity Requirement is subject to a decrease to \$5.0 million while the outstanding principal balance is between \$10.0 million and \$25.0 million, and also subject to an increase of \$3.75 million in each instance if DFD-29 is not approved by the FDA by either March 31, 2025 or December 31, 2025 with a reversion of the approval-related increases upon approval. Failure by the Company to comply with the financial covenants will result in an event of default, subject to certain cure rights of the Company with respect to the Minimum Net Sales Test.

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The New Oaktree Agreement contains events of default that are customary for financings of this type, in certain circumstances subject to customary cure periods. In addition, the Company is also required to (i) raise common equity, or receive in monetizations or distributions, by the end of each calendar year prior to the maturity date, in an aggregate amount equal to the greater of \$20 million or 50% of an amount set forth in an annual budget delivered to the lenders and (ii) maintain a specified minimum equity stake in Journey. The capital raise and minimum stake covenants and financial covenants will not apply if the outstanding principal balance of the loan is less than or equal to \$10 million. Following an event of default and any cure period, if applicable, the Agent will have the right upon notice to accelerate all amounts outstanding under the New Oaktree Agreement, in addition to other remedies available to the lenders as secured creditors of the Company.

In connection with the New Oaktree Agreement, the Company granted a security interest in favor of the Agent, for the benefit of the lenders, in substantially all of the Company's assets, subject to customary exceptions, as collateral securing the Company's obligations under the New Oaktree Agreement.

In connection with the New Oaktree Agreement, the Company granted warrants to the lenders to purchase up to 506,390 shares of the Company's common stock at a purchase price of \$2.0735 per share (the "Warrants"). The Warrants contain customary anti-dilution adjustments to the exercise price, including for share splits, share dividends, rights offerings and pro rata distributions. The exercise price of the Warrants will also be adjusted if, while the Warrants are outstanding, the Company engages in any transaction involving the issuance or sale of shares of Common Stock or equivalent securities at an effective price per share less than the exercise price of the Warrant then in effect (such lower price, the "Base Share Price"). In such case, the exercise price of the Warrants will be reduced to equal the Base Share Price. The Warrants are immediately exercisable and will expire on July 25, 2031 and may be net exercised for no cash payment at the holder's election. The Company also agreed to file a registration statement to register the resale of the shares of Company common stock issuable upon exercise of the Warrants.

Fortress Dividends

On July 5, 2024, Fortress announced that the Company's Board of Directors had decided to pause the monthly dividend of \$0.1953125 per share of the Company's 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Series A Preferred Stock"). In accordance with the terms of the Series A Preferred Stock, dividends on the Series A Preferred Stock will continue to accrue and cumulate until such dividends are authorized or declared. The pausing of these dividends will defer approximately \$0.7 million in cash dividend payments each month. The Board intends to revisit its decision regarding the monthly dividend regularly and will assess the profitability and cash flow of the Company to determine whether and when the pause should be lifted.

Journey

On July 9, 2024, Journey entered into the SWK Amendment. The SWK Amendment increased the total amount of the Credit Facility from \$20.0 million to \$25.0 million. The \$5.0 million of additional availability added in the Amendment will be drawn upon FDA approval of DFD-29, subject to Journey receiving approval on or before June 30, 2025.

Urica

On July 15, 2024, Urica entered into an asset purchase agreement (the "APA"), royalty agreement (the "Royalty Agreement"), and related agreements (collectively, the "Transaction Documents") with Crystalys Therapeutics, Inc. ("Crystalys"). Crystalys is a Delaware corporation incorporated in 2022 and seeded by leading life sciences institutional investors. Under the Transaction Documents, Urica sold the rights to its URAT1 inhibitor product candidate in development for the treatment of gout, dotinurad, and related intellectual property, licenses and agreements to Crystalys. In return, Crystalys issued to Urica shares of its common stock equal to 35% of Crystalys' outstanding equity. Urica's equity position cannot be reduced below 15% of Crystalys' fully-diluted equity capitalization until it raises \$150 million in equity securities.

The Transaction Documents also grant Urica a securitized three percent (3%) royalty on future net sales of dotinurad to be paid by Crystalys, as well as the right to receive nominal cash reimbursement payments for certain clinical and development costs incurred by Urica related to dotinurad. Urica has the right to appoint one director to the board of directors of Crystalys, as well as an additional

FORTRESS BIOTECH, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

board observer. Urica has committed to providing transition support to Crystalys for 90 days, and Crystalys is obliged to use commercially reasonable efforts to develop and commercialize dotinurad.

Checkpoint

In July 2024, Checkpoint closed on a registered direct offering (the “Checkpoint July 2024 Registered Direct Offering”) for the issuance and sale of an aggregate of 1,230,000 shares of its common stock at a purchase price of \$2.05 per share of common stock. In addition, the offering includes 4,623,659 shares of common stock in the form of pre-funded warrants at a price of \$2.0499. In a concurrent private placement, Checkpoint issued and sold common warrants (the “Checkpoint July 2024 Common Stock Warrants”) to purchase up to 5,853,659 shares of common stock. The Checkpoint July 2024 Common Stock Warrants will be exercisable beginning on the effective date of stockholder approval of the issuance of the shares upon exercise of the Checkpoint July 2024 Common Stock Warrants with an exercise price of \$2.05 per share and will expire five years following the issuance date. The total gross proceeds from the July 2024 Registered Direct Offering were approximately \$12.0 million.

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

Forward-Looking Statements

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. Statements in this Quarterly Report on Form 10-Q that are not descriptions of historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "might," "plans," "potential," "predicts," "should," or "will" or the negative of these terms or other comparable terminology are generally intended to identify forward-looking statements. These forward-looking statements are based on management's current expectations and are subject to risks and uncertainties that could negatively affect our business, operating results, financial condition and stock price. Factors that could cause actual results to differ materially from those currently anticipated include those set forth under "Item 1A. Risk Factors" including, in particular, risks relating to:

- our growth strategy;
- financing and strategic agreements and relationships;
- our need for substantial additional funds and uncertainties relating to financings;
- our ability to identify, acquire, close and integrate product candidates successfully and on a timely basis;
- our ability to attract, integrate and retain key personnel;
- the early stage of products under development;
- the results of research and development activities;
- uncertainties relating to preclinical and clinical testing;
- the ability to secure and maintain third-party manufacturing, marketing and distribution of our and our partner companies' products and product candidates;
- government regulation;
- patent and intellectual property matters; and
- competition.

We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations or any changes in events, conditions or circumstances on which any such statement is based, except as may be required by law, and we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The information contained herein is intended to be reviewed in its totality, and any stipulations, conditions or provisos that apply to a given piece of information in one part of this Quarterly Report on Form 10-Q should be read as applying *mutatis mutandis* to every other instance of such information appearing herein.

Overview

Fortress Biotech, Inc. ("Fortress" or the "Company") is a biopharmaceutical company focused on acquiring and advancing assets to enhance long-term value for shareholders through product revenue, equity holding and dividend and royalty revenue streams. Fortress works in concert with our extensive network of key opinion leaders to identify and evaluate promising products and product candidates for potential acquisition. We have executed arrangements with some of the world's foremost universities, research institutes and pharmaceutical companies, including City of Hope National Medical Center ("COH" or "City of Hope"), Fred Hutchinson Cancer Center, Dana-Farber Cancer Institute, Nationwide Children's Hospital, Cincinnati Children's Hospital Medical Center, Columbia University, the University of Pennsylvania, AstraZeneca plc and Dr. Reddy's Laboratories, Ltd.

Following the exclusive license or other acquisition of the intellectual property underpinning a product or product candidate, Fortress leverages its business, scientific, regulatory, legal and financial expertise to help the partners achieve their goals. Partner companies then assess a broad range of strategic arrangements to accelerate and provide additional funding to support research and development, including joint ventures, partnerships, out-licensings, sales transactions, and public and private financings. To date, four partner companies are publicly-traded, and two have consummated strategic partnerships with industry leaders, including AstraZeneca plc as successor-in-interest to Alexion Pharmaceuticals, Inc. ("AstraZeneca") and Sentyln Therapeutics, Inc. ("Sentyln").

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Our subsidiaries and partner companies that are pursuing development and/or commercialization of biopharmaceutical products and product candidates are: Avenue Therapeutics, Inc. (Nasdaq: ATXI, “Avenue”), Baergic Bio, Inc. (“Baergic,” a subsidiary of Avenue), Cellvation, Inc. (“Cellvation”), Checkpoint Therapeutics, Inc. (Nasdaq: CKPT, “Checkpoint”), Cyprium Therapeutics, Inc. (“Cyprium”), Helocyte, Inc. (“Helocyte”), Journey Medical Corporation (Nasdaq: DERM, “Journey” or “JMC”), Mustang Bio, Inc. (Nasdaq: MBIO, “Mustang”) and Oncogenity, Inc. (“Oncogenity”).

Recent Events

Revenue

- For the three months ended June 30, 2024 and 2023, total net revenue was \$14.9 million and \$17.4 million, respectively; and for the six months ended June 30, 2024 and 2023, was \$27.9 million and \$29.8 million, respectively, and is comprised predominantly of net product revenue from Journey’s commercial dermatology portfolio.

Late Stage Product Candidates

Cosibelimab (anti-PD-L1 antibody)

- In July 2024, our partner company, Checkpoint, announced the U.S. Food and Drug Administration (“FDA”) had accepted for review its resubmission of its Biologics License Application (“BLA”) for cosibelimab, its investigational anti-PD-L1 antibody, as a treatment for patients with metastatic or locally advanced cutaneous squamous cell carcinoma (“cSCC”) who are not candidates for curative surgery or radiation. The resubmission has been accepted as a complete response to the complete response letter received in December 2023, and the FDA has set a Prescription Drug User Fee Act (“PDUFA”) goal date of December 28, 2024.
- Also in July 2024, Checkpoint announced a collaboration to explore the combined therapeutic potential of cosibelimab with GC Cell’s Immuncell-LC, an innovative autologous Cytokine Induced Killer (“CIK”) T cell therapy composed of cytotoxic T lymphocytes and natural killer T cells.
- Cosibelimab was sourced by Fortress and is currently in development at Checkpoint.

DFD-29 (modified release oral minocycline for the treatment of rosacea)

- In March 2024, the FDA accepted the NDA for DFD-29 (Minocycline Hydrochloride Modified Release Capsules, 40 mg) and set a PDUFA goal date of November 4, 2024. We submitted the NDA to the FDA seeking approval for DFD-29 for the treatment of inflammatory lesions and erythema of rosacea in adults in January 2024. Both randomized controlled DFD-29 Phase 3 clinical trials achieved their co-primary and all secondary endpoints with subjects completing the 16-week treatment with no significant safety issues. DFD-29 demonstrated statistical superiority compared to both Oracea capsules and placebo for Investigator’s Global Assessment (“IGA”) treatment success and the reduction in the total inflammatory lesion count in both clinical trials. Additionally, DFD-29 showed significantly superior reduction in Clinicians Erythema Assessment compared to placebo in both of the Phase 3 clinical trials.
- DFD-29 is being developed for the treatment of rosacea at our partner company, Journey, in collaboration with Dr. Reddy’s Laboratories Ltd.

Triplex (cytomegalovirus (“CMV”) vaccine)

- Triplex is currently being studied in a Phase 2 clinical trial for adults co-infected with HIV and CMV that is now fully enrolled with topline data anticipated in the fourth quarter of 2024. The study aims to show that vaccination with Triplex can safely elicit a CMV-specific immune response and reduce asymptomatic CMV replication in a population of people with HIV on suppressive antiretroviral therapy. The study will also evaluate whether this intervention might reduce chronic inflammation and immune activation, as compared to placebo, and thus, potentially reduce related mortality and morbidity.
- In May 2024, we announced that the first patient was dosed in a multi-center, placebo-controlled, randomized Phase 2 study of Triplex, a vaccine for control of CMV, in patients undergoing liver transplantation. The trial is funded by a grant from the National Institutes of Health’s National Institute of Allergy and Infectious Diseases (“NIH/NIAID”) that could provide over \$20 million in non-dilutive funding and will be conducted in up to 20 nationally recognized transplant centers in the United States.
- Triplex is currently the subject of multiple ongoing clinical trials, including: a Phase 2 evaluation for CMV control in recipients of liver transplant (NCT06075745); a Phase 1/2 trial for CMV control in pediatric recipients of HCT (NCT03354728); a Phase 2 trial for safety and immunogenicity in adults living with HIV and CMV (NCT05099965); a Phase 2 trial for CMV control in recipients of stem cell transplant in which the stem cell donor is vaccinated with Triplex (NCT06059391) and a Phase 1 trial

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of Triplex in combination with a bi-specific CMV/CD19 Chimeric Antigen Receptor T Cell for the treatment of non-Hodgkin lymphoma (NCT05432635).

- In 2023, Helocyte additionally entered into an option agreement with City of Hope for exclusive worldwide rights to a novel bispecific CMV/HIV CAR T cell therapy (optionally for use in combination with Triplex), which is currently the subject of a Phase 1 trial in adults living with HIV-1 (see NCT06252402).
- Triplex was sourced by Fortress and is currently in development at our subsidiary, Helocyte.

CAEL-101 (Light chain fibril-reactive monoclonal antibody for AL Amyloidosis)

- On October 5, 2021, AstraZeneca acquired Caelum Biosciences, Inc. (“Caelum”), a former subsidiary of Fortress for an upfront payment of approximately \$150 million paid to Caelum shareholders, of which approximately \$56.9 million was paid to Fortress, net of Fortress’ \$6.4 million portion of the \$15 million, 24-month escrow holdback amount and other miscellaneous transaction expenses. The agreement also provides for additional potential payments to Caelum shareholders totaling up to \$350 million, payable upon the achievement of regulatory and commercial milestones. Fortress is eligible to receive 42.4% of all potential milestone payments, which together with the upfront payment, would total up to approximately \$212 million.
- There are two ongoing Phase 3 studies of CAEL-101 for AL amyloidosis. (ClinicalTrials.gov identifiers: NCT04512235 and NCT04504825).
- CAEL-101 (anselamimab) was sourced by Fortress and was developed by Caelum (founded by Fortress) until its acquisition by AstraZeneca in October 2021.

CUTX-101 (copper histidinate for Menkes disease)

- In December 2023, our subsidiary, Cyprium completed the asset transfer of CUTX-101 to Sentyln. Sentyln is obligated under the agreement to use commercially reasonable efforts to develop and commercialize CUTX-101, including the funding of the same. Additionally, Cyprium remains eligible to receive up to \$129 million in aggregate development and sales milestones under the Agreement and royalties on net sales of CUTX-101 ranging from 3% to 12.5% on tiered annual net sales. Cyprium will retain 100% ownership over any FDA priority review voucher that may be issued at the New Drug Application (“NDA”) approval for CUTX-101.
- The CUTX-101 rolling NDA submission is ongoing and is expected to be completed by Sentyln in 2024.
- CUTX-101 was sourced by Fortress and was developed by Cyprium until the asset transfer in December 2023.

Early Stage Product Candidates

MB-106 (CD20-targeted CAR T-cell therapy)

- In March 2024, we announced our expansion into autoimmune diseases with MB-106, a personalized CD20-targeted, 3rd-generation autologous CAR T-cell therapy. Planning for a proof-of concept Phase 1 investigator-sponsored clinical trial evaluating MB-106 in autoimmune diseases is underway and could initiate in the fourth quarter of 2024.
- In June 2024, we announced updated data for MB-106 showed a favorable safety and efficacy profile in patients with Waldenstrom macroglobulinemia (“WM”), a rare form of blood cancer. There was an overall response rate (“ORR”) of 90% in the cohort with durable responses observed, including three complete responses (“CR”), two very good partial responses (“VGPR”), and four partial responses, and one patient remains in complete remission at 31 months.
- MB-106 was sourced by Fortress and is currently in development at our partner company, Mustang.

Dotinurad (urate transporter (URAT1) inhibitor for gout)

- In July 2024, Urica entered into an asset purchase agreement, royalty agreement, and related agreements (collectively, the “Transaction Documents”) with Crystalys Therapeutics, Inc. (“Crystalys”). Crystalys is a Delaware corporation founded in 2023 and seeded by leading life sciences institutional investors. Urica transferred rights to its URAT1 inhibitor product candidate in development for the treatment of gout, dotinurad, and related intellectual property, licenses and agreements to Crystalys. In return, Crystalys issued to Urica shares of its common stock equal to 35% of Crystalys’ outstanding equity including certain anti-dilution provisions through the raise of \$150 million in equity securities. The Transaction Documents also grant Urica a securitized three percent (3%) royalty on future net sales of dotinurad to be paid by Crystalys, as well as the right to receive nominal cash reimbursement payments for certain clinical and development costs incurred by Urica related to dotinurad.
- Dotinurad (URECE® tablet) was approved in Japan in 2020 as a once-daily oral therapy for gout and hyperuricemia. Dotinurad was efficacious and well-tolerated in more than 500 Japanese patients treated for up to 58 weeks in Phase 3 clinical trials. The clinical program supporting approval included over 1,000 patients.
- Dotinurad was sourced by Fortress and was in development at Urica until dotinurad was acquired by Crystalys in July 2024.

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MB-109 (IL13Rα2-targeted CAR T Cells (MB-101) + HSV-1 oncolytic virus (MB-108))

- In March 2024, data from the Phase 1 trial evaluating MB-101 IL13Rα2-targeted CAR T-cells in high-grade glioma were published in *Nature Medicine*. MB-101 was well tolerated and 50% of patients achieved stable disease or better, with two partial responses and two complete responses in high grade glioma patients. The two patients who achieved complete response both had high levels of intratumoral CD3+ T-cells pre-therapy (i.e., “hot” tumors), and their responses lasted 7.5 and 66+ months, respectively. In the cohort with dual intratumoral (ICT)/intraventricular (ICV) delivery and an optimized manufacturing process there was a ~70% improvement in median overall survival (10.2 months) compared to the expected survival rate of six months in this patient population.
- MB-101 and MB-109 are currently in development at our partner company, Mustang.

AJ201 (Nrf1 and Nrf2 activator, androgen receptor degradation enhancer)

- In May 2024, we announced that last patient completed dosing in a Phase 1b/2a study, which is evaluating AJ201 in the U.S. for the treatment of spinal and bulbar muscular atrophy, also known as Kennedy’s Disease. Kennedy’s Disease is a debilitating rare genetic neuromuscular disease primarily affecting men. Topline data for the Phase 1b/2a clinical trial of AJ201 in SBMA are expected in the second half of 2024.
- AJ201 was sourced by Fortress and is currently in development at our partner company, Avenue.

General Corporate

- In April 2024, Avenue effected a 1-for-75 reverse stock split to achieve compliance with the minimum bid price listing requirement of the Nasdaq Capital Market and announced the exercise of warrants for \$4.4 million in gross proceeds.
- In April 2024, Mustang’s board of directors approved a reduction in its workforce by approximately 81% of its employee base in order to reduce costs and preserve capital; the reduction occurred primarily in April and was substantially complete in the second quarter of 2024.
- In May and June 2024, Mustang Bio raised gross proceeds of approximately \$6.5 million across two offerings of its common stock and warrants.
- In July 2024, Checkpoint raised \$12 million in a registered direct offering priced at the-the-market under Nasdaq rules.
- In July 2024, Fortress’ Board of Directors paused the payment of dividends on the Company’s 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock (the “Series A Preferred Stock”) until further notice. The Company believes pausing the dividend is in the best interest of the Company and its stakeholders to maintain financial flexibility ahead of potentially significant inflection points. The pausing of these dividends will defer approximately \$0.7 million in cash dividend payments each month. The Board intends to revisit its decision regarding the monthly dividend regularly and will assess the profitability and cash flow of the Company to determine whether and when the suspension should be lifted.
- Also in July 2024, Journey Medical entered into an amendment of its existing credit facility with SWK, increasing the amount of the facility from \$20 million to \$25 million.
- Additionally in July 2024, Fortress announced the reduction of total debt outstanding and the entry into a new \$50 million term loan with Oaktree Capital Management with a maturity in 2027. The Company borrowed \$35.0 million under the agreement on the closing date and is eligible to draw up to an additional \$15.0 million at the lenders’ discretion to support future business development activities. In connection with the new term loan, Fortress repaid the prior \$50 million term loan with Oaktree.

Critical Accounting Policies and Use of Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States. Applying these principles requires our judgment in determining the appropriateness of acceptable accounting principles and methods of application in diverse and complex economic activities. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of revenues, expenses, assets and liabilities, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

For a discussion of our critical accounting estimates, see the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K, which was filed with the United States Securities and Exchange Commission (“SEC”) on March 28, 2024 (the “2023 Form 10-K”). There were no material changes in our critical accounting estimates or accounting policies from December 31, 2023.

Accounting Pronouncements

As of June 30, 2024, there were no new accounting pronouncements or updates to recently issued accounting pronouncements disclosed in the 2023 Form 10-K that are expected to materially affect the Company’s present or future financial statements upon adoption.

Smaller Reporting Company Status

We are a “smaller reporting company,” meaning that either (i) the market value of our shares held by non-affiliates is less than \$250 million or (ii) the market value of our shares held by non-affiliates is less than \$700 million and our annual revenue was less than \$100 million during the most recently completed fiscal year. We may continue to be a smaller reporting company if either (i) the market value of our shares held by non-affiliates is less than \$250 million or (ii) our annual revenue was less than \$100 million during the most recently completed fiscal year and the market value of our shares held by non-affiliates is less than \$700 million. As a smaller reporting company, we chose to present only the two most recent fiscal years of audited financial statements in the 2023 Form 10-K, have reduced disclosure obligations regarding executive compensation and certain other matters, and smaller reporting companies are permitted to delay adoption of certain recently issued accounting pronouncements.

Basis of Presentation and Principles of Consolidation

The Company’s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Company’s consolidated financial statements include the results of the Company’s subsidiaries for which it has voting control but does not own 100% of the outstanding equity of the subsidiaries. For consolidated entities where the Company owns less than 100% of the subsidiary, but retains voting control, the Company records net loss attributable to non-controlling interests in its consolidated statements of operations and presents non-controlling interests as a component of stockholders’ equity on its consolidated balance sheets. All intercompany income and/or expense items are eliminated entirely in consolidation prior to the allocation of net gain/loss attributable to non-controlling interest, which is based on ownership interests as calculated quarterly for each subsidiary.

The following table summarizes the Company’s ownership of the issued and outstanding common and preferred shares in certain consolidated Fortress subsidiaries as of the period presented:

Partner Company/Subsidiary	June 30, 2024
Avenue ¹	5.7 %
Cellvation	79.2 %
Checkpoint ¹	10.1 %
Cyprium	73.1 %
Helocyte	83.0 %
Journey ¹	46.7 %
Mustang ¹	7.2 %
Oncogenuity	73.5 %
Urica	67.8 %

Note 1: Denotes entities that are publicly-traded.

Results of Operations

Comparison of Three Months Ended June 30, 2024 and 2023

<i>(\$ in thousands)</i>	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Product revenue, net	\$ 14,855	\$ 16,961	\$ (2,106)	(12)%
Collaboration revenue	—	183	(183)	(100)%
Revenue – related party	41	31	10	32 %
Other revenue	—	211	(211)	(100)%
Net revenue	<u>14,896</u>	<u>17,386</u>	<u>(2,490)</u>	<u>(14)%</u>

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Operating expenses				
Cost of goods sold – product revenue	6,541	7,767	(1,226)	(16)%
Research and development	12,671	32,139	(19,468)	(61)%
Research and development – licenses acquired	—	3	(3)	(100)%
Selling, general and administrative	20,823	24,439	(3,616)	(15)%
Asset impairment	2,649	3,143	(494)	(16)%
Total operating expenses	42,684	67,491	(24,807)	(37)%
Loss from operations	(27,788)	(50,105)	22,317	(45)%
Other income (expense)				
Interest income	734	715	19	3 %
Interest expense and financing fee	(2,122)	(6,425)	4,303	(67)%
Change in fair value of warrant liabilities	—	(512)	512	(100)%
Gain (loss) on common stock warrant liabilities	70	—	70	100 %
Loss from deconsolidation of subsidiaries	—	(3,369)	3,369	(100)%
Other income (expense)	282	395	(113)	(29)%
Total other income (expense)	(1,036)	(9,196)	8,160	(89)%
Net Loss	(28,824)	(59,301)	30,477	(51)%
Less: net loss attributable to non-controlling interest	17,876	34,525	(16,649)	(48)%
Net loss attributable to Fortress	\$ (10,948)	\$ (24,776)	\$ 13,828	(56)%

Revenue

<i>(\$ in thousands)</i>	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Product revenue, net	\$ 14,855	\$ 16,961	\$ (2,106)	(12)%
Collaboration revenue	—	183	(183)	(100)%
Revenue – related party	41	31	10	32 %
Other revenue	—	211	(211)	(100)%
Net revenue	\$ 14,896	\$ 17,386	\$ (2,490)	(14)%

For the three months ended June 30, 2024 we generated \$14.9 million of net revenue related to the sale of Journey’s branded and generic products. For the three months ended June 30, 2023, we generated \$17.4 million of net revenue, of which \$17.0 million relates to the sale of Journey’s branded and generic products, \$0.2 million relates to Journey’s royalties from Maruho Co., Ltd., a license partner of Journey, and \$0.2 million relates to Cyprium’s collaboration revenue with Sentyln.

For the quarter ended June 30, 2024, the net decrease in revenue of \$2.5 million or 14% is due to Journey’s \$2.1 million or 12% decrease in product revenue due primarily to a \$1.2 million decrease in net product revenue from Qbrexza and a \$0.6 million decrease in net product revenue from legacy products. Collaboration revenue related to Cyprium’s agreement with Sentyln was fully recognized as of December 31, 2023 due to Sentyln’s assumption of control of the CUTX-101 development program in December 2023.

Cost of Goods Sold

(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Cost of goods sold – product revenue	\$ 6,541	\$ 7,767	\$ (1,226)	(16)%

We had \$6.5 million and \$7.8 million of costs of goods sold in connection with the sale of JMC branded and generic products for the quarters ended June 30, 2024 and 2023, respectively. Cost of goods sold decreased by \$1.2 million, or 16% quarter-over-quarter, with the decrease mainly due to the decrease in net product revenue.

Research and Development Expenses

Research and development costs primarily consist of personnel related expenses, including salaries, benefits, travel, and other related expenses, stock-based compensation, payments made to third parties for license and milestone costs related to in-licensed products and technology, payments made to third party contract research organizations for preclinical and clinical studies, investigative sites for clinical trials, consultants, the cost of acquiring and manufacturing clinical trial materials, costs associated with regulatory filings and patents, laboratory costs and other supplies.

For the quarters ended June 30, 2024 and 2023, research and development expenses were approximately \$12.7 million and \$32.1 million, respectively. The table below provides a summary of research and development by entity, for the periods presented:

(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Research & development				
Fortress	\$ 467	\$ 621	\$ (154)	(25)%
Subsidiaries/Partner Companies:				
Avenue	1,298	2,828	(1,530)	(54)%
Checkpoint	4,480	13,945	(9,465)	(68)%
JMC	913	1,774	(861)	(49)%
Mustang	4,276	10,780	(6,505)	(60)%
Other ¹	1,237	2,191	(953)	(44)%
Total research & development expense	\$ 12,671	\$ 32,139	\$ (19,468)	(61)%

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

The decrease in research and development spending at Mustang of \$6.5 million is due to a reduction in personnel-related costs of \$5.1 million, a \$2.9 million reduction in lab supplies, \$0.6 million decrease in program-related expenses, a \$0.6 million decrease in facility and depreciation, and a \$0.9 million reduction in consulting expense offset by a \$3.7 million increase in other expenses, including \$3.2 million in expenses incurred due to the June 2024 Repurchase of Assets from uBriGene. Checkpoint's reduced research and development expense of \$9.5 million is due to reduced commercial manufacturing costs for cosibelimab of \$9.3 million due to manufacturing costs incurred in the prior period to build inventory to support a potential product launch of cosibelimab. Avenue's decrease in research and development expense of \$1.5 million in the quarter ended June 30, 2024 is primarily attributable to a decrease in clinical development costs related to the Phase 1b/2a of AJ201.

The table below provides a summary by entity of noncash, stock-based compensation expense included in research and development expense for the periods presented:

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(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Stock-based compensation - research & development				
Fortress	\$ 466	\$ 402	\$ 64	16 %
Subsidiaries/Partner Companies:				
Avenue	143	6	138	2,339 %
Checkpoint	596	187	409	218 %
JMC	171	31	140	459 %
Mustang	(670)	(108)	(562)	518 %
Other ¹	—	(1)	1	(100)%
Total stock-based compensation expense - research and development	706	516	190	37 %

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

We expect research and development costs to decrease in 2024 due to portfolio optimization and assets completing pivotal trials and entering registration stage.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist principally of personnel related costs, costs required to support the marketing and sales of our commercialized products, professional fees for legal, consulting, audit and tax services, rent and other general operating expenses not otherwise included in research and development expenses. For the three months ended June 30, 2024 and 2023, selling, general and administrative expenses were \$20.8 million and \$24.4 million, respectively. The table below provides a summary by entity of selling, general and administrative expenses for the periods presented:

(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Selling, general & administrative				
Fortress	\$ 4,747	\$ 6,405	\$ (1,658)	(26)%
Subsidiaries/Partner Companies:				
Avenue	1,236	822	414	50 %
Checkpoint	2,109	1,753	356	20 %
JMC	10,328	12,142	(1,815)	(15)%
Mustang	1,327	2,985	(1,657)	(56)%
Other ¹	1,076	332	744	224 %
Total selling, general & administrative expense	\$ 20,823	\$ 24,439	\$ (3,616)	(15)%

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

For the three months ended June 30, 2024, the decrease in selling, general and administrative expenses of \$3.6 million or 15% is primarily attributable to decreased expenses at Fortress related to cost-reduction and optimization efforts and at Journey related to its expense reduction efforts in sales and marketing, as JMC has undertaken a cost reduction initiative designed to improve operational efficiencies, optimize expenses and reduce overall costs to better align costs to their revenue-generating capabilities. The decrease in selling, general and administrative costs at Mustang is attributable to continued cost reduction efforts and optimization relating to personnel, consulting, and infrastructure. The increase in "Other" is due to an increase in professional fees, including legal expense, at Urica of \$0.7 million.

The table below provides a summary by entity of noncash, stock-based compensation expense included in selling, general and administrative expense for the periods presented.

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(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Stock-based compensation - Selling, general and administrative				
Fortress	\$ 2,056	\$ 2,279	\$ (223)	(10)%
Subsidiaries/Partner Companies:				
Avenue	48	21	28	135 %
Checkpoint	574	380	195	51 %
JMC	1,503	842	661	78 %
Mustang	51	153	(102)	(67)%
Other ¹	59	25	34	139 %
Total stock-based compensation expense - selling, general and administrative	4,291	3,700	592	16 %

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

We expect selling, general and administrative expenses to remain flat in 2024.

Asset Impairment

For the three months ended June 30, 2024, we incurred an impairment charge of \$2.6 million, attributable to Mustang's assessment of the recoverability of its' leasehold improvements and the associated right-of-use asset. For the three months ended June 30, 2023, Journey recorded a loss on the impairment of intangible assets of \$3.1 million related to the impairment of the Ximino intangible asset, due to lower net product revenue and gross profit levels for the Ximino products in the six-month period ended June 30, 2023.

Other expense

(\$ in thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Other income (expense)				
Interest income	\$ 734	\$ 715	\$ 19	3 %
Interest expense and financing fee	(2,122)	(6,425)	4,303	(67)%
Change in fair value of warrant liabilities	—	(512)	512	(100)%
Gain (loss) on common stock warrant liabilities	70	—	70	100 %
Loss from deconsolidation of subsidiaries	—	(3,369)	3,369	(100)%
Other income (expense)	282	395	(113)	(29)%
Total other income (expense)	\$ (1,036)	\$ (9,196)	\$ 8,160	(89)%

Total other income (expense) decreased \$8.2 million, or 89%, from expense of \$9.2 million for the quarter ended June 30, 2023 to expense of \$1.0 million for the quarter ended June 30, 2024, primarily due to the decrease of \$4.3 million in interest expense and financing fees due to debt paid off by JMC and Mustang in 2023, as well as the \$2.8 million included in interest expense and financing fees for the three months ended June 30, 2023 related to Mustang's debt extinguishment fee for their payoff of the Runway note; and the loss on deconsolidation of Aevitas of \$3.4 million in the prior year with no corresponding expense in the current period.

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Comparison of Six Months Ended June 30, 2024 and 2023

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Product revenue, net	\$ 27,885	\$ 29,126	\$ (1,241)	(4)%
Collaboration revenue	—	364	(364)	(100)%
Revenue – related party	41	66	(25)	(38)%
Other revenue	—	259	(259)	(100)%
Net revenue	<u>27,926</u>	<u>29,815</u>	<u>(1,889)</u>	<u>(6)%</u>
Operating expenses				
Cost of goods sold – product revenue	13,357	14,216	(859)	(6)%
Research and development	37,495	67,415	(29,920)	(44)%
Research and development – licenses acquired	—	4,233	(4,233)	(100)%
Selling, general and administrative	38,777	49,780	(11,003)	(22)%
Asset impairment	2,649	3,143	(494)	(16)%
Total operating expenses	<u>92,278</u>	<u>138,787</u>	<u>(46,509)</u>	<u>(34)%</u>
Loss from operations	<u>(64,352)</u>	<u>(108,972)</u>	<u>44,620</u>	<u>(41)%</u>
Other income (expense)				
Interest income	1,567	1,751	(184)	(11)%
Interest expense and financing fee	(4,724)	(10,721)	5,997	(56)%
Change in fair value of warrant liabilities	—	6,166	(6,166)	(100)%
Gain (loss) on common stock warrant liabilities	(597)	—	(597)	100%
Loss from deconsolidation of subsidiaries	—	(3,369)	3,369	(100)%
Other income (expense)	260	699	(439)	(63)%
Total other income (expense)	<u>(3,494)</u>	<u>(5,474)</u>	<u>1,980</u>	<u>(36)%</u>
Net loss	<u>(67,846)</u>	<u>(114,446)</u>	<u>46,600</u>	<u>(41)%</u>
Less: net loss attributable to non-controlling interest	41,481	68,133	(26,652)	(39)%
Net loss attributable to Fortress	<u>\$ (26,365)</u>	<u>\$ (46,313)</u>	<u>\$ 19,948</u>	<u>(43)%</u>

Revenue

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Product revenue, net	\$ 27,885	\$ 29,126	\$ (1,241)	(4)%
Collaboration revenue	—	364	(364)	(100)%
Revenue – related party	41	66	(25)	(38)%
Other revenue	—	259	(259)	(100)%
Net revenue	<u>\$ 27,926</u>	<u>29,815</u>	<u>\$ (1,889)</u>	<u>(6)%</u>

For the six months ended June 30, 2024 we generated \$27.9 million of net revenue related to the sale of Journey’s branded and generic products. For the six months ended June 30, 2023, we generated \$29.8 million of net revenue, of which \$29.1 million relates to the sale of Journey’s branded and generic products, \$0.3 relates to Journey’s royalties from Maruho, \$0.4 million relates to Cyprrium’s collaboration revenue with Sentyln and \$0.1 relates to Checkpoint’s collaborative revenue from TGTX.

The net decrease in revenue of \$1.9 million or 6% is due to Journey’s \$1.2 million, or 4%, decrease in product revenue due to a decrease in unit sales volume of Qbrexza, Amzeeq and Zilxi. Collaboration revenue related to Cyprrium’s agreement with Sentyln was fully recognized as of December 31, 2023 due to the transfer of the CUTX-101 development program to Sentyln in December 2023.

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Cost of Goods Sold

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Cost of goods sold – product revenue	\$ 13,357	\$ 14,216	\$ (859)	(6)%

Costs of goods sold in connection with the sale of JMC branded and generic products for the six months ended June 30, 2024 and 2023 was \$13.4 million and \$14.2 million, respectively. The decrease in cost of goods sold of \$0.9 million, or 6% year-over-year, is mainly due to the decrease in unit sales volume.

Research and Development Expenses

Research and development costs primarily consist of personnel related expenses, including salaries, benefits, travel, and other related expenses, stock-based compensation, payments made to third parties for license and milestone costs related to in-licensed products and technology, payments made to third party contract research organizations for preclinical and clinical studies, investigative sites for clinical trials, consultants, the cost of acquiring and manufacturing clinical trial materials, costs associated with regulatory filings and patents, laboratory costs and other supplies.

The table below provides a summary by entity of noncash, stock-based compensation expense included in research and development expense for the periods presented.

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Research & development				
Fortress	\$ 943	\$ 1,137	\$ (194)	(17)%
Subsidiaries/Partner Companies:				
Avenue	3,627	3,950	(323)	(8)%
Checkpoint	12,977	29,771	(16,794)	(56)%
JMC	8,799	3,807	4,992	131 %
Mustang	8,039	24,725	(16,686)	(67)%
Other ¹	3,110	4,025	(915)	(23)%
Total research & development expense	\$ 37,495	\$ 67,415	\$ (29,920)	(44)%

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

The decrease in research and development spending at Mustang of \$16.6 million is due to a reduction in personnel-related costs of \$10.9 million, \$4.9 million reduction in lab supplies, \$2.4 million decrease in program-related expenses, \$1.4 million decrease in facility and depreciation, and \$1.2 million reduction in consulting expense, offset by a \$4.0 million increase in other expenses, of which approximately \$3.2 million of expenses incurred related to the June 2024 Repurchase of Assets from uBriGene. Checkpoint's reduced research and development expense of \$16.8 million is due to reduced commercial manufacturing costs for cosibelimab of \$10.6 million due to manufacturing costs incurred in the prior period to build inventory to support a potential product launch of cosibelimab, reduced regulatory expenses of \$3.5 million as prior period costs included \$3.2 million for the PDUFA fee to the FDA for the BLA filing of cosibelimab in the first quarter of 2023, and a \$1.6 million decrease in clinical costs for product candidates. Journey's increased research and development costs are due to the \$4.0 million filing fee payment made to the FDA in January 2024 for the DFD-29 NDA in addition to the \$3.0 million contractual milestone payment made to Dr. Reddy's Laboratories, Ltd. triggered by the FDA's acceptance of the DFD-29 NDA in March 2024. This was partially offset by lower clinical trial expenses incurred by Journey to develop DFD-29 product as the project concludes.

Noncash, stock-based compensation expense included in research and development for the six months ended June 30, 2024 and 2023, was \$1.7 million and \$1.5 million, respectively.

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Stock-based compensation - research & development				
Fortress	\$ 875	\$ 799	\$ 76	10 %
Partner Companies:				
Avenue	90	6	84	1,436 %
Checkpoint	1,086	577	508	88 %
JMC	316	64	252	393 %
Mustang	(641)	18	(658)	(3,689)%
Other ¹	—	—	—	(100)%
Total stock-based compensation expense - research and development	\$ 1,726	1,464	\$ 262	18 %

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

We expect research and development costs to decrease in 2024 due to portfolio optimization and assets completing pivotal trials and entering registration stage.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist principally of personnel related costs, costs required to support the marketing and sales of our commercialized products, professional fees for legal, consulting, audit and tax services, rent and other general operating expenses not otherwise included in research and development expenses. For the six months ended June 30, 2024 and 2023, selling, general and administrative expenses were \$38.8 million and \$49.8 million, respectively. The table below provides a summary by entity of selling, general and administrative expenses for the periods presented:

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Selling, general & administrative				
Fortress	\$ 9,171	\$ 11,783	\$ (2,612)	(22)%
Subsidiaries/Partner Companies:				
Avenue	2,481	1,655	827	50 %
Checkpoint	4,039	3,764	276	7 %
JMC	18,746	25,433	(6,687)	(26)%
Mustang	2,670	5,236	(2,566)	(49)%
Other ¹	1,670	1,909	(239)	(13)%
Total selling, general & administrative expense	\$ 38,777	\$ 49,780	\$ (11,002)	(22)%

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

For the six months ended June 30, 2024, the decrease in selling, general and administrative expenses of \$11.0 million or 22% is primarily attributable to decreased expenses at Fortress related to cost-reduction and optimization efforts and at Journey related to its expense reduction efforts in sales and marketing, as JMC has undertaken a cost reduction initiative designed to improve operational efficiencies, optimize expenses and reduce overall costs to better align costs to their revenue-generating capabilities. The decrease in selling, general and administrative costs at Mustang is attributable to continued cost reduction efforts and optimization relating to personnel, consulting, and infrastructure.

The table below provides a summary by entity of noncash, stock-based compensation expense included in selling, general and administrative expense for the periods presented.

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(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Stock-based compensation - Selling, general and administrative				
Fortress	\$ 4,064	\$ 4,726	\$ (663)	(14)%
Partner Companies:				
Avenue	293	32	261	823 %
Checkpoint	795	959	(164)	(17)%
JMC	2,764	1,455	1,311	91 %
Mustang	98	262	(164)	(63)%
Other ¹	116	50	66	132 %
Total stock-based compensation expense - selling, general and administrative	\$ 8,130	7,484	\$ 645	9 %

Note 1: Includes the following subsidiaries: Aevitas (until April 2023), Cellvation, Cyprium, Helocyte, Oncogenuity and Urica.

We expect selling, general and administrative expenses to remain flat in 2024.

Asset Impairment

For the six months ended June 30, 2024, we incurred impairment charges of \$2.6 million attributable to Mustang's assessment of the recoverability of the asset group consisting of its' leasehold improvements and the associated right-of-use asset. For the six months ended June 30, 2023, Journey recorded a loss on the impairment of intangible assets of \$3.1 million related to the impairment of the Ximino intangible asset, due to lower net product revenue and gross profit levels for the Ximino products in the six-month period ended June 30, 2023.

Other expense

(\$ in thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Other income (expense)				
Interest income	\$ 1,567	\$ 1,751	\$ (184)	(11)%
Interest expense and financing fee	(4,724)	(10,721)	5,997	(56)%
Gain (loss) on common stock warrant liabilities	(597)	—	(597)	100 %
Loss from deconsolidation of subsidiaries	—	(3,369)	3,369	(100)%
Other income (expense)	260	699	(439)	(63)%
Total other income (expense)	\$ (3,494)	(5,474)	\$ 1,980	(36)%

Total other income (expense) decreased \$2.0 million, or 36%, from expense of \$5.5 million for the six months ended June 30, 2023 to expense of \$3.5 million for the six months ended June 30, 2024, primarily due to the decrease of \$6.0 million in interest expense and financing fees due to debt paid off by JMC and Mustang in 2023, as well as the \$2.8 million included in interest expense and financing fees for the six months ended June 30, 2023 related to Mustang's debt extinguishment fee for their payoff of the Runway note; and the loss on deconsolidation of Aevitas in the prior year with no corresponding expense in the current period.

Liquidity and Capital Resources

We will require additional financing to fully develop and prepare regulatory filings and obtain regulatory approvals for our existing and new product candidates, fund operating losses, and, if deemed appropriate, establish or secure through third parties manufacturing for our potential products, and sales and marketing capabilities. We have funded our operations to date primarily through the sale of equity and debt securities. At June 30, 2024, we had cash and cash equivalents of \$76.2 million, of which \$38.2 million relates to Fortress and private subsidiaries, primarily funded by Fortress, \$5.0 million relates to Checkpoint, \$4.3 million relates to Mustang, \$23.9 million relates to Journey, and \$4.9 million relates to Avenue. We believe that our current cash and cash equivalents are sufficient to fund operations for at least the next 12 months. Our failure to raise capital as and when needed would have a material adverse impact on our financial condition and our ability to pursue our business strategies. We may seek funds through equity or debt financings, joint venture or similar development collaborations, the sales of subsidiaries/partner companies, royalty financings, or through other sources of

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financing; the rising interest rate environment may cause the Company to pay more interest on its various debt instruments, which could lead to higher operating expenses.

Cash Flows for the Six Months Ended June 30, 2024 and 2023

Components of cash flows from publicly-traded partner companies comprise:

(\$ in thousands)	For the Six Months Ended June 30, 2024					
	Fortress ¹	Avenue	Checkpoint	JMC	Mustang	Total
Statement of cash flows data:						
Total cash (used in)/provided by:						
Operating activities	\$ (11,287)	\$ (5,373)	\$ (12,714)	\$ (10,195)	\$ (7,656)	\$ (47,225)
Investing activities	—	—	—	—	—	—
Financing activities	8,895	8,509	12,737	6,668	5,315	42,124
Net increase in cash and cash equivalents and restricted cash	\$ (2,392)	\$ 3,136	\$ 23	\$ (3,527)	\$ (2,341)	\$ (5,101)

(\$ in thousands)	For the Six Months Ended June 30, 2023					
	Fortress ¹	Avenue	Checkpoint	JMC	Mustang	Total
Statement of cash flows data:						
Total cash (used in)/provided by:						
Operating activities	\$ (17,079)	\$ (6,238)	\$ (26,007)	\$ 3,013	\$ (30,200)	\$ (76,511)
Investing activities	(5)	(2,000)	—	(5,000)	(34)	(7,039)
Financing activities	10,668	3,101	21,360	(13,036)	(30,287)	(8,194)
Net increase in cash and cash equivalents and restricted cash	\$ (6,416)	\$ (5,137)	\$ (4,647)	\$ (15,023)	\$ (60,521)	\$ (91,744)

Note 1: Includes Fortress, non-public subsidiaries and elimination entries.

Cash flows on a consolidated basis are as follows:

(\$ in thousands)	Six Months Ended June 30,		Change
	2024	2023	
Total cash (used in)/provided by:			
Operating activities	\$ (47,225)	\$ (76,511)	\$ 29,286
Investing activities	—	(7,039)	7,039
Financing activities	42,124	(8,194)	50,318
Net increase in cash and cash equivalents and restricted cash	\$ (5,101)	\$ (91,744)	\$ 86,643

Operating Activities

Net cash used in operating activities decreased \$29.3 million from the six months ended June 30, 2023, as compared to the six months ended June 30, 2024. The decrease is due to the decrease of \$46.6 million in net loss, the \$6.6 million decrease in the expense associated with subsidiaries/partner companies' warrant liabilities, and the \$11.4 million decrease resulting from changes in operating assets and liabilities, offset in part by the \$3.0 million change in the expense for research and development – licenses acquired, \$3.4 million change in the expense for loss form deconsolidation and dissolution of subsidiaries, and \$2.9 million for Journey's asset impairment loss in the prior period.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2024 as compared to the six months ended June 30, 2023 is a decrease of \$7.0 million, due to JMC's \$5.0 million used in investing activities for the deferred cash payment made to VYNE related to the acquisition of Amzeeq and Zilxi, and Avenue's \$2.0 million cash payment towards the purchase of the AnnJi license in the six months ended June 30, 2023, and no comparable activities in the period ended June 30, 2024.

Financing Activities

Net cash used in financing activities was \$8.2 million for the six months ended June 30, 2023, compared to \$42.1 million of net cash provided by financing activities for the six months ended June 30, 2024, an increase of \$50.3 million. The increase is attributable to the funds used in the prior period to pay off partner companies' long-term debt of \$40.3 million and JMC's line of credit of \$30.9 million, offset by loan proceeds of \$5.1 million in the current period.

We fund our operations through cash on hand, the sale of equity and debt securities, from the sales of subsidiaries/partner companies, and from the proceeds resulting from the exercise of warrants and stock options. At June 30, 2024, we had cash and cash equivalents of \$76.2 million, of which \$38.2 million relates to Fortress and private subsidiaries, primarily funded by Fortress, \$5.0 million relates to Checkpoint, \$4.3 million relates to Mustang, \$23.9 million relates to Journey, and \$4.9 million relates to Avenue. Restricted cash at June 30, 2024 was \$2.1 million, of which \$1.2 million relates to Fortress, \$0.4 million relates to Mustang, and \$0.5 million relates to Cyprum.

Sources of Liquidity

Stock Offerings and At-The-Market Share Issuances

On July 23, 2021, the Company filed a shelf registration statement (File No. 333-258145) on Form S-3, which was declared effective on July 30, 2021 (the "2021 Shelf"). Approximately \$86.2 million of securities remain available for sale under the 2021 Shelf as of June 30, 2024, subject to General Instruction I.B.6. of Form S-3. On May 17, 2024, the Company filed a shelf registration statement (File No. 333-279516) on Form S-3, which was declared effective on May 30, 2024 (the "2024 Shelf"). All \$50.0 million of securities remain available for sale under the 2024 Shelf as of June 30, 2024, subject to General Instruction I.B.6. of Form S-3.

For the six-month period ended June 30, 2024, the Company issued and sold approximately 1.6 million shares at an average price of \$1.87 per share for gross proceeds of \$2.9 million pursuant to the Company's at-the-market program.

In January 2024, Fortress closed on a registered direct offering of 3,303,305 shares of its common stock and warrants to purchase up to 3,303,305 shares of its common stock at a combined purchase price of \$3.33 per share of common stock and accompanying warrant priced at-the-market under Nasdaq rules. The warrants have an exercise price of \$3.21 per share, are immediately exercisable, and will expire five years following the date of issue. Net proceeds to Fortress, after deducting the placement agent's fees and other offering expenses, were approximately \$10.2 million.

In March 2023, Checkpoint filed shelf registration statement (File No. 333-270843) on Form S-3 (the "Checkpoint 2023 S-3"), which was declared effective May 5, 2023. Under the Checkpoint 2023 S-3, Checkpoint may sell up to a total of \$150 million of its securities. As of June 30, 2024, approximately \$77.7 million of the securities remains available for sale through the Checkpoint 2023 S-3, subject to General Instruction I.B.6. of Form S-3.

In January 2024, Checkpoint closed on a registered direct offering (the "Checkpoint January 2024 Registered Direct Offering") with a single institutional investor for the issuance and sale of 1,275,000 shares of its common stock and 6,481,233 pre-funded warrants. Each pre-funded warrant was exercisable for one share of Checkpoint common stock. The Checkpoint common stock and the pre-funded warrants were sold together with common stock warrants (the "Checkpoint January 2024 Common Warrants") to purchase up to 7,756,233 shares of Checkpoint common stock, at a purchase price of \$1.805 per share of common stock and \$1.8049 per pre-funded warrant. The pre-funded warrants were funded in full at closing except for a nominal exercise price of \$0.0001 and are exercisable commencing on the closing date and will terminate when such pre-funded warrants are exercised in full. The Checkpoint January 2024 Common Warrants are exercisable immediately upon issuance and will expire five years following the issuance date and have an exercise price of \$1.68 per share. Checkpoint also issued the placement agent warrants to purchase up to 465,374 shares of common stock with an exercise price of \$2.2563 per share. Net proceeds to Checkpoint from the Checkpoint January 2024 Registered Direct Offering were \$12.6 million after deducting commissions and other transaction costs. As of July 2024, all of the pre-funded warrants from the Checkpoint January 2024 Registered Direct Offering were fully exercised.

In December 2021, Avenue filed a shelf registration statement (File No. 333-261520) on Form S-3 (the "Avenue 2021 S-3"), which was declared effective on December 10, 2021. As of June 30, 2024, approximately \$24.6 million of the securities remains available for sale through the Avenue 2021 S-3, subject to General Instruction I.B.6. of Form S-3.

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On January 5, 2024, Avenue entered into (i) an inducement offer letter agreement (the “January 2023 Investor Inducement Letter”) with a certain investor (the “January 2023 Investor”) in connection with certain outstanding warrants to purchase up to an aggregate of 25,871 shares of Common Stock, originally issued to the January 2023 Investor on January 31, 2023 (the “January 2023 Warrants”) and (ii) an inducement offer letter agreement (the “November 2023 Investor Inducement Letter Agreement”) and, together with the January 2023 Investor Inducement Letter, the “January 2024 Warrant Inducement”) with certain investors (the “November 2023 Investors”) and, together with the January 2023 Investor, the “Holders”) in connection with certain outstanding warrants to purchase up to an aggregate of 194,667 shares of Common Stock, originally issued to the November 2023 Investors on November 2, 2023 (the “November 2023 Warrants”) and, together with the January 2023 Warrants, the “Existing Warrants”). The January 2023 Warrants had an exercise price of \$116.25 per share, and the November 2023 Warrants had an exercise price of \$22.545 per share.

Pursuant to the January 2024 Warrant Inducement, (i) the January 2023 Investor agreed to exercise its January 2023 Warrants for cash at a reduced exercise price of \$0.3006 per share and (ii) the November 2023 Investors agreed to exercise their November 2023 Warrants for cash at the existing exercise price of \$22.545, in each case in consideration for Avenue’s agreement to issue in a private placement (x) Series A Warrants to purchase up to 220,538 shares of Avenue Common Stock and (y) Series B Warrants to purchase up to 220,538 shares of Avenue Common Stock. The net proceeds to Avenue from the exercise of the warrants was approximately \$4.5 million, after deducting placement agent fees and estimated offering costs, but without giving effect to the exercise of the Series A Warrants and Series B Warrants issued in the January 2024 Warrant Inducement.

Also in April 2024, Avenue entered into definitive agreements for the immediate exercise of certain of its existing outstanding warrants for cash of an aggregate of 689,680 warrants for shares of Avenue’s common stock at a reduced exercise price of \$6.20 per share (the “May 2024 Warrant Inducement”). The exercised warrants are comprised of warrants to purchase shares of common stock originally issued by Avenue on October 11, 2022, each having an exercise price of \$116.25 per share, Series A and Series B warrants to purchase shares of common stock originally issued by Avenue on November 2, 2023, each having an exercise price of \$22.545 per share, and warrants to purchase shares of common stock originally issued by Avenue on January 9, 2024, each having an exercise price of \$22.545 per share.

In consideration for the immediate exercise of the warrants for cash in the May 2024 Warrant Inducement, Avenue issued two new unregistered series of warrants to purchase up to a total of 1,379,360 shares of Avenue common stock for a payment of \$0.125 per warrant. The warrants have an exercise price of \$6.20 per share, and terms of eighteen months for one series and five years for the other series. Total net proceeds to Avenue were approximately \$3.7 million after deducting placement agent fees and other expenses payable by Avenue.

In May 2024, Avenue entered into an At-the-Market Offering Agreement (the “Avenue ATM”) with H.C. Wainwright & Co. LLC (“Wainwright”) under which Avenue may offer and sell, from time to time at its sole discretion, up to \$3,850,000 of shares of its common stock, par value \$0.0001 per share (the “Shares”), through or to Wainwright. The offer and sale of the Shares will be made pursuant to a base prospectus forming a part of the 2021 Avenue S-3, and the related prospectus supplement dated May 10, 2024. During the six months ended June 30, 2024 and 2023, Avenue issued 87,683 shares through the Avenue ATM for net proceeds of \$0.3 million.

On April 23, 2021, Mustang filed a shelf registration statement on Form S-3 (File No. 333-255476) (the “Mustang 2021 S-3”), which was declared effective on May 24, 2021. Under the Mustang 2021 S-3, Mustang was able to sell up to a total of \$200.0 million of its securities. In the six months ended June 30, 2024, Mustang sold approximately \$4.4 million of securities under the Mustang 2021 S-3 until its expiration on May 24, 2024.

On May 31, 2024, Mustang filed a shelf registration statement on Form S-3 (File No. 333-279891) (the “Mustang 2024 S-3”), which was declared effective on June 12, 2024. Under the Mustang 2024 S-3, Mustang may sell up to a total of \$40.0 million of its securities. As of June 30, 2024, approximately \$37.5 million of the Mustang 2024 S-3 remains available for sales of securities. The Mustang 2024 S-3 expires on June 12, 2027. As of the filing of this Form 10-Q, Mustang is subject to the General Instruction I.B.6 to Form S-3, known as the “baby shelf rules,” which limit the number of securities it can sell under its registration statements on Form S-3.

On May 31, 2024, Mustang entered into an At-the-Market Offering Agreement (the “Mustang ATM”) relating to the sale of shares of common stock pursuant to the Mustang 2024 S-3. Under the Mustang ATM, Mustang pays the sales agents for the program a commission rate of 3.0% of the gross proceeds from the sale of any shares of common stock. During the six months ended June 30, 2024, Mustang issued no shares through the Mustang ATM.

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In May 2024, Mustang closed on a public offering of 1,160,000 shares of common stock and pre-funded warrants to purchase up to 15,717,638 shares of common stock (or common stock equivalents in lieu thereof), and three series of 50,632,914 warrants with a combined public offering price of \$0.237 per share (or per share common stock equivalent in lieu thereof) and accompanying warrants with an exercise price of \$0.237 per share. The Series A-1 warrants have a five-year term, the Series A-2 warrants have a twenty-four month term, and the Series A-3 warrants have a nine month term. The warrants contain customary anti-dilution adjustments to the exercise price, including share splits, share dividends, rights offerings and pro rata distributions. The net proceeds of the public offering, after deducting the fees and expenses of the placement agent and other offering expenses payable by Mustang, but excluding the net proceeds, if any, from the exercise of the warrants, was approximately \$3.3 million. All of the 15,717,638 pre-funded warrants were exercised as of June 30, 2024.

Mustang also amended certain existing warrants to purchase up to 2,588,236 shares of common stock previously issued in October 2023 with an exercise price of \$1.58 per share such that the amended warrants have a reduced exercise price of \$0.237 per share, and have a five-year term from date of shareholder approval.

In June 2024, Mustang closed on a registered direct offering of 3,025,000 shares of common stock at \$0.41 per share (or common stock equivalent) priced at-the-market under Nasdaq rules and pre-funded warrants to purchase up to 3,105,000 shares of common stock, at a price per pre-funded warrant equal to \$0.4099, the price per share of common stock, less \$0.001. The pre-funded warrants have an exercise price of \$0.001 per share, became exercisable upon issuance and remain exercisable until exercised in full. In a concurrent private placement, Mustang also agreed to issue and sell unregistered warrants to purchase up to 6,130,000 shares of its common stock, with an exercise price of \$0.41 per share, exercisable beginning on the effective date of stockholder approval of the issuance of the shares upon exercise of the warrants and will expire five years from the date of stockholder approval. Net proceeds were approximately \$2.3 million, after placement agent's fees and other offering expenses of approximately \$0.3 million. All of the 3,105,000 pre-funded warrants were exercised as of June 30, 2024.

On December 30, 2022, Journey filed a shelf registration statement on Form S-3 (File No. 333-269079) (the "Journey 2022 S-3"), which was declared effective on January 26, 2023. The Journey 2022 S-3 covers the offering, issuance and sale by Journey of up to an aggregate of \$150.0 million of Journey's common stock, preferred stock, debt securities, warrants, and units. In connection with the Journey 2022 S-3, Journey has entered into the Sales Agreement relating to shares of the Journey's common stock. In accordance with the terms of the Sales Agreement, Journey may offer and sell up to 4,900,000 shares of its common stock, par value \$0.0001 per share, from time to time. For the six months ended June 30, 2024, Journey issued and sold approximately 0.3 million shares of common stock at an average price of \$5.28 per share for gross proceeds of \$1.5 million under the Journey ATM. In connection with these sales, Journey paid aggregate fees of approximately \$46,000. At June 30, 2024, 3,861,553 shares remain available for issuance under the Journey 2022 S-3.

Contractual Obligations

We enter into contracts in the normal course of business with licensors, contract research organizations (CROs), contract manufacturing organizations (CMOs) and other third parties for the procurement of various products and services, including without limitation biopharmaceutical development, biologic assay development, commercialization, clinical and preclinical development, clinical trials management, pharmacovigilance and manufacturing and supply. These contracts typically do not contain minimum purchase commitments (although they may) and are generally terminable by us upon written notice. Payments due upon termination or cancellation/delay consist of payments for services provided or expenses incurred, including non-cancelable obligations of our service providers, up to the date of cancellation; in certain cases, our contractual arrangements with CROs and CMOs include cancellation and/or delay fees and penalties.

During the six months ended June 30, 2024, there were no material changes in our contractual obligations and commitments, including our lease obligations, as described in our 2023 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness, as of June 30, 2024, of the design and operation of our disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in internal control over financial reporting occurred during the most recent quarter, which materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no reportable events or material developments with respect to previously disclosed proceedings for the quarter ended June 30, 2024. To our knowledge, except as previously disclosed, there are no legal proceedings pending against us, other than routine actions and administrative proceedings, and other actions not deemed material are not expected to have a material adverse effect on our financial condition, results of operations, or cash flows. In the ordinary course of business, however, the Company may be subject to both insured and uninsured litigation. Suits and claims may be brought against the Company by customers, suppliers, partners and/or third parties (including tort claims for personal injury arising from clinical trials of the Company's product candidates and property damage) alleging deficiencies in performance, breach of contract, etc., and seeking resulting alleged damages.

Item 1A. Risk Factors

Investing in our Common Stock, our 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.001 par value (the "Series A Preferred Stock") or any other type of equity or debt securities we may issue from time to time (together our "Securities") involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q including the consolidated financial statements and the related notes, as well as the risks, uncertainties and other information set forth in the reports and other materials filed or furnished by our partner companies Avenue, Checkpoint, Journey and Mustang with the SEC, before deciding to invest in our Securities. If any of the following risks or the risks included in the public filings of Avenue, Checkpoint, Journey or Mustang were to materialize, our business, financial condition, results of operations, and future growth prospects could be materially and adversely affected. In that event, the market price of our Securities could decline, and you could lose part of or all of your investment in our Securities. In addition, you should be aware that the below stated risks should be read as being applicable to our subsidiaries and partner companies such that, if any of the negative outcomes associated with any such risk is experienced by one of our subsidiaries or partner companies, the value of Fortress' holdings in such entity may decline. As used throughout this filing, the words "we", "us" and "our" may refer to Fortress individually, to one or more subsidiaries and/or partner companies, or to all such entities as a group, as dictated by context.

Risks Inherent in Drug Development

Most of our product candidates are in the early stages of development and may not be successfully developed or commercialized, and the product candidates that do advance into clinical trials may not receive regulatory approval.

Most of our existing product candidates remain in the early stages of development and will require substantial further capital expenditures, development, testing and regulatory approvals prior to commercialization. The development and regulatory approval processes can take many years, and it is unlikely that our product candidates, even if successfully developed and approved by the FDA and/or foreign equivalent regulatory bodies, would be commercially available for several years. Only a small percentage of drugs under development successfully obtain regulatory approval and are successfully commercialized. Accordingly, even if we are able to obtain the requisite financing to fund development programs, we cannot be sure that any of our product candidates will be successfully developed or commercialized, which could result in the failure of our business and a loss of your investment.

Pharmaceutical development has inherent risks. Before we may seek regulatory approval for the commercial sale of any of our product candidates, we will be required to demonstrate, through well-controlled clinical trials, that our product candidates are effective and have a favorable benefit-risk profile for their target indications. Success in early clinical trials is not necessarily indicative of success in later stage clinical trials, during which product candidates may fail to demonstrate sufficient safety or efficacy, despite having progressed through initial clinical testing, which may cause significant setbacks. Further, we may need to conduct additional clinical trials that are not currently anticipated. As a result, product candidates that we advance into clinical trials may never receive regulatory approval.

Even if any of our product candidates are approved, regulatory authorities may approve any such product candidates for fewer or more limited indications than we request, may place limitations on our ability to commercialize products at the intended price points, may grant approval contingent on the product's performance in costly post-marketing clinical trials, or may approve a label that does not include the claims necessary or desirable for the successful commercialization of that product candidate. The regulatory authority may also require the label to contain warnings, contraindications, or precautions that limit the commercialization of the product. In addition, the Drug Enforcement Agency ("DEA"), or foreign equivalent, may schedule one or more of our product candidates under the Controlled Substances Act, or its foreign equivalent, which could impede such product's commercial viability. Any of these scenarios could impact the commercial prospects for one or more of our current or future product candidates.

The extensive regulation to which our product candidates are subject may be costly and time consuming, cause anticipated delays, and/or prevent the receipt of the required approvals for commercialization.

The research and clinical development, testing, manufacturing, labeling, storage, record-keeping, advertising, promotion, import, export, marketing and distribution of any product candidate, including our product candidates, is subject to extensive regulation by the FDA in the United States and by comparable health authorities in foreign markets. In the United States, we are not permitted to market a product candidate until the FDA approves such product candidate's BLA or NDA. The approval process is uncertain, expensive, often spans many years, and can vary substantially based upon the type, complexity and novelty of the product candidates involved. In addition to significant and expansive clinical testing requirements, our ability to obtain marketing approval for product candidates depends on the results of required non-clinical testing, including the characterization of the manufactured components of our product candidates and validation of our manufacturing processes.

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The FDA may determine that our manufacturing processes, testing procedures or equipment and facilities are inadequate to support approval. Further, the FDA has substantial discretion in the pharmaceutical approval process and may change approval policies or interpretations of regulations at any time, which could delay, limit or preclude a product candidate's approval.

The FDA and other regulatory agencies may delay, limit or refuse approval of a product candidate for many reasons, including, but not limited to:

- disagreement with the trial design or implementation of our clinical trials, including proper use of clinical trial methods and methods of data analysis;
- an inability to establish sufficient data and information to demonstrate that a product candidate is safe and/or effective for an indication;
- the FDA's rejection of clinical data from trials conducted by individual investigators or in countries where the standard of care is potentially different from that of the United States;
- the FDA's determination that clinical trial results do not meet the statistical significance levels required for approval;
- a disagreement by the applicable regulator regarding the interpretation of preclinical study or trial data;
- determination by the FDA that our manufacturing processes or facilities or those of third-party manufacturers with which we or our collaborators contract for clinical supplies or plan to contract for commercial supplies, do not satisfactorily comply with cGMPs; or
- a change to the FDA's approval policies or interpretation of regulations rendering our clinical data, product characteristics, or benefit-risk profile insufficient or unfavorable for approval.

Foreign approval procedures vary by country and may, in addition to the aforementioned risks, involve additional product testing, administrative review periods and agreements with pricing authorities. In addition, rapid drug and biological development during the COVID-19 pandemic has raised questions about the safety and efficacy of certain marketed pharmaceuticals and may result in increased cautiousness by the FDA and comparable foreign regulatory authorities in reviewing new pharmaceuticals based on safety, efficacy or other regulatory considerations and may result in significant delays in obtaining regulatory approvals. Any delay in obtaining, or inability to obtain, applicable regulatory approvals may prevent us from commercializing our product candidates.

Delays in the commencement of our clinical trials, or suspensions or terminations of such trials, could result in increased costs and/or delay our ability to pursue regulatory approvals.

The commencement or resumption of clinical trials can be delayed for a variety of reasons, including, but not necessarily limited to, delays in:

- obtaining regulatory approval to commence or resume a clinical trial;
- identifying, recruiting and training suitable clinical investigators;
- reaching and maintaining agreements on acceptable terms with CROs and trial sites, the terms of which may be subject to extensive negotiation and modification from time to time and may vary significantly among different CROs and trial sites;
- obtaining sufficient quantities of a product candidate for use in clinical trials;
- obtaining IRB or ethics committee approval to conduct a clinical trial at a prospective site;
- developing and validating companion diagnostics on a timely basis, if required;
- adding new clinical sites once a trial has begun;

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- the death, disability, departure or other change to the principal investigator or other staff overseeing the clinical trial at a given site;
- identifying, recruiting and enrolling patients to participate in a clinical trial; or
- retaining patients who participate in a clinical trial and replacing those who may withdraw due to adverse events from the therapy, insufficient efficacy, fatigue with the clinical trial process, personal issues, or other reasons.

Any delays in the commencement of our clinical trials will delay our ability to pursue regulatory approval for product candidates. In addition, many of the factors that cause, or lead to, a delay in the commencement of clinical trials may also ultimately lead to the termination of a given development program or the denial of regulatory approval of a product candidate.

If any of our product candidates causes unacceptable adverse safety events in clinical trials, we may not be able to obtain regulatory approval or commercialize such product, preventing us from generating revenue from such products' sale. Alternatively, even if a product candidate is approved for marketing, future adverse events could lead to the withdrawal of such product from the market.

Suspensions or delays in the completion of clinical testing could result in increased costs and/or delay or prevent our ability to complete development of that product candidate or generate product revenues.

Once a clinical trial has begun, patient recruitment and enrollment may be slower than we anticipate due to the nature of the clinical trial plan, the proximity of patients to clinical sites, the eligibility criteria for participation in the study or other factors. Clinical trials may also be delayed as a result of ambiguous or negative interim results or difficulties in obtaining sufficient quantities of product manufactured in accordance with regulatory requirements and on a timely basis. Further, a clinical trial may be modified, suspended or terminated by us, an IRB, an ethics committee or a data safety monitoring committee overseeing the clinical trial, any clinical trial site with respect to that site, or the FDA or other regulatory authorities, due to a number of factors, including, but not necessarily limited to:

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- inspection of the clinical trial operations or clinical trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- stopping rules contained in the protocol;
- unforeseen safety or chemistry, manufacturing and control issues, or other determination that the clinical trial presents unacceptable health risks; and
- lack of adequate funding to continue the clinical trial.

Regulatory requirements and guidance may change, and we may need to amend clinical trial protocols to reflect these changes. Any such change may require us to resubmit clinical trial protocols to IRBs, which may in turn impact a clinical trial's cost, timing, and likelihood of success. If any clinical trial is delayed, suspended, or terminated, our ability to obtain regulatory approval for that product candidate will be delayed, and the commercial prospects, if any, for the product candidate may suffer. In addition, many of these factors may ultimately lead to the denial of regulatory approval of a product candidate.

If our competitors develop treatments for any of our product candidates' target indications and those competitor products are approved more quickly, marketed more successfully or demonstrated to be more effective, the commercial opportunity for our product candidates will be reduced or eliminated.

The biotechnology and pharmaceutical industries are subject to rapid and intense technological change. We face, and will continue to face, competition in the development and marketing of our product candidates from academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies. Furthermore, new developments, including the development of other drug technologies and methods of preventing the incidence of disease, occur in the pharmaceutical industry at a rapid pace. Any of these developments may render one or more of our product candidates obsolete or noncompetitive.

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Competitors may seek to develop alternative formulations that do not directly infringe on our in-licensed patent rights. The commercial opportunity for one or more of our product candidates could be significantly harmed if competitors are able to develop alternative formulations outside the scope of our in-licensed patents. Compared to us, many of our potential competitors have substantially greater:

- capital resources;
- development resources, including personnel and technology;
- clinical trial experience;
- regulatory experience;
- expertise in prosecution of intellectual property rights; and
- manufacturing, distribution and sales and marketing capabilities.

As a result of these factors, our competitors may obtain regulatory approval for their products more rapidly than we are able to, or may obtain patent protection or other intellectual property or exclusivity rights that limit our ability to develop or commercialize one or more of our product candidates. Our competitors may also develop drugs that are more effective, safe, useful and/or less costly than ours and may be more successful than us in manufacturing and marketing their products. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. We will also face competition from these third parties in establishing clinical trial sites, in patient registration for clinical trials, and in identifying and in-licensing new product candidates.

Negative public opinion and increased regulatory scrutiny of the therapies that underpin many of our product candidates may damage public perception of our product candidates or adversely affect our ability to conduct our business or obtain regulatory approvals for our product candidates.

If any of the technologies underpinning our product candidates, including gene therapy, is claimed to be unsafe, such product candidate may not gain the acceptance of the public or the medical community. The success of our gene therapy platforms in particular depends upon physicians who specialize in treating the diseases targeted by our product candidates prescribing treatments involving our product candidates in lieu of, or in addition to, treatments with which they are already familiar and for which greater clinical data may be available. More restrictive government regulations or negative public opinion would have a negative effect on our business or financial condition and may delay or impair the development and commercialization of our product candidates or demand for any products we may develop. Adverse events in our clinical trials, even if not ultimately attributable to our product candidates, and the resulting publicity, could lead to increased governmental regulation, unfavorable public perception, potential regulatory delays in the testing or approval of our potential product candidates, stricter labeling requirements for those product candidates that do obtain approval and/or a decrease in demand for any such product candidates. Concern about environmental spread of our products, whether real or anticipated, may also hinder the commercialization of our products.

The making, use, sale, importation, exportation and distribution of controlled substances are subject to regulation by state, federal and foreign law enforcement and other regulatory agencies.

Controlled substances are subject to state, federal and foreign laws and regulations regarding their manufacture, use, sale, importation, exportation and distribution. Controlled substances are regulated under the Federal Controlled Substances Act of 1970 (“CSA”) and regulations of the DEA. IV tramadol, under development by our partner company Avenue, will be subject to these regulations.

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The DEA regulates controlled substances as Schedule I, II, III, IV or V substances. Schedule I substances by definition have a high potential for abuse and no established medicinal use and may not be marketed or sold in the United States. A pharmaceutical product may be listed as Schedule II, III, IV or V, with Schedule II substances considered to present the highest risk of abuse and Schedule V substances the lowest relative risk of abuse among such substances.

Various states also independently regulate controlled substances. Though state-controlled substances laws often mirror federal law, because the states are separate jurisdictions, they may separately schedule drugs as well. While some states automatically schedule a drug when the DEA does so, in other states there must be rulemaking or a legislative action. State scheduling may delay commercial sale of any controlled substance drug product for which we obtain federal regulatory approval and adverse scheduling could impair the commercial attractiveness of such product. We or our collaborators must also obtain separate state registrations in order to be able to obtain, handle and distribute controlled substances for clinical trials or commercial sale, and failure to meet applicable regulatory requirements could lead to enforcement and sanctions from the states in addition to those from the DEA or otherwise arising under federal law.

For any of our products classified as controlled substances, we and our suppliers, manufacturers, contractors, customers and distributors are required to obtain and maintain applicable registrations from state, federal and foreign law enforcement and regulatory agencies and comply with state, federal and foreign laws and regulations regarding the manufacture, use, sale, importation, exportation and distribution of controlled substances. There is a risk that DEA regulations may limit the supply of the compounds used in clinical trials for our product candidates and the ability to produce and distribute our products in the volume needed to both meet commercial demand and build inventory to mitigate possible supply disruptions.

Regulations associated with controlled substances govern manufacturing, labeling, packaging, testing, dispensing, production and procurement quotas, recordkeeping, reporting, handling, shipment and disposal. These regulations increase the personnel needs and the expense associated with development and commercialization of product candidates including controlled substances. The DEA, and some states, conduct periodic inspections of registered establishments that handle controlled substances. Failure to obtain and maintain required registrations or comply with any applicable regulations could delay or preclude us from developing and commercializing our product candidates containing controlled substances and subject us to enforcement action. The DEA may seek civil penalties, refuse to renew necessary registrations or initiate proceedings to revoke those registrations. In some circumstances, violations could lead to criminal proceedings. Because of their restrictive nature, these regulations could limit commercialization of any of our product candidates that are classified as controlled substances, which would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

The FDA limits regulatory approval for our product candidates to those specific indications and conditions for which clinical safety and efficacy have been demonstrated.

Any regulatory approval is limited to the indications for use and related treatment of those specific diseases set forth in the approval for which a product is deemed to be safe and effective by the FDA. In addition to the FDA approval required for new formulations, any new indication for an approved product also requires FDA approval. If we are not able to obtain FDA approval for any desired future indications for our products, our ability to effectively market and sell our products may be reduced and our business may be adversely affected.

While physicians may prescribe drugs for uses that are not described in the product's label or that differ from those tested in clinical studies and approved by the regulatory authorities ("off label uses"), our ability to promote the products is limited to those indications that are specifically approved by the FDA. Such off-label uses are common across medical specialties and may constitute an appropriate treatment for some patients in varied circumstances. Regulatory authorities in the U.S. generally do not regulate the practice of medicine or behavior of physicians in their choice of treatments. Regulatory authorities do, however, restrict communications by pharmaceutical companies regarding the promotion of off-label use.

If our promotional activities fail to comply with these regulations or guidelines, we may be subject to compliance or enforcement actions, including Warning Letters or Untitled Letters, by these authorities. In addition, our failure to follow FDA laws, regulations and guidelines relating to promotion and advertising may cause the FDA to suspend or withdraw an approved product from the market, request a recall, institute fines, or could result in disgorgement of money, operating restrictions, corrective advertising, injunctions or criminal prosecution, any of which could harm our business.

If the FDA does not conclude that a product candidate satisfies the requirements for the Section 505(b)(2) regulatory approval pathway, or if the requirements for such product candidate under Section 505(b)(2) are not as we expect, the approval pathway for the product candidate will likely take significantly longer, cost significantly more and entail significantly greater complications and risks than anticipated, and in either case may not be successful.

The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, added Section 505(b)(2) to the FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies that were not conducted by or for the applicant and for which the applicant has not obtained a right of reference. Section 505(b)(2), if applicable to us under the FDCA, would allow an NDA we submit to FDA to rely in part on data in the public domain or the FDA's prior conclusions regarding the safety and effectiveness of approved compounds, which could expedite the development program for our product candidates by potentially decreasing the amount of clinical data that we would need to generate in order to obtain FDA approval. If the FDA does not allow us to pursue the Section 505(b)(2) regulatory pathway as anticipated, we may need to conduct additional clinical trials, provide additional data and information, and meet additional standards for regulatory approval. If this were to occur, the time and financial resources required to obtain FDA approval for these product candidates, and complications and risks associated with these product candidates, would likely substantially increase. We could need to obtain more additional funding, which could result in significant dilution to the ownership interests of our then existing stockholders to the extent we issue equity securities or convertible debt. We cannot assure you that we would be able to obtain such additional financing on terms acceptable to us, if at all. Moreover, inability to pursue the Section 505(b)(2) regulatory pathway would likely result in new competitive products reaching the market more quickly than our product candidates, which would likely materially adversely impact our competitive position and prospects. Even if we are allowed to pursue the Section 505(b)(2) regulatory pathway, we cannot assure you that our product candidates will receive the requisite approvals for commercialization in a timely manner, or at all.

In addition, notwithstanding the approval of a number of products by the FDA under Section 505(b)(2) over the last few years, certain brand-name pharmaceutical companies and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA's interpretation of Section 505(b)(2) is successfully challenged, the FDA may change its Section 505(b)(2) policies and practices, which could delay or even prevent the FDA from approving any NDA that we submit under Section 505(b)(2). In addition, the pharmaceutical industry is highly competitive, and Section 505(b)(2) NDAs are subject to special requirements designed to protect the patent rights of sponsors of previously approved drugs that are referenced in a Section 505(b)(2) NDA. These requirements may give rise to patent litigation and mandatory delays in approval of our NDAs for up to 30 months or longer depending on the outcome of any litigation. It is not uncommon for a manufacturer of an approved product to file a citizen petition with the FDA seeking to delay approval of, or impose additional approval requirements for, pending competing products. If successful, such petitions can significantly delay, or even prevent, the approval of the new product. However, even if the FDA ultimately denies such a petition, the FDA may substantially delay approval while it considers and responds to the petition. In addition, even if we are able to utilize the Section 505(b)(2) regulatory pathway, there is no guarantee this would ultimately lead to faster product development or earlier approval.

Moreover, even if our product candidates are approved under Section 505(b)(2), the approval may be subject to limitations on the indicated uses for which the products may be marketed or to other conditions of approval, or may contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the products.

Risks Pertaining to the Need for and Impact of Existing and Additional Financing Activities

We have historically financed a significant portion of our growth and operations in part through the assumption of debt. Should an event of default occur under any applicable loan documents, our business would be materially adversely affected. Further, our current credit arrangement with Oaktree restricts our and certain of our subsidiaries' and partner companies' abilities to take certain actions.

At June 30, 2024, the total amount of debt outstanding, net of the debt discount, was \$67.0 million. If we default on our obligations, the holders of our debt may declare the outstanding amounts immediately payable together with accrued interest, and/or take possession of any pledged collateral. If an event of default occurs, we may be unable to cure it within the applicable cure period, if at all. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment and we may be unable to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us, or at all. In addition, current or future debt obligations may limit our ability to finance future operations, satisfy capital needs, or to engage in, expand or pursue our business activities. Such restrictions may also prevent us from engaging in activities that could be beneficial to our business and our stockholders unless we repay the outstanding debt, which may not be desirable or possible.

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On August 27, 2020, we entered into a \$60 million senior secured credit agreement (the “Prior Oaktree Agreement” and the debt thereunder, the “Oaktree Note”) with Oaktree Fund Administration, LLC and the lenders from time-to-time party thereto (collectively, “Oaktree”). At June 30, 2024 the amount outstanding under the Prior Oaktree Agreement was \$50 million. On July 25, 2024, we, as borrower, entered into a \$50.0 million senior secured credit agreement (the “New Oaktree Agreement”) with Oaktree. We borrowed \$35.0 million under the Agreement on the date of the agreement and are eligible to draw up to an additional \$15.0 million with the lenders’ consent. The New Oaktree Agreement replaces the Prior Oaktree Agreement. The New Oaktree Agreement contains customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and dividends and other distributions, subject to certain exceptions. In addition, the New Oaktree Agreement contains certain financial covenants, including, (i) a requirement that we maintain a minimum liquidity of \$7.0 million, which may be reduced or increased as described in the New Oaktree Agreement, and (ii) that product net sales of Journey meet a consolidated minimum net sales amount of \$50.0 million on a trailing 12-month basis, tested quarterly, which may be reduced or increased as described in the New Oaktree Agreement (the “Minimum Net Sales Test”), subject to certain exclusions. Failure by the Company to comply with the financial covenants will result in an event of default, subject to certain cure rights with respect to the Minimum Net Sales Test. The breach of any other such provisions (even, potentially, in an immaterial manner) could result in an event of default under the New Oaktree Agreement, the announcement and impact of which could have a negative impact on the trading prices of our securities. The restrictions imposed by such provisions may also inhibit our and certain of our subsidiaries and partner companies’ ability to enter into certain transactions or arrangements that management otherwise believes would be in our or such partner companies’ best interests, such as dispositions that would result in cash inflows to Fortress and/or our subsidiaries and partner companies, or acquisitions or financings that would promote future growth.

We have a history of operating losses that is expected to continue, and we are unable to predict the extent of future losses, whether we will be able to sustain current revenues or whether we will ever achieve or sustain profitability.

We continue to generate operating losses in all periods including losses from operations of approximately \$64.4 million and \$109.0 million for the six months ended June 30, 2024 and 2023, respectively and \$142.3 million and \$203.6 million for the years ended December 31, 2023 and 2022, respectively. At June 30, 2024, we had an accumulated deficit of approximately \$721.2 million. We expect to make substantial expenditures and incur increasing operating costs and interest expense in the future, and our accumulated deficit will increase significantly as we expand development and clinical trial activities for our product candidates and finance investments in certain of our existing and new subsidiaries in accordance with our growth strategy. Our losses have had, and are expected to continue to have, an adverse impact on our working capital, total assets and stockholders’ equity.

Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the timing or amount of increased expenses or when or if, we will be able to achieve profitability. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially if:

- one or more of our development-stage product candidates is approved for commercial sale and we decide to commercialize such product(s) ourselves, due to the need to establish the necessary commercial infrastructure to launch and commercialize this product without substantial delays, including hiring sales and marketing personnel and contracting with third parties for manufacturing, testing, warehousing, distribution, cash collection and related commercial activities;
- we are required by the FDA or a foreign regulatory authority to perform studies in addition to those currently expected;
- there are any delays in completing our clinical trials or the development of any of our product candidates;
- we execute other collaborative, licensing or similar arrangements, depending on the timing of payments we may make or receive under these arrangements;
- there are variations in the level of expenses related to our future development programs;
- we become involved in any product liability or intellectual property infringement lawsuits; and
- there are any regulatory developments affecting our competitors’ product candidates.

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Our ability to become profitable depends upon our ability to generate revenue. To date, we have not generated any revenue from our development stage products, and we do not know when, or if, we will generate any revenue from such development-stage products. Our ability to generate revenue from such development-stage products depends on a number of factors, including, but not limited to, our ability to:

- obtain regulatory approval for one or more of our product candidates, or any future product candidate that we may license or acquire in the future;
- manufacture commercial quantities of one or more of our product candidates or any future product candidate, if approved, at acceptable cost levels; and
- develop a commercial organization and the supporting infrastructure required to successfully market and sell one or more of our product candidates or any future product candidate, if approved.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of our company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations, which would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline. A decline in the value of our company could also cause you to lose all or part of your investment.

To fund our operations and service our debt securities, which may be deemed to include our Series A Preferred Stock, we will be required to generate a significant amount of cash. Our ability to generate cash depends on a number of factors, some of which are beyond our control, and any failure to meet our debt obligations would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Common Stock and/or Series A Preferred Stock to decline.

Prevailing economic conditions and financial, business and other factors, many of which are beyond our control, may affect our ability to make payments on our debt. If we do not generate sufficient cash flow to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. Alternatively, as we have done in the past, we may also elect to refinance certain of our debt, for example, to extend maturities. Our ability to restructure or refinance our debt will depend on the capital markets and our financial condition at such time. If we are unable to access the capital markets, whether because of the condition of those capital markets or our own financial condition or reputation within such capital markets, we may be unable to refinance our debt. In addition, any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. Our inability to generate sufficient cash flow to satisfy our debt obligations or to refinance our obligations on commercially reasonable terms, or at all, could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

Repayment of our indebtedness is dependent in part on the generation of cash flow by Journey and its ability to make such cash available to us, by dividend, debt repayment or otherwise. Journey may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each of our subsidiaries, including Journey, is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries.

Our ability to continue to reduce our indebtedness will depend upon factors including our future operating performance, our ability to access the capital markets to refinance existing debt and prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We can provide no assurance of the amount by which we will reduce our debt, if at all. In addition, servicing our debt will result in a reduction in the amount of our cash flow available for other purposes, including operating costs and capital expenditures that could improve our competitive position and results of operations.

We may need substantial additional funding and may be unable to raise capital when needed, which may force us to delay, curtail or eliminate one or more of our R&D programs, commercialization efforts or planned acquisitions and potentially change our growth strategy.

Our R&D programs will require substantial additional capital for research, preclinical testing and clinical trials, establishing pilot scale and commercial scale manufacturing processes and facilities, and establishing and developing quality control, regulatory, marketing, sales, and administrative capabilities to support these programs. We expect to fund our R&D activities from a combination of cash generated from royalties and milestones from our partners in various past, ongoing, and future collaborations, and through additional equity or debt financings from third parties. These financings could depress the trading prices of our Securities. If additional funds are required to support our operations and such funds cannot be obtained on favorable terms, we may not be able to develop products, which will adversely impact our growth strategy.

Our operations have consumed substantial amounts of cash since inception. During the six months ended June 30, 2024 and 2023, we incurred R&D expenses of approximately \$37.5 million and \$71.6 million, respectively, and during the years ended December 31, 2023 and 2022, we incurred R&D expenses of approximately \$101.7 million and \$134.2 million, respectively. We expect to continue to spend significant amounts on our growth strategy. We believe that our current cash and cash equivalents will enable us to continue to fund operations in the normal course of business for at least the next 12 months from the filing of this Quarterly Report on Form 10-Q. Until such time, if ever, as we can generate a sufficient amount of product revenue and achieve profitability, we expect to seek to finance potential cash needs.

Under current SEC regulations, if at the time we file our Annual Report on Form 10-K our public float is less than \$75 million, and for so long as our public float remains less than \$75 million, the amount we can raise through primary public offerings of securities in any twelve-month period using shelf registration statements is limited to an aggregate of one-third of our public float, which is referred to as the “baby shelf rules.” SEC regulations permit us to use the highest closing sales price of our common stock (or the average of the last bid and last ask prices of our common stock) on any day within 60 days of sales under the registration statement to calculate our public float.

As of the date of the 2023 Form 10-K, our public float was less than \$75 million. As a result, for sales following the date of the filing of the 2023 Form 10-K, and until we again have a public float with a value in excess of \$75 million, if ever, we only have the capacity to sell shares up to one-third of our public float under shelf registration statements in any twelve-month period. If our public float decreases, the amount of securities we may sell under our Form S-3 shelf registration statements will also decrease.

Our ability to obtain additional funding when needed, changes to our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our planned R&D activities, expenditures, acquisitions and growth strategy, increased expenses or other events may affect our need for additional capital in the future and require us to seek additional funding sooner or on different terms than anticipated. In addition, if we are unable to raise additional capital when needed, we might have to delay, curtail or eliminate one or more of our R&D programs and commercialization efforts and potentially change our growth strategy, which would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline. The terms of our existing debt arrangements, including that with Oaktree, have and will continue to inhibit our and our subsidiaries’ abilities to raise capital.

We may be unable to generate returns for our investors if our partner companies and subsidiaries, several of which have limited or no operating history, have no commercialized revenue generating products or, if not yet profitable, cannot obtain additional third-party financing.

As part of our growth strategy, we have made and will likely continue to make substantial financial and operational commitments in our subsidiaries, which often have limited or no operating history, have no commercialized revenue generating products, and require additional third-party financing to fund product and services development or acquisitions. Our business depends in large part on the ability of one or more of our subsidiaries and/or partner companies to innovate, in-license, develop or acquire successful biopharmaceutical products and/or acquire companies in increasingly competitive and highly regulated markets. If certain of our subsidiaries and/or partner companies do not successfully obtain additional third-party financing to commercialize products or are not acquired in change-of-control transactions that result in cash distributions, as applicable, the value of our businesses and our ownership stakes in our partner companies may be materially adversely affected, which would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

Raising additional funds by issuing securities or through licensing or lending arrangements may cause dilution to our existing stockholders, restrict our operations or require us to relinquish proprietary rights.

To the extent that we raise additional capital by issuing Common Stock (or other Securities that are convertible into or exercisable for shares of Common Stock), the share ownership of existing stockholders will be diluted. We have also entered into financing arrangements to raise capital for our subsidiaries under which Common Stock is or may be issuable to investors in lieu of cash, upon certain conditions being met; in the event such issuances take place, they will also be dilutive of the stakes of existing stockholders. Any future debt financings may impose covenants that restrict our operations, including by limiting our ability to incur liens or additional debt, pay dividends, redeem our stock, make certain financial commitments and engage in certain merger, consolidation or asset sale transactions, among other restrictions. In addition, if we raise additional funds through licensing or sublicensing arrangements, it may be necessary to relinquish potentially valuable rights to our product candidates or grant licenses on terms that are not favorable to us.

We have paused dividend payments on our Series A Preferred Stock and may not be able to resume payment of dividends on our Series A Preferred Stock in the future if we have insufficient cash or available “surplus” as defined under Delaware law to make such dividend payments.

On July 5, 2024, our board of directors paused the payment of dividends on our Series A Preferred Stock until further notice. However, dividends on our Series A Preferred Stock accrue daily, are payable monthly and will continue to accrue from the last date of payment. Our board of directors deemed the foregoing to be in the best interests of the Company and its common stockholders in light of the Company’s current and anticipated financial condition and outlook, and after considering its fiduciary duties to the Company’s common stockholders and other relevant factors. Our ability to pay cash dividends on our Series A Preferred Stock in the future requires us to have either net profits or positive net assets (total assets less total liabilities) over our capital, and that we have sufficient working capital in order to be able to pay our debts as they become due in the usual course of business. Our ability to pay dividends may also be impaired if any of the risks described in this report were to occur. Also, payment of our dividends depends upon our financial condition and other factors as our board of directors may deem relevant from time to time. We cannot assure you that we will have sufficient cash or “surplus” to resume payment of the cash dividends on the Series A Preferred Stock in a timely manner, or at all.

We have never paid and currently do not intend to pay cash dividends in the near future, except for the dividend we previously paid on our Series A Preferred Stock. As a result, capital appreciation, if any, will be the sole source of gain for our Common Stockholders.

We have never paid cash dividends on our Common Stock, or made stock dividends, except for the dividend we previously paid on shares of our Series A Preferred Stock, and we currently intend to retain future earnings, if any, to fund the development and growth of our businesses, and retain our stock positions. In addition, the terms of existing and future debt agreements may preclude us from paying cash or stock dividends. Equally, each of our subsidiaries and partner companies is governed by its own board of directors with individual governance and decision-making regimes and mandates to oversee such entities in accordance with their respective fiduciary duties. As a result, we alone cannot determine the acts that could maximize value to you of such partner companies and subsidiaries in which we maintain ownership positions, such as declaring cash or stock dividends. As a result, capital appreciation, if any, of our Common Stock will be the sole source of gain for holders of our Common Stock for the foreseeable future.

We have historically relied in part on sales of our common stock and other securities to fund our operations, and our future ability to obtain additional capital through stock sales or other securities offerings may be more costly than in the past, or may not be available to us at all.

We have historically relied in part on sales of our common stock to fund our operations. For example, we raised an aggregate of approximately \$30.2 million in gross proceeds in fiscal years 2022 and 2023 through the sale of shares of our common stock and other securities in offerings made under a Form S-3 “shelf” registration statement. Using a shelf registration statement to conduct an equity offering to raise capital generally takes less time and is less expensive than other means, such as conducting an offering under a Form S-1 registration statement. We are no longer eligible to file any new shelf registration statements due to non-payment of dividends on our Series A Preferred Stock since July 5, 2024 and, if we do not resume payment of dividends on our Series A Preferred Stock, pay all accumulated dividends and otherwise remain compliant with the other conditions for use of a Form S-3 registration statement by the time we file our next Annual Report on Form 10-K, we will lose the ability to use our currently effective “shelf” registration statement on Form S-3. Accordingly, we may then only be able to conduct additional offerings of our securities under an exemption from registration under the Securities Act or under a Form S-1 registration statement. We would expect either of these alternatives to be a more expensive method of raising additional capital and more dilutive to our stockholders relative to using a shelf registration statement.

Risks Pertaining to Our Existing Revenue Stream from Journey Medical Corporation

Future revenue based on sales of our dermatology products, Qbrexza, Accutane, Amzeeq, Zilxi, Targadox, Exelderm and Luxamend, may be lower than expected or lower than in previous periods.

The vast majority of our operating income for the foreseeable future is expected to come from the sale of our dermatology products through our partner company Journey. Any setback that may occur with respect to such products could significantly impair our financial condition, cash flows and/or operating results and/or reduce the value of our Securities. Setbacks for such products could include, but are not limited to, issues related to: supply chain, shipping; distribution; demand; manufacturing; product safety; product quality; marketing; government regulation, including but not limited to pricing or reimbursement; licensing and approval; intellectual property rights; competition with existing or new products, including third-party generic competition; product acceptance by physicians, other licensed medical professionals, and patients; and higher than expected total rebates, returns or recalls. Also, a significant portion of Journey's sales derive from products that are without patent protection and/or are or may become subject to third party generic competition; the introduction of new competitor products, or increased market share of existing competitor products, could have a significant adverse effect on our operating income.

We face challenges as our products face generic competition and/or losses of exclusivity.

Journey's products do and may compete with well-established products, both branded and generic, with similar or the same indications. We face increased competition from manufacturers of generic pharmaceutical products, who may submit applications to FDA seeking to market generic versions of our products. In connection with these applications, the generic drug companies may seek to challenge the validity and enforceability of our patents through litigation. When patents covering certain of our products (if applicable) expire or are successfully challenged through litigation or in USPTO proceedings, if a generic company launches a competing product "at risk," or when the regulatory or licensed exclusivity for our products (if applicable) expires or is otherwise lost, we may face generic competition as a result.

A significant portion of our sales derive from products that are without patent protection and/or are or may become subject to third-party generic competition, the introduction of new competitor products, or an increase in market share of existing competitor products, any of which could have a significant adverse impact on our operating income. Three of our marketed products, Qbrexza, Amzeeq and Zilxi, as well as one of our product candidates, DFD-29, currently have patent protection. Four of our marketed products, Accutane, Targadox, Luxamend and Exelderm, do not have patent protection or otherwise are not eligible for patent protection.

Accutane currently competes in the Isotretinoin market with five other therapeutically equivalent A/B rated products. Targadox currently competes with one therapeutically equivalent A/B rated generic product. Exelderm may face A/B rated generic competition in the future.

Generic versions are generally significantly less expensive than branded versions, and, where available, may be required to be utilized before or in preference to the branded version by third-party payors, or substituted by pharmacies. Accordingly, when a branded product loses its market exclusivity, it normally faces intense price competition from generic forms of the product. To successfully compete for business with managed care and pharmacy benefits management organizations, we must often demonstrate that our products offer not only medical benefits, but also cost advantages as compared with other forms of care. Any reduction in sales of our products, or the prices we receive for our products as a result of generic competition could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

Any disruptions to the capabilities, composition, size or existence of Journey's field sales force may have a significant adverse impact on our existing revenue stream. Further, our ability to effectively market and sell any future products that we may develop and for which we receive marketing authorization, will depend on our ability to establish and maintain sales and marketing capabilities or to enter into agreements with third parties to market, distribute and sell any such products.

Journey's field sales force has been and is expected to continue to be an important contributor to our commercial success. Any disruptions to our relationship with such field sales force or the professional employer organization that employs our field sales force, could materially adversely affect our product sales.

The establishment, development, and/or expansion of a field sales force, either by us or certain of our partners or vendors, or the establishment of a contract field sales force to market any products for which we may have or receive marketing approval is expensive and time-consuming and could delay any such product launch or compromise the successful commercialization of such products. If we are unable to establish and maintain sales and marketing capabilities or any other non-technical capabilities necessary to commercialize any products that may be successfully developed, we will need to contract with third parties to market and sell such products. We may not be able to establish or maintain arrangements with third parties on commercially reasonable terms, or at all.

If our products are not included in managed care organizations' formularies or coverage by other organizations, our products' utilization and market shares may be negatively impacted, which could have a material adverse effect on our business and financial condition.

In the United States, continued sales and coverage, including formulary inclusion without the need for a prior authorization or step edit therapy, of our products for commercial sale will depend in part on the availability of reimbursement from third-party payors, including government health administrative authorities, managed care providers, private health insurers and other organizations. Third-party payors are increasingly examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy, and, accordingly, significant uncertainty exists as to the reimbursement status of newly approved therapeutics. Adequate third-party reimbursement may not be available for our products to enable us to realize an appropriate return on our investment of our currently marketed products or those which we may acquire or develop in the future.

Managed care organizations and other third-party payors try to negotiate the pricing of medical services and products to control their costs. Managed care organizations and pharmacy benefit managers typically develop formularies to reduce their cost for medications. Formularies are based on the prices and therapeutic benefits of available products. Due to their lower costs, generic products are often favored. The breadth of the products covered by formularies varies considerably from one managed care organization to another, and many formularies include alternative and competitive products for treatment of particular medical conditions. Failure to be included in such formularies or to achieve favorable formulary status may negatively impact the utilization and market share of our products. If our products are not included within an adequate number of formularies or adequate reimbursement levels are not provided, or if those policies increasingly favor generic products, this could have a material adverse effect on our business and financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

Reimbursement for our products and product candidates may be limited or unavailable in certain market segments, which could make it difficult for us to sell our products profitably.

We have obtained approval for some products, and intend to seek approval for other product candidates, to commercialize in both the United States and in countries and territories outside the United States. If we obtain approval in one or more foreign countries, we will be subject to rules and regulations in those countries relating to such products. In some foreign countries, particularly in the European Union, the pricing of prescription pharmaceuticals and biologics is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. In addition, market acceptance and sales of our product candidates, if approved, will depend significantly on the availability of adequate coverage and reimbursement from third-party payors for any of our product candidates and may be affected by existing and future healthcare-reform measures.

Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which pharmaceuticals they will pay for and establish reimbursement levels. Reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor's determination regarding whether a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;

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- appropriate for the specific patient;
- cost-effective; and
- experimental or investigational.

Obtaining coverage and reimbursement approval for a product from a government or other third-party payor is a time consuming and costly process that could require that we provide supporting scientific, clinical and cost-effectiveness data for the use of our products to the payor. We may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement. If reimbursement of our future products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability. Additionally, while we may seek approval of our product candidates in combination with each other, there can be no guarantee that we will obtain coverage and reimbursement for any of our products together, or that such reimbursement will incentivize the use of our products in combination with each other as opposed to in combination with other agents which may be priced more favorably to the medical community.

Legislative and regulatory changes to the healthcare systems of the United States and certain foreign countries could impact our ability to sell our products profitably. Several federal agencies including FDA, CMS, DEA and HHS, in addition to state and local governments, regulate drug product development and marketing. In particular, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“MMA”) changed the way Medicare covers and pays for pharmaceutical products by revising the payment methodology for many products reimbursed by Medicare, resulting in lower rates of reimbursement for many types of drugs, and added a prescription drug benefit to the Medicare program that involves commercial plans negotiating drug prices for their members. In addition, this law provided authority for limiting the number of drugs that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this law and future laws could decrease the coverage and price that we will receive for any approved products. While the MMA only applies to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own payment rates. Therefore, any limitations in reimbursement that results from the MMA may result in reductions in payments from private payors.

Since 2003, there have been several other legislative and regulatory changes to the coverage and reimbursement landscape for pharmaceuticals. In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, collectively, the “Affordable Care Act” or “ACA,” was enacted and made significant changes to the United States’ healthcare system. The ACA and any revisions or replacements of that Act, any substitute legislation, and other changes in the law or regulatory framework could have a material adverse effect on our business.

In the United States there is significant interest in containing healthcare costs and increasing the scrutiny of pharmaceutical pricing practices. Congress has continually explored legislation intended to address the cost of prescription drugs. Notably, the Inflation Reduction Act of 2022 contains substantial drug pricing reforms, including the establishment of a drug price negotiation program within the U.S. Department of Health and Human Services that would require manufacturers to charge a negotiated “maximum fair price” for certain selected drugs or pay an excise tax for noncompliance, the establishment of rebate payment requirements on manufacturers of certain drugs payable under Medicare Parts B and D to penalize price increases that outpace inflation, and requires manufacturers to provide discounts on Part D drugs. Substantial penalties can be assessed for noncompliance with the drug pricing provisions in the Inflation Reduction Act of 2022. The Inflation Reduction Act of 2022 could have the effect of reducing the prices we can charge and reimbursement we receive for our products, if approved, thereby reducing our profitability, and could have a material adverse effect on our financial condition, results of operations and growth prospects. The effect of Inflation Reduction Act of 2022 on our business and the pharmaceutical industry in general is not yet known.

While we cannot predict what additional proposals may ultimately become law, the elements under consideration could significantly change the landscape in which the pharmaceutical market operates.

State legislatures are similarly active in proposing and passing legislation and regulations aimed at controlling pharmaceutical and biological prices and drug cost transparency.

There likely will continue to be legislative and regulatory proposals at the federal and state levels directed at broadening the availability of healthcare and containing or lowering the cost of healthcare products and services, including prescription drugs. We cannot predict the initiatives that may be adopted in the future. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare and prescription drugs may adversely affect:

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- the demand for any products for which we may obtain regulatory approval;
- our ability to set a price that we believe is fair for our products;
- our ability to generate revenues and achieve or maintain profitability;
- the level of taxes that we are required to pay; and
- the availability of capital.

We expect that the ACA, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and additional downward pressure on the payment that we receive for any approved drug. Any reduction in reimbursement from Medicare or other government healthcare programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our drugs.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals, if any, of our product candidate, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-marketing conditions and other requirements.

Risks Pertaining to our Business Strategy, Structure and Organization

We have entered, and will likely in the future enter, into certain collaborations or divestitures which may cause a reduction in our business' size and scope, market share and opportunities in certain markets, or our ability to compete in certain markets and therapeutic categories. We have also entered into several arrangements under which we have agreed to contingent dispositions of subsidiaries, partner companies and/or their assets. The failure to consummate any such transaction may impair the value of such companies and/or assets, and we may not be able to identify or execute alternative arrangements on favorable terms, if at all.

We have entered into and consummated several partnerships and/or contingent sales of our assets and subsidiaries, including an equity investment and contingent acquisition agreement between Caelum and AstraZeneca (the acquisition component of which has consummated) and a development funding and contingent asset purchase between Cyprium and Sentyln (the acquisition component of which has not yet consummated). Each of these arrangements has been time-consuming and has diverted management's attention. As a result of these consummated/contingent sales, as with other similar transactions that we may complete, we may experience a reduction in the size or scope of our business, our market share in particular markets, our opportunities with respect to certain markets, products or therapeutic categories or our ability to compete in certain markets and therapeutic categories.

In addition, in connection with any transaction involving a (contingent or non-contingent) sale of one of our subsidiaries, partner companies or their assets, we may surrender our ability to realize long-term value from such asset or company, in the form of foregone product sales, royalties, milestone payments, sublicensing revenue or otherwise, in exchange for upfront and/or other payments. In the event, for instance, that a product candidate underpinning any such asset or company is granted FDA approval for commercialization following the execution of documentation governing the sale by us of such asset or company, the transferee of such asset or company may realize tremendous value from commercializing such product, which we would have realized for ourselves had we not executed such sale transaction and been able to achieve applicable approvals independently.

Should we seek to enter into collaborations or divestitures with respect to other assets or companies, we may be unable to consummate such arrangements on satisfactory or commercially reasonable terms within our anticipated timelines. In addition, our ability to identify, enter into and/or consummate collaborations and/or divestitures may be limited by competition we face from other companies in pursuing similar transactions in the biotechnology and pharmaceutical industries.

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Any collaboration or divestiture we pursue, whether we are able to complete it or not, may be complex, time consuming and expensive, may divert from management's attention, may have a negative impact on our customer relationships, cause us to incur costs associated with maintaining the business of the targeted collaboration or divestiture during the transaction process and also to incur costs of closing and disposing the affected business or transferring the operations of the business to other facilities. In addition, if such transactions are not completed for any reason, the market price of our Common Stock may reflect a market assumption that such transactions will occur, and a failure to complete such transactions could result in a negative perception by the market of us generally and a decline in the market price of our Securities.

We act, and are likely to continue acting, as guarantor and/or indemnitor of the obligations, actions or inactions of certain of our subsidiaries and partner companies. We have also entered into, and may again enter into, certain arrangements with our subsidiaries, partner companies and/or third parties pursuant to which a substantial number of shares of our Common Stock may be issued. Depending on the terms of such arrangements, we may be contractually obligated to pay substantial amounts to third parties, or issue a substantially dilutive number of shares of our Common Stock, based on the actions or inactions of our subsidiaries and/or partner companies, regulatory agencies or other third parties.

We act, and are likely to continue acting, as indemnitor of potential losses or liabilities that may be experienced by one or more of our subsidiaries, partner companies and/or their partners or investors (such as the indemnification arrangement existing by Fortress of Caelum with respect to the UTRF litigation, as disclosed elsewhere herein – see Footnote 14, Commitments and Contingencies). If we become obligated to pay all or a portion of such indemnification amounts, our business and the market value of our Common Stock, Preferred Stock and/or debt securities may be materially adversely affected.

Additionally, we have agreed in the past, and may agree in the future, to act as guarantor in connection with equity or debt raises by our partner companies, pursuant to which we may become obligated either to pay what could be a significant amount of cash or issue what could be a significant number of shares of Common Stock or Preferred Stock if certain events occur or do not occur, which could lead to a depletion of resources or dilution to our Common Stock, or both.

Our future growth depends in part on our ability to identify and acquire or in-license products and product candidates, and if we are unable to do so, or to integrate acquired products into our operations, we may have limited growth opportunities.

An important part of our business strategy is to continue to develop a pipeline of product candidates by acquiring or in-licensing products, businesses or technologies. Future in-licenses or acquisitions, however, may entail numerous operational and financial risks, including, but not necessarily limited to:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention to develop acquired products or technologies;
- difficulty or inability to secure financing to fund development activities for such acquired or in-licensed technologies in the current economic environment;
- incurrence of substantial debt or dilutive issuances of securities to pay for acquisitions;
- higher than expected acquisition and integration costs;
- increased amortization expenses;
- difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to retain key employees of any acquired businesses.

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We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. In particular, we may compete with larger biopharmaceutical companies and other competitors in our efforts to establish new collaborations and in-licensing opportunities. These competitors may have access to greater financial resources than us and/or may have greater expertise in identifying and evaluating new opportunities. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts.

Certain of our officers and directors serve in similar roles at our partner companies, subsidiaries, related parties and/or other entities with which we transact business or in which we hold significant minority ownership positions, which could result in conflicts of interests relating to ongoing and future relationships and transactions with these parties.

We share directors and/or officers with certain of our subsidiaries, partner companies, related parties and other entities with which we transact business or in which we hold significant minority ownership positions, and such arrangements could create conflicts of interest in the future, including with respect to the allocation of corporate opportunities. While we believe that we have put in place policies and procedures to identify and mitigate such conflicts, and that any existing agreements that may give rise to such conflicts and any such policies or procedures were negotiated at arm's length in conformity with fiduciary duties, such conflicts of interest, or the appearance of conflict of interest, may nonetheless arise. The existence and consequences of such potential or perceived conflicts could expose us to lost profits, claims by our investors and creditors, and harm to our financial condition, cash flows and/or results of operations.

Certain of our executives, directors and principal stockholders, whose interests may be adverse to those of our other stockholders, can control our direction and policies.

Certain of our executive officers, directors and stockholders own nearly or more than 10% of our outstanding Common Stock and, together with their affiliates and related persons, beneficially own a significant percentage of our capital stock. If these stockholders were to choose to act together, they would be able to influence our management and affairs and the outcome of matters submitted to our stockholders for approval, including the election of directors and any sale, merger, consolidation, or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire. In addition, this concentration of ownership might adversely affect the market price of our Common Stock by:

- delaying, deferring or preventing a change of control of us;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

If we acquire, enter into joint ventures with or obtain a controlling interest in, companies in the future, our financial condition, operating results and the value of our Securities may be adversely affected, thereby diluting stockholder value, disrupting our business and/or diminishing the value of our holdings in our partner companies.

As part of our growth strategy, we might acquire, enter into joint ventures with, or obtain significant ownership stakes in other companies. Acquisitions of, joint ventures with and investments in other companies involve numerous risks, including, but not necessarily limited to:

- risk of entering new markets in which we have little to no experience;
- diversion of financial and managerial resources from existing operations;
- successfully negotiating a proposed acquisition or investment timely and at a price or on terms and conditions favorable to us;
- the impact of regulatory reviews on a proposed acquisition or investment;
- the outcome of any legal proceedings that may be instituted with respect to the proposed acquisitions or investment;
- with respect to an acquisition, difficulties in integrating operations, technologies, services and personnel; and

- potential inability to maintain relationships with customers of the companies we may acquire or invest in.

If we fail to properly evaluate potential acquisitions, joint ventures or other transaction opportunities, we might not achieve the anticipated benefits of any such transaction, we might incur higher costs than anticipated, and management resources and attention might be diverted from other necessary or valuable activities.

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our business activities.

Any terrorist attack, other act of violence or war, including military conflicts, could result in increased volatility in, or damage to, the worldwide financial markets and economy. This includes Russia's February 2022 invasion of Ukraine, the conflict between Israel and the Hamas and Hezbollah extremist groups, recent attacks by armed groups on cargo ships in the Red Sea, and tensions across the Taiwan Strait. For instance, the United States or other countries may impose sanctions that restrict doing business in the effected countries and increased military conflict may affect third-party vendors and cause delays.

This risk may be magnified in the case of the conflict between Russia and Ukraine. Russia's invasion and the ensuing response by Ukraine may disrupt our partner companies' ability to conduct clinical trials in Russia, Ukraine, Belarus, and Georgia, and potentially other neighboring countries. Although the impact of Russia's military action is highly unpredictable, certain clinical trial sites may be affected, including those of our partner company Checkpoint in Russia, Ukraine, Belarus, and Georgia. Those clinical trial sites may suspend or terminate trials, and patients could be forced to evacuate or choose to relocate, making them unavailable for initial or further participation in clinical trials. For instance, Checkpoint had to terminate their Phase 3 NSCLC trial in the first quarter of 2023 as a result of such conflicts. Alternative sites to fully and timely compensate for clinical trial activities in these areas may not be available, and we may need to find other countries to conduct these clinical trials. Clinical trial interruptions may delay our plans for clinical development and approvals for our product candidates, which could increase costs and jeopardize our ability to commence product sales and generate revenues.

Risks Pertaining to Reliance on Third Parties

We rely predominantly on third parties to manufacture the majority of our preclinical and clinical pharmaceutical supplies, and we expect to continue to rely heavily on such third parties and other contractors to produce commercial supplies of our product candidates and products, if approved. Further, we rely solely on third parties to manufacture Journey's commercialized products. Such dependence on third-party suppliers could adversely impact our businesses.

We depend heavily on third party manufacturers for product supply. If our contract manufacturers cannot successfully manufacture material that conforms to applicable specifications and FDA regulatory requirements, we will not be able to secure and/or maintain FDA approval for those products. Our third-party suppliers will be required to maintain compliance with cGMPs and will be subject to inspections by the FDA and comparable agencies and authorities in other jurisdictions to confirm such compliance. In the event that the FDA or such other authorities determine that our third-party suppliers have not complied with cGMPs or comparable regulations, the relevant clinical trials could be terminated or subjected to clinical hold until such time as we are able to obtain appropriate replacement material and/or applicable compliance, and commercial product could be unfit for sale, or if distributed, could be recalled from the market. Any delay, interruption or other issues that arise in the manufacture, testing, packaging, labeling, storage, or distribution of our products as a result of a failure of the facilities or operations of our third-party suppliers to comply with regulatory requirements, pass any regulatory agency inspection or otherwise perform under our agreements with them could significantly impair our ability to develop and commercialize our products and product candidates. In addition, several of our currently commercialized products, sold through our partner company Journey, are produced by a single manufacturer, and, although we closely monitor inventory prophylactically, disruptions to such supply arrangements could adversely affect our ability to meet product demand and therefore diminish revenues. Finally, in light of partner company Mustang's recent reduction in force in April 2024, we may increase our reliance at Mustang on third-party manufacturers or third-party collaborators for the manufacture of commercial supply of one or more product candidates for which our collaborators or we obtain marketing approval. We may be unable to establish any agreements with third-party manufacturers or to do so on acceptable terms, and even if we are able to establish such agreements with third-party manufacturers, reliance entails additional risks.

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We also rely on third-party manufacturers to purchase from third-party suppliers the raw materials and equipment necessary to produce product candidates for anticipated clinical trials. There are a small number of suppliers for certain capital equipment and raw materials that are used to manufacture those products. We do not have direct control over the process or timing of the acquisition of these raw materials by our third-party manufacturers. Moreover, we currently do not have any agreements for the commercial production of these raw materials since such agreements are entered into by our third-party manufacturers and their qualified suppliers. Any significant delay in the supply of raw material components related to an ongoing clinical trial could considerably delay completion of our clinical trials, product testing and potential regulatory approval.

We do not expect to have the resources or capacity to engage in our own commercial manufacturing of our product candidates, if they received marketing approval, and would likely continue to be heavily dependent upon third-party manufacturers. Our dependence on third parties to manufacture and supply clinical trial materials, as well as our planned dependence on third party manufacturers for any products that may be approved, may adversely affect our ability to develop and commercialize products in a timely or cost-effective manner, or at all. In addition to the manufacturing and supply functions they provide, third-party manufacturers also play a key role in our efforts to obtain marketing approval for our product candidates, by interacting with, providing important information to, and hosting inspections by, applicable regulatory authorities. If a given contract development and manufacturing organization upon whom we rely in such a capacity is unwilling or unable to perform these activities on our behalf, the successful development and/or approval of the applicable product candidate could be delayed significantly.

In addition, because of the sometimes-limited number of third parties who specialize in the development, manufacture and/or supply of our clinical and preclinical materials, we are often compelled to accept contractual terms that we deem less than desirable, including without limitation as pertains representations and warranties, supply disruptions/failures, covenants and liability/indemnification. Especially as pertains liability and indemnification provisions, because of the frequent disparities in negotiating leverage, we are often compelled to agree to low caps on counterparty liability and/or indemnification language that could result in outsized liability to us in situations where we have zero or relatively little culpability.

We rely heavily on third parties for the development and manufacturing of products and product candidates.

To date, we have engaged primarily in intellectual property acquisitions, and evaluative and R&D activities and have not generated any revenues from product sales (except through Journey). We have incurred significant net losses since our inception. As of June 30, 2024, we had an accumulated deficit of approximately \$721.2 million, and as of December 31, 2023, we had an accumulated deficit of approximately \$694.9 million. We may need to rely on third parties for activities critical to the product candidate development process, including but not necessarily limited to:

- identifying and evaluating product candidates;
- negotiating, drafting and entering into licensing and other arrangements with product development partners; and
- continuing to undertake pre-clinical development and designing and executing clinical trials.

We have also not demonstrated the ability to perform the functions necessary for the successful commercialization of any of our development-stage product candidates, should any of them be approved for marketing. If we were to have any such product candidates approved, the successful commercialization of such products would be dependent on us performing or contracting with third parties for performance, of a variety of critical functions, including, but not necessarily limited to:

- advising and participating in regulatory approval processes;
- formulating and manufacturing products for clinical development programs and commercial sale; and
- conducting sales and marketing activities.

Our operations have been limited to acquiring, developing and securing the proprietary rights for, and undertaking pre-clinical development and clinical trials of, product candidates, both at the Fortress level and via our subsidiaries and partner companies. These operations provide a limited basis for our stockholders and prospective investors to assess our ability to develop and commercialize potential product candidates, as well as for you to assess the advisability of investing in our securities.

We rely on third parties to conduct clinical trials. If these third parties do not meet agreed-upon deadlines or otherwise conduct the trials as required, our clinical development programs could be delayed or unsuccessful, and we may not be able to obtain regulatory approval for or commercialize our product candidates when expected or at all.

We rely on third-party contract research organizations and site management organizations to conduct most of our preclinical studies and all of our clinical trials for our product candidates. We expect to continue to rely on third parties, such as contract research organizations, site management organizations, clinical data management organizations, medical institutions and clinical investigators, to conduct some of our preclinical studies and all of our clinical trials. These CROs, investigators, and other third parties will and do play a significant role in the conduct of our trials and the subsequent collection and analysis of data from the clinical trials.

There is no guarantee that any CROs, investigators or other third parties upon which we rely for administration and conduct of our clinical trials will devote adequate time and resources to such trials or perform as contractually required. If any of these third parties fails to meet expected deadlines or fails to adhere to our clinical protocols or otherwise perform in a substandard manner, our clinical trials may be extended, delayed or terminated. If any of the clinical trial sites terminates for any reason, we may lose follow-up information on patients enrolled in our ongoing clinical trials unless the care of those patients is transferred to another qualified clinical trial site. In addition, principal investigators for our clinical trials may serve as scientific advisers or consultants to us from time to time and receive cash and/or equity compensation in connection with such services. If these relationships and any related compensation result in perceived or actual conflicts of interest, the integrity of the data generated at the applicable clinical trial site, or the FDA's willingness to accept such data, may be jeopardized.

Our reliance on these third parties for research and development activities will reduce our control over these activities but will not relieve us of our responsibilities or potential liability. For example, we will remain responsible for ensuring that each of our preclinical studies and clinical trials are conducted in accordance with the general investigational plan and protocols for the trial and for ensuring that our preclinical studies are conducted in accordance with GLPs as appropriate. Moreover, the FDA requires us to comply with GCPs for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Regulatory authorities enforce these requirements through periodic inspections of trial sponsors, clinical investigators and trial sites. If we or any of our clinical research organizations fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or comparable foreign regulatory authorities may refuse to accept such data, or require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials complies with GCP regulations. In addition, our clinical trials must be conducted with products produced under cGMP in strict conformity to cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

We also are required to register certain ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within specified timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

If any of our relationships with these third-party contract research organizations or site management organizations terminates, we may not be able to enter into arrangements with alternative contract research organizations or site management organizations or to do so on commercially reasonable terms. Switching or adding additional contract research organizations or site management organizations involves additional cost and requires management time and focus. In addition, there is a natural transition period when a new contract research organization or site management organization commences work. As a result, delays could occur, which could compromise our ability to meet our desired development timelines. Though we carefully manage our relationships with our contract research organizations or site management organizations, there can be no assurance that we will not encounter similar challenges or delays in the future.

We rely on clinical and pre-clinical data and results obtained from and by third parties that could ultimately prove to be inaccurate or unreliable.

As part of our strategy to mitigate development risk, we generally intend on developing product candidates with previously-validated mechanisms of action and seek to assess potential clinical efficacy early in the development process. This strategy necessarily relies upon clinical and pre-clinical data and other results produced or obtained by third parties, which may ultimately prove to be inaccurate or unreliable. If the third-party data and results we rely upon prove to be inaccurate, unreliable, not acceptable by regulatory authorities or not applicable to our product candidates or acquired products, we could make inaccurate assumptions and conclusions about our current or future product candidates and our research and development efforts could be compromised.

Collaborative relationships with third parties could cause us to expend significant resources and/or incur substantial business risk with no assurance of financial return.

We anticipate substantial reliance on strategic collaborations for marketing and commercializing our existing product candidates and we may rely even more on strategic collaborations for R&D of other product candidates. We may sell product offerings through strategic partnerships with pharmaceutical and biotechnology companies. If we are unable to establish or manage such strategic collaborations on terms favorable to us in the future, our revenue and drug development may be limited.

If we enter into R&D collaborations during the early phases of drug development, success will, in part, depend on the performance of research collaborators. We may not directly control the amount or timing of resources devoted by research collaborators to activities related to product candidates. Research collaborators may not commit sufficient resources to our R&D programs. If any research collaborator fails to commit sufficient resources, the preclinical or clinical development programs related to the collaboration could be delayed or terminated. Also, collaborators may pursue existing or other development-stage products or alternative technologies in preference to those being developed in collaboration with us. Finally, if we fail to make required milestone or royalty payments to collaborators or to observe other obligations in agreements with them, the collaborators may have the right to terminate or stop performance of those agreements.

Establishing strategic collaborations is difficult and time-consuming. Our discussions with potential collaborators may not lead to the establishment of collaborations on favorable terms, if at all. Potential collaborators may reject collaboration proposals based upon their assessment of our financial, regulatory or intellectual property positions. Even if we successfully establish new collaborations, these relationships may never result in the successful development or commercialization of product candidates or the generation of sales revenue. To the extent that we enter into collaborative arrangements, the related product revenues that might follow are likely to be lower than if we directly marketed and sold products.

Such collaborators may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on, and such collaborations could be more attractive than the one with us for any future product candidate.

Management of our relationships with collaborators will require:

- significant time and effort from our management team;
- coordination of our marketing and R&D programs with the respective marketing and R&D priorities of our collaborators; and
- effective allocation of our resources to multiple projects.

The contractual provisions we may be forced to agree upon in services, manufacturing, supply and other agreements may be inordinately one-sided, vis-à-vis current or historical standard market terms (especially as pertains contractual liability and indemnification paradigms), and as a result we may be subject to liabilities that are not attributable to our own actions or the actions of our personnel.

There is a finite number of service providers who can perform the services or produce the materials or product candidates that we need, and we therefore often have a limited number of options in choosing such service providers. The standard market terms in many of the agreements into which we customarily enter with such service providers are subject to evolution over time, often-times in favor of our counterparties. Also, some such agreements are “adhesion contracts” under which our contractual counterparties refuse to entertain any modifications to their template documentation. One area where service providers often have and exert leverage over us is the negotiation of liability language – specifically in broadly scoped indemnification by us of service providers and/or the application of liability damages “caps” to certain of such service providers’ indemnification obligations. In any circumstance where we’ve been compelled to agree to such language, it is conceivable that we will be liable to third parties for liabilities in excess of such caps that are attributable to the actions, forbearances and/or culpability of such service providers and their indemnitees (and not to those of us and our personnel).

Risks Pertaining to Intellectual Property and Potential Disputes with Licensors Thereof

If we are unable to obtain and maintain sufficient patent protection for our technology and products, our competitors could develop and commercialize technology and products similar or identical to ours, and our ability to successfully commercialize our technology and products may be impaired.

Our success depends, in large part, on our ability to obtain patent protection for our product candidates and their formulations and uses. The patent application process is subject to numerous risks and uncertainties, and there can be no assurance that we will be successful in obtaining patents or what the scope of an issued patent may ultimately be. These risks and uncertainties include, but are not necessarily limited to, the following:

- patent applications may not result in any patents being issued, or the scope of issued patents may not extend to competitive product candidates and their formulations and uses developed or produced by others;
- our competitors, many of which have substantially greater resources than we or our partners do, and many of which have made significant investments in competing technologies, may seek, or may already have obtained, patents that may limit or interfere with our abilities to make, use, and sell potential product candidates, file new patent applications, or may affect any pending patent applications that we may have;
- there may be significant pressure on the U.S. government and other international governmental bodies to limit the scope of patent protection both inside and outside the United States for disease treatments that prove successful as a matter of public policy regarding worldwide health concerns; and
- countries other than the United States may have patent laws less favorable to patentees than those upheld by U.S. courts, allowing foreign competitors a better opportunity to create, develop and market competing products.

In addition, patents that may be issued or in-licensed may be challenged, invalidated, modified, revoked, circumvented, found to be unenforceable, or otherwise may not provide any competitive advantage. Moreover, we may be subject to a third-party pre-issuance submission of prior art to the PTO, or become involved in opposition, derivation, reexamination, *inter partes* review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. The costs of these proceedings could be substantial, and it is possible that our efforts to establish priority of invention would be unsuccessful, resulting in a material adverse effect on our US patent positions. An adverse determination in any such submission, patent office trial, proceeding or litigation could reduce the scope of, render unenforceable, or invalidate, our patent rights, allow third parties to commercialize our technologies or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Third parties are often responsible for maintaining patent protection for our product candidates, at our and their expense. If that party fails to appropriately prosecute and maintain patent protection for a product candidate, our abilities to develop and commercialize products may be adversely affected, and we may not be able to prevent competitors from making, using and selling competing products. Such a failure to properly protect intellectual property rights relating to any of our product candidates could have a material adverse effect on our financial condition and results of operations.

In addition, U.S. patent laws may change, which could prevent or limit us from filing patent applications or patent claims to protect products and/or technologies or limit the exclusivity periods that are available to patent holders, as well as affect the validity, enforceability, or scope of issued patents.

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We and our licensors also rely on trade secrets and proprietary know-how to protect product candidates. Although we have taken steps to protect our and their trade secrets and unpatented know-how, including entering into confidentiality and non-use agreements with third parties, and proprietary information and invention assignment agreements with employees, consultants and advisers, third parties may still come upon this same or similar information independently. Despite these efforts, any of these parties may also breach the agreements and may unintentionally or willfully disclose our or our licensors' proprietary information, including our trade secrets, and we may not be able to identify such breaches or obtain adequate remedies. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. Moreover, if any of our or our licensors' trade secrets were to be lawfully obtained or independently developed by a competitor, we and our licensors would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our or our licensors' trade secrets were to be disclosed to or independently developed by a competitor, our competitive positions would be harmed.

The patent prosecution process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify any patentable aspects of our research and development output and methodology, and, even if we do, an opportunity to obtain patent protection may have passed. Given the uncertain and time-consuming process of filing patent applications and prosecuting them, it is possible that our product(s) or process(es) originally covered by the scope of the patent application may have changed or been modified, leaving our product(s) or process(es) without patent protection. If our licensors or we fail to obtain or maintain patent protection or trade secret protection for one or more product candidates or any future product candidate we may license or acquire, third parties may be able to leverage our proprietary information and products without risk of infringement, which could impair our ability to compete in the market and adversely affect our ability to generate revenues and achieve profitability. Moreover, should we enter into other collaborations we may be required to consult with or cede control to collaborators regarding the prosecution, maintenance and enforcement of licensed patents. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. In addition, no consistent policy regarding the breadth of claims allowed in pharmaceutical or biotechnology patents has emerged to date in the US. The patent situation outside the US is even more uncertain. The laws of foreign countries may not protect our rights to the same extent as the laws of the US, and we may fail to seek or obtain patent protection in all major markets. For example, European patent law restricts the patentability of methods of treatment of the human body more than US law does. We might also become involved in derivation proceedings in the event that a third party misappropriates one or more of our inventions and files their own patent application directed to such one or more inventions. The costs of these proceedings could be substantial, and it is possible that our efforts to establish priority of invention (or that a third party derived an invention from us) would be unsuccessful, resulting in a material adverse effect on our US patent position. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain.

Our pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the US and other countries may diminish the value of our patents or narrow the scope of our patent protection. For example, the federal courts of the US have taken an increasingly dim view of the patent eligibility of certain subject matter, such as naturally occurring nucleic acid sequences, amino acid sequences and certain methods of utilizing same, which include their detection in a biological sample and diagnostic conclusions arising from their detection.

Such subject matter, which had long been a staple of the biotechnology and biopharmaceutical industry to protect their discoveries, is now considered, with few exceptions, ineligible in the first instance for protection under the patent laws of the US. Accordingly, we cannot predict the breadth of claims that may be allowed and remain enforceable in our patents or in those licensed from a third party.

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Recent patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to United States patent law. These include changes to transition from a “first-to-invent” system to a “first inventor-to-file” system and to the way issued patents are challenged. The formation of the Patent Trial and Appeal Board now provides a less burdensome, quicker and less expensive process for challenging issued patents. The PTO recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first inventor-to-file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner.

We also may rely on the regulatory period of market exclusivity for any of our biologic product candidates that are successfully developed and approved for commercialization. Although this period in the United States is generally 12 years from the date of marketing approval (depending on the nature of the specific product), there is a risk that the U.S. Congress could amend laws to significantly shorten this exclusivity period. Once any regulatory period of exclusivity expires, depending on the status of our patent coverage and the nature of the product, we may not be able to prevent others from marketing products that are biosimilar to or interchangeable with our products, which would materially adversely affect our business.

If we or our licensors are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.

Our success also depends on our ability, and the abilities of any of our respective current or future collaborators, to develop, manufacture, market and sell product candidates without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are developing products, some of which may be directed at claims that overlap with the subject matter of our or our licensors’ intellectual property. Because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our product candidates or proprietary technologies may infringe. Similarly, there may be issued patents relevant to our product candidates of which we or our licensors are not aware. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the US and other jurisdictions are typically not published until 18 months after a first filing, or in some cases not at all. Therefore, we cannot know with certainty whether we or such licensors were the first to make the inventions claimed in patents or pending patent applications that we own or licensed, or that we and our licensors were the first to file for patent protection of such inventions. In the event that a third party has also filed a US patent application relating to our product candidates or a similar invention, depending upon the priority dates claimed by the competing parties, we may have to participate in interference proceedings declared by the PTO to determine priority of invention in the US. The costs of these proceedings could be substantial, and it is possible that our efforts to establish priority of invention would be unsuccessful, resulting in a material adverse effect on our U.S. patent position. As a result, the issuance, scope, validity, enforceability and commercial value of our or any of our licensors’ patent rights are highly uncertain.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and biopharmaceutical industries generally. If a third party claims that we or any of our licensors, suppliers or collaborators infringe the third party’s intellectual property rights, we may have to, among other things:

- obtain additional licenses, which may not be available on commercially reasonable terms, if at all;
- abandon an infringing product candidate or redesign products or processes to avoid infringement, which may demand substantial funds, time and resources and which may result in inferior or less desirable processes and/or products;
- pay substantial damages, including the possibility of treble damages and attorneys’ fees, if a court decides that the product or proprietary technology at issue infringes on or violates the third party’s rights;
- pay substantial royalties, fees and/or grant cross-licenses to our product candidates; and/or

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- defend litigation or administrative proceedings which may be costly regardless of outcome, and which could result in a substantial diversion of financial and management resources.

We may be involved in lawsuits to protect or enforce our patents or the patents of licensors, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our or our licensors' patents. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. Any claims we assert against accused infringers could provoke these parties to assert counterclaims against us alleging invalidity of our or our licensors' patents or that we infringe their patents; or provoke those parties to petition the PTO to institute *inter partes* review against the asserted patents, which may lead to a finding that all or some of the claims of the patent are invalid. In addition, in a patent infringement proceeding, a court may decide that a patent of ours or our licensor's is invalid or unenforceable, in whole or in part, construe the patent's claims narrowly or refuse to stop the other party from using the technology at issue on the grounds that our or our licensors' patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated, found to be unenforceable, or interpreted narrowly and could likewise put pending patent applications at risk of not issuing. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

We in-license from third parties a majority of the intellectual property needed to develop and commercialize products and product candidates. As such, any dispute with the licensors or non-performance of such license agreements may adversely affect our ability to develop and commercialize the applicable product candidates.

The patents, patent applications and other intellectual property rights underpinning the vast majority of our existing product candidates were in-licensed from third parties. Under the terms of such license agreements, the licensors generally have the right to terminate such agreements in the event of a material breach. The licenses require us to make annual, milestone or other payments prior to commercialization of any product, and our ability to make these payments depends on the ability to generate cash in the future. These license agreements also generally require the use of diligent and reasonable efforts to develop and commercialize product candidates.

If there is any conflict, dispute, disagreement or issue of non-performance between us or one of our partners, on the one hand, and the respective licensing partner, on the other hand, regarding the rights or obligations under the license agreements, including any conflict, dispute or disagreement arising from a failure to satisfy payment obligations under such agreements, the ability to develop and commercialize the affected product candidate may be adversely affected.

The types of disputes that may arise between us and the third parties from whom we license intellectual property include, but are not necessarily limited to:

- the scope of rights granted under such license agreements and other interpretation-related issues;
- the extent to which our technologies and processes infringe on intellectual property of the licensor that is not subject to such license agreements;
- the scope and interpretation of the representations and warranties made to us by our licensors, including those pertaining to the licensors' right title and interest in the licensed technology and the licensors' right to grant the licenses contemplated by such agreements;
- the sublicensing of patent and other rights under our license agreements and/or collaborative development relationships, and the rights and obligations associated with such sublicensing, including whether or not a given transaction constitutes a sublicense under such license agreement;
- the diligence and development obligations under license agreements (which may include specific diligence milestones) and what activities or achievements satisfy those diligence obligations;
- whether or not the milestones associated with certain milestone payment obligations have been achieved or satisfied;
- the applicability or scope of indemnification claims or obligations under such license agreements;

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- the permissibility and advisability of, and strategy regarding, the pursuit of potential third-party infringers of the intellectual property that is the subject of such license agreements;
- the calculation of royalty, milestone, sublicense revenue and other payment obligations under such license agreements;
- the extent to which rights, if any, are retained by licensors under such license agreements;
- whether or not a material breach has occurred under such license agreements and the extent to which such breach, if deemed to have occurred, is or can be cured within applicable cure periods, if any;
- disputes regarding patent filing and prosecution decisions, as well as payment obligations regarding past and ongoing patent expenses;
- intellectual property rights resulting from the joint creation or use of intellectual property (including improvements made to licensed intellectual property) by our and our partners' licensors and us and our partners; and
- the priority of invention of patented technology.

In addition, the agreements under which we currently license intellectual property or technology from third parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations or may conflict in such a way that puts us in breach of one or more agreements, which would make us susceptible to lengthy and expensive disputes with one or more of such third-party licensing partners. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreements, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects. Moreover, if disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates, which could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Risks Pertaining to the Commercialization of Product Candidates

If any of our product candidates are successfully developed and receive regulatory approval but do not achieve broad market acceptance among physicians, patients, healthcare payors and the medical community, the revenues that any such product candidates, if approved, generate from sales will be limited.

Even if our product candidates receive regulatory approval, they may not gain market acceptance among physicians, patients, healthcare payors and the medical community. Coverage and reimbursement of our product candidates, if approved, by third-party payors, including government payors, generally would also be necessary for commercial success. The degree of market acceptance of any approved products would depend on a number of factors, including, but not necessarily limited to:

- the efficacy and safety as demonstrated in clinical trials;
- the timing of market introduction of such products as well as competitive products;
- the clinical indications for which the product is approved;
- acceptance by physicians, major operators of hospitals and clinics and patients of the product as a safe and effective treatment;
- the potential and perceived advantages of such products over alternative treatments;
- the safety of such products in a broader patient group (i.e., based on actual use);
- the availability, cost and benefits of treatment, in relation to alternative treatments;
- the availability of adequate reimbursement and pricing by third parties and government authorities;

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- changes in regulatory requirements by government authorities for such products;
- the product labeling or product insert required by the FDA or regulatory authority in other countries, including any contradictions, warnings, drug interactions, or other precautions;
- changes in the standard of care for the targeted indications for our product candidate or future product candidates, which could reduce the marketing impact of any labeling or marketing claims that we could make following FDA approval;
- relative convenience and ease of administration;
- the prevalence and severity of side effects and adverse events;
- the effectiveness of our sales and marketing efforts; and
- unfavorable publicity relating to the product.

If any product candidate is approved but does not achieve an adequate level of acceptance by physicians, hospitals, healthcare payors and patients, we may not generate sufficient revenue from these products and in turn we may not become or remain profitable. In addition, our efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

Even if approved, any product candidates that we may develop and market may be later withdrawn from the market or subject to promotional limitations.

We may not be able to obtain the desired labeling claims or scheduling classifications necessary or desirable for the promotion of our marketed products (or our product candidates if approved). We may also be required to undertake post-marketing clinical trials. If the results of such post-marketing studies are not satisfactory or if adverse events or other safety issues arise after approval while our products are on the market, the FDA or a comparable regulatory authority in another jurisdiction may withdraw marketing authorization or may condition continued marketing on commitments from us that may be expensive and/or time consuming to complete. In addition, if manufacturing problems occur, regulatory approval may be impacted or withdrawn and reformulation of our products, additional clinical trials, changes in labeling of our products and additional marketing applications may be required. Any reformulation or labeling changes may limit the marketability of such products if approved.

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for one or more of our product candidates or a future product candidate we may license or acquire and may have to limit their commercialization, if approved.

The use of one or more of our product candidates and any future product candidate we may license or acquire in clinical trials and the sale of any products for which we obtain marketing approval expose us to the risk of product liability claims. For example, we may be sued if any product candidate or product we develop, license, or acquire allegedly causes injury or is found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product candidate or product, negligence, strict liability or a breach of warranties. Product liability claims might be brought against us by consumers, health care providers or others using, administering or selling our products. If we cannot successfully defend ourselves against these claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- withdrawal of clinical trial participants;
- suspension or termination of clinical trial sites or entire trial programs;
- decreased demand for any product candidates or products that we may develop, license or acquire;
- initiation of investigations by regulators;
- impairment of our business reputation;

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- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- loss of revenues;
- reduced resources of our management to pursue our business strategy; and
- the ability to commercialize our product candidate or future product candidates.

We will obtain limited product liability insurance coverage for all of our upcoming clinical trials. However, our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. When needed we intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for one or more of our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

Additionally, we have entered into various agreements under which we indemnify third parties for certain claims relating to product candidates. These indemnification obligations may require us to pay significant sums of money for claims that are covered by these indemnifications.

Any product for which we obtain marketing approval could be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements or if we experience unanticipated problems with products, when and if any of them are approved.

Any product for which we obtain marketing approval, along with the authorized manufacturing facilities, processes and equipment, post-approval clinical data, labeling, advertising and promotional activities for such product, will remain subject to ongoing regulatory requirements governing drug or biological products, as well as review by the FDA and comparable regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration requirements, cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping, and requirements regarding company presentations and interactions with healthcare professionals. Even if we obtain regulatory approval for a product, the approval may be subject to limitations on the indicated uses for which the product may be marketed or subject to conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product.

We also may be subject to state laws and registration requirements covering the distribution of drug products. Later discovery of previously unknown problems with products, manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in actions such as:

- restrictions on product manufacturing, distribution or use;
- restrictions on the labeling or marketing of a product;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters, untitled letters, or Form 483s;
- recalls or other withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- fines;

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- suspension or withdrawal of marketing or regulatory approvals;
- refusal to permit the import or export of products;
- product seizure or detentions;
- injunctions or the imposition of civil or criminal penalties; and
- adverse publicity.

If we or our suppliers, third-party contractors, clinical investigators or collaborators are slow to adapt, or are unable to adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements or policies, we or our collaborators may be subject to the actions listed above, including losing marketing approval for product candidates when and if any of them are approved, resulting in decreased revenue from milestones, product sales or royalties, which would have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Securities to decline.

We will need to obtain FDA approval of any proposed product brand names, and any failure or delay associated with such approval may adversely impact our business.

A pharmaceutical product cannot be marketed in the U.S. or other countries until the relevant governmental authority has completed a rigorous and extensive regulatory review process, including approval of a brand name. Any brand names we intend to use for our product candidates in the U.S. will require approval from the FDA regardless of whether we have secured a formal trademark registration from the PTO. The FDA typically conducts a review of proposed product brand names, including an evaluation of potential for confusion with other product names. The FDA may also object to a product brand name if it believes the name inappropriately implies medical claims. If the FDA objects to any of our proposed product brand names, we may be required to adopt an alternative brand name for our product candidates. If we adopt an alternative brand name, we could lose the benefit of our existing trademark applications for such product candidate and may be required to expend significant additional resources in an effort to identify a suitable product brand name that would qualify under applicable trademark laws, not infringe the existing rights of third parties and be acceptable to the FDA. We may be unable to build a successful brand identity for a new trademark in a timely manner or at all, which would limit our ability to commercialize our product candidates.

Risks Pertaining to Legislation and Regulation Affecting the Biopharmaceutical and Other Industries

Our current and future relationships with customers and third-party payors in the United States and elsewhere may be subject, directly or indirectly, to applicable anti-kickback, fraud and abuse, false claims, transparency, health information privacy and security and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors in the U.S. and elsewhere play a primary role in the recommendation and prescription of our product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations, including, without limitation, the federal Anti-Kickback Statute and the federal False Claims Act, which may constrain the business or financial arrangements and relationships through which we sell, market and distribute any product candidates for which we obtain marketing approval. In addition, we may be subject to transparency laws and patient privacy regulation by the federal and state governments and by governments in foreign jurisdictions in which we conduct our business. The applicable federal, state and foreign healthcare laws and regulations that may affect our ability to operate include, but are not necessarily limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under federal and state healthcare programs, such as Medicare and Medicaid;

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- federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, which impose criminal and civil penalties, including civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government; the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which impose obligations on covered healthcare providers, health plans, and healthcare clearinghouses, as well as their business associates that create, receive, maintain or transmit individually identifiable health information for or on behalf of a covered entity, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the federal Open Payments program, which requires manufacturers of certain drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to “payments or other transfers of value” made to “covered recipients,” which include physicians (defined to include doctors, dentists, optometrists, podiatrists, chiropractors, physician assistants, nurse practitioners, clinical nurse specialists, certified nurse anesthetists, certified nurse-midwives and teaching hospitals) and applicable manufacturers. Applicable group purchasing organizations also are required to report annually to CMS the ownership and investment interests held by the physicians and their immediate family members. The SUPPORT for Patients and Communities Act added to the definition of covered recipient practitioners including physician assistants, nurse practitioners, clinical nurse specialists, certified registered nurse anesthetists and certified nurse-midwives effective in 2022; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry’s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers; state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations, which could have a material adverse effect on our businesses. If any of the physicians or other healthcare providers or entities with whom we expect to do business, including our collaborators, is found not to be in compliance with applicable laws, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government healthcare programs, which could also materially affect our businesses.

As we continue to execute our growth strategy, we may be subject to further government regulation which could adversely affect our financial results, including without limitation the Investment Company Act of 1940.

If we engage in business combinations and other transactions that result in holding minority or non-control investment interests in a number of entities, we may become subject to regulation under the Investment Company Act of 1940, as amended (the “Investment Company Act”). If we do become subject to the Investment Company Act, we would be required to register as an investment company and could be expected to incur significant registration and compliance costs in the future.

General and Other Risks

Our business and operations would suffer in the event of computer system failures, cyber-attacks, or deficiencies in our or third parties' cybersecurity.

We are increasingly dependent upon information technology systems, infrastructure, and data to operate our business. In the ordinary course of business, we collect, store, and transmit confidential information, including, but not limited to, information related to our intellectual property and proprietary business information, personal information, and other confidential information. It is critical that we maintain such confidential information in a manner that preserves its confidentiality, availability and integrity. Furthermore, we have outsourced elements of our operations to third party vendors, who each have access to our confidential information, which increases our disclosure risk.

We are in the process of implementing our internal security and business continuity measures and developing our information technology infrastructure. Our internal computer systems and those of current and future third parties on which we rely may fail and are vulnerable to damage from computer viruses and unauthorized access. Our information technology and other internal infrastructure systems, including corporate firewalls, servers, third-party software, data center facilities, lab equipment, and connection to the internet, face the risk of breakdown or other damage or interruption from service interruptions, system malfunctions, natural disasters, terrorism, war, and telecommunication and electrical failures, as well as security breaches from inadvertent or intentional actions by our employees, contractors, consultants, business partners, and/or other third parties, or from cyber-attacks by malicious third parties (including the deployment of harmful malware and other malicious code, ransomware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information), each of which could compromise our system infrastructure or lead to the loss, destruction, alteration, disclosure, or dissemination of, or damage or unauthorized access to, our data or data that is processed or maintained on our behalf, or other assets.

If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our development programs and our business operations, and could result in financial, legal, business, and reputational harm to us. For example, in 2021, our partner company Journey was the victim of a cybersecurity incident that affected its accounts payable function and led to approximately \$9.5 million in wire transfers being misdirected to fraudulent accounts. The details of the incident and its origin were investigated with the assistance of third-party cybersecurity experts working at the direction of legal counsel. The matter was reported to the Federal Bureau of Investigation and does not appear to have compromised any personally identifiable information or protected health information. The federal government has been able to seize a significant amount of cryptocurrency assets associated with the breach. Once the cryptocurrency has been converted back into U.S. dollars, Journey expects to receive a notification letter to initiate the return of the cash. This process could take as long as six months or more to complete. Fortress and Journey may incur additional expenses and losses as a result of this cybersecurity incident, including those related to investigation fees and remediation costs.

In addition, the loss or corruption of, or other damage to, clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Likewise, we rely on third parties for the manufacture of our drug candidates or any future drug candidates and to conduct clinical trials, and similar events relating to their systems and operations could also have a material adverse effect on our business and lead to regulatory agency actions. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. Sophisticated cyber attackers (including foreign adversaries engaged in industrial espionage) are skilled at adapting to existing security technology and developing new methods of gaining access to organizations' sensitive business data, which could result in the loss of proprietary information, including trade secrets. We may not be able to anticipate all types of security threats, and we may not be able to implement preventive measures effective against all such security threats. The techniques used by cyber criminals change frequently, may not be recognized until launched, and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations, or hostile foreign governments or agencies.

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Any security breach or other event leading to the loss or damage to, or unauthorized access, use, alteration, disclosure, or dissemination of, personal information, including personal information regarding clinical trial subjects, contractors, directors, or employees, our intellectual property, proprietary business information, or other confidential or proprietary information, could directly harm our reputation, enable competitors to compete with us more effectively, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, or otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information. Each of the foregoing could result in significant legal and financial exposure and reputational damage that could adversely affect our business. Notifications and follow-up actions related to a security incident could impact our reputation or cause us to incur substantial costs, including legal and remediation costs, in connection with these measures and otherwise in connection with any actual or suspected security breach. We expect to incur significant costs in an effort to detect and prevent security incidents and otherwise implement our internal security and business continuity measures, and actual, potential, or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. We may face increased costs and find it necessary or appropriate to expend substantial resources in the event of an actual or perceived security breach.

The costs related to significant security breaches or disruptions could be material, and our insurance policies may not be adequate to compensate us for the potential losses arising from any such disruption in, or failure or security breach of, our systems or third-party systems where information important to our business operations or commercial development is stored or processed. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance may not cover all claims made against us and could have high deductibles in any event, and defending a suit, regardless of its merit, could be costly and divert management attention. Furthermore, if the information technology systems of our third-party vendors and other contractors and consultants become subject to disruptions or security breaches, we may have insufficient recourse against such third parties and we may have to expend significant resources to mitigate the impact of such an event, and to develop and implement protections to prevent future events of this nature from occurring.

We may not be able to hire or retain key officers or employees needed to implement our business strategy and develop products and businesses.

Our success depends on the continued contributions of our executive officers, financial, scientific, and technical personnel and consultants, and on our ability to attract additional personnel as we continue to implement growth strategies and acquire and invest in companies with varied businesses. During our operating history, many essential responsibilities have been assigned to a relatively small number of individuals. However, as we continue to implement our growth strategy, the demands on our key employees will expand, and we will need to recruit additional qualified employees. The competition for such qualified personnel is intense, and the loss of services of certain key personnel, or our inability to attract additional personnel to fill critical positions, could adversely affect our business.

We currently depend heavily upon the efforts and abilities of our management team and the management teams of our partners. The loss or unavailability of the services of any of these individuals could have a material adverse effect on our business, prospects, financial condition and results. In addition, we have not obtained, do not own, and are not the beneficiary of key-person life insurance for any of our key personnel. We only maintain a limited amount of directors' and officers' liability insurance coverage. There can be no assurance that this coverage will be sufficient to cover the costs of the events that may occur, in which case, there could be a substantial impact on our ability to continue operations.

Our employees, consultants, or third-party partners may engage in misconduct or other improper activities, including but not necessarily limited to noncompliance with regulatory standards and requirements or internal procedures, policies or agreements to which such employees, consultants and partners are subject, any of which could have a material adverse effect on our business.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees, consultants, or third-party partners could include intentional failures to comply with FDA regulations, provide accurate information to the FDA, comply with cGMPs, comply with federal and state healthcare fraud and abuse laws and regulations, report financial information or data accurately, comply with internal procedures, policies or agreements to which such employees, consultants or partners are subject, or disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee, consultant, or third-party misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation, as well as civil and criminal liability. The precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant fines or other civil and/or criminal sanctions.

We receive a large amount of proprietary information from potential or existing licensors of intellectual property and potential acquisition target companies, all pursuant to confidentiality agreements. The confidentiality and proprietary invention assignment agreements that we have in place with each of our employees and consultants prohibit the unauthorized disclosure of such information, but such employees or consultants may nonetheless disclose such information through negligence or willful misconduct. Any such unauthorized disclosures could subject us to monetary damages and/or injunctive or equitable relief. The notes, analyses and memoranda that we have generated based on such information are also valuable to our businesses, and the unauthorized disclosure or misappropriation of such materials by our employees and consultants could significantly harm our strategic initiatives – especially if such disclosures are made to our competitor companies.

We may be subject to claims that our employees and/or consultants have wrongfully used or disclosed to us alleged trade secrets of their former employers or other clients.

As is common in the biopharmaceutical industry, we rely on employees and consultants to assist in the development of product candidates, many of whom were previously employed at, or may have previously been or are currently providing consulting services to, other biopharmaceutical companies, including our competitors or potential competitors. We may become subject to claims related to whether these individuals have inadvertently or otherwise used, disclosed or misappropriated trade secrets or other proprietary information of their former employers or their former or current clients. Litigation may be necessary to defend against these claims. Even if we are successful in defending these claims, litigation could result in substantial costs and be a distraction to management and/or the employees or consultants that are implicated.

The market price of our securities may be volatile and may fluctuate in a way that is disproportionate to our operating performance.

The stock prices of our securities may experience substantial volatility as a result of a number of factors, including, but not necessarily limited to:

- announcements we make regarding our current product candidates, acquisition of potential new product candidates and companies and/or in-licensing through multiple partners/affiliates;
- sales or potential sales of substantial amounts of our Common Stock;
- issuance of debt or other securities;
- our delay or failure in initiating or completing pre-clinical or clinical trials or unsatisfactory results of any of these trials;
- announcements about us or about our competitors, including clinical trial results, regulatory approvals or new product introductions;

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- developments concerning our licensors and/or product manufacturers;
- litigation and other developments relating to our patents or other proprietary rights or those of our competitors;
- conditions in the pharmaceutical or biotechnology industries;
- governmental regulation and legislation;
- unstable regional political and economic conditions;
- variations in our anticipated or actual operating results; and
- change in securities analysts' estimates of our performance, or our failure to meet analysts' expectations.

Many of these factors are beyond our control. The stock markets in general, and the market for pharmaceutical and biotechnological companies in particular, have historically experienced extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors could reduce the market prices of our securities, regardless of our actual operating performance.

Sales or other issuances of a substantial number of shares of our Common Stock, or the perception that such sales or issuances may occur, may adversely impact the price of our Common Stock.

Almost all of our outstanding shares of our Common Stock, inclusive of outstanding equity awards, are available for sale in the public market, either pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), or an effective registration statement. In addition, pursuant to our current shelf registration statements on Form S-3, from time to time we may issue and sell shares of our Common Stock or Series A Preferred Stock having an aggregate offering price of up to \$100.1 million. Any sale of a substantial number of shares of our Common Stock or our Series A Preferred Stock could cause a drop in the trading price of our Common Stock or Series A Preferred Stock on the Nasdaq Stock Market.

We may not be able to manage our anticipated growth, which may in turn adversely impact our business.

We will need to continue to expend capital on improving our infrastructure to address our anticipated growth. Acquisitions of companies or products could place a strain on our management, and administrative, operational and financial systems. In addition, we may need to hire, train, and manage more employees, focusing on their integration with us and corporate culture. Integration and management issues associated with increased acquisitions may require a disproportionate amount of our management's time and attention and distract our management from other activities related to running our business.

A catastrophic disaster could damage our facilities beyond insurance limits or cause us to lose key data, which could cause us to curtail or cease operations.

We are vulnerable to damage and/or loss of vital data from natural disasters, such as earthquakes, tornadoes, power loss, fire, health epidemics and pandemics, floods and similar events, as well as from accidental loss or destruction. If any disaster were to occur, our ability to operate our businesses could be seriously impaired. We have property, liability and business interruption insurance that may not be adequate to cover losses resulting from disasters or other similar significant business interruptions, and we do not plan to purchase additional insurance to cover such losses due to the cost of obtaining such coverage. Any significant losses that are not recoverable under our insurance policies could seriously impair our business, financial condition and prospects.

Any of the aforementioned circumstances, may also impede our employees' and consultants' abilities to provide services in-person and/or in a timely manner; hinder our ability to raise funds to finance our operations on favorable terms or at all; and trigger effectiveness of "force majeure" clauses under agreements with respect to which we receive goods and services, or under which we are obligated to achieve developmental milestones on certain timeframes. Disputes with third parties over the applicability of such "force majeure" clauses, or the enforceability of developmental milestones and related extension mechanisms in light of such business interruptions, may arise and may become expensive and time-consuming.

Our ability to use our pre-change NOLs and other pre-change tax attributes to offset post-change taxable income or taxes may be subject to limitation.

We may, from time to time, carry net operating loss carryforwards (“NOLs”) as deferred tax assets on our balance sheet. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change” (generally defined as a greater than 50-percentage-point cumulative change (by value) in the equity ownership of certain stockholders over a rolling three-year period), the corporation’s ability to use all of its pre-change NOLs and other pre-change tax attributes to offset its post-change taxable income or taxes may be limited. We may experience ownership changes in the future as a result of shifts in our stock ownership, some of which changes are outside our control. As a result, our ability to use our pre-change NOLs and other pre-change tax attributes to offset post-change taxable income or taxes may be subject to limitation.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We, and/or third parties on our behalf, may use hazardous materials, including chemicals and biological agents and compounds that could be dangerous to human health and safety or the environment. Our operations may also produce hazardous waste products. Federal, state and local laws and regulations govern the use, generation, manufacture, storage, handling and disposal of these materials and wastes. Compliance with applicable environmental laws and regulations may be expensive, and current or future environmental laws and regulations may impair our product development efforts. In addition, we cannot entirely eliminate the risk of accidental injury or contamination from these materials or wastes. We do not carry specific biological or hazardous waste insurance coverage, and our property and casualty and general liability insurance policies specifically exclude coverage for damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be held liable for damages or penalized with fines in an amount exceeding our respective resources, and clinical trials or regulatory approvals could be suspended.

Although we maintain workers’ compensation insurance to cover costs and expenses incurred due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted in connection with the storage or disposal of biological or hazardous materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Changes in funding for the FDA and other government agencies could hinder their ability to hire and retain key leadership and other personnel, or otherwise prevent new products and services from being developed or commercialized in a timely manner, which could negatively impact our business or the business of our partners.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel, ability to accept the payment of user fees, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of other government agencies that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect our business or the business of our partners. For example, over the last several years, including for 35 days beginning on December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough nonessential FDA employees and stop routine activities. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business.

If the timing of FDA’s review and approval of new products is delayed, the timing of our or our partners’ development process may be delayed, which could result in delayed milestone revenues and materially harm our operations or business.

We will continue to incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives. Also, if we fail to maintain proper and effective internal control over financial reporting in the future, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, investors' views of us and, as a result, the value of our Securities.

As a public company, we incur significant legal, accounting and other expenses under the Sarbanes-Oxley Act ("SOX"), as well as rules subsequently implemented by the SEC, and the rules of the Nasdaq Stock Exchange. These rules impose various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and appropriate corporate governance practices. Our management and other personnel have devoted and will continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

SOX requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. As a result, we are required to periodically perform an evaluation of our internal controls over financial reporting to allow management to report on the effectiveness of those controls, as required by Section 404 of SOX. These efforts to comply with Section 404 and related regulations have required, and continue to require, the commitment of significant financial and managerial resources. While we anticipate maintaining the integrity of our internal controls over financial reporting and all other aspects of Section 404, we cannot be certain that a material weakness will not be identified when we test the effectiveness of our control systems in the future. If a material weakness is identified, we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources, costly litigation or a loss of public confidence in our internal controls, which could have an adverse effect on the market price of our stock.

Provisions in our certificate of incorporation, our bylaws and Delaware law might discourage, delay or prevent a change in control of our Company or changes in our management and, therefore, depress the trading price of our Common Stock or other Securities.

Provisions of our certificate of incorporation, our bylaws and Delaware law may have the effect of deterring unsolicited takeovers and/or delaying or preventing a change in control of our Company or changes in our management, including transactions in which our stockholders might otherwise receive a premium for their shares over then-current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. These provisions include:

- the inability of stockholders to call special meetings; and
- the ability of our Board of Directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could include the right to approve an acquisition or other change in our control or could be used to institute a rights plan, also known as a poison pill, that would work to dilute the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our Board of Directors.

In addition, the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our Common Stock. They could also deter potential acquirers of our Company, thereby reducing the likelihood that you would receive a premium for your ownership of our Securities through an acquisition.

If we fail to comply with the continuing listing standards of Nasdaq, our common stock could be delisted from the exchange.

We have previously failed to satisfy certain continued listing rules of the Nasdaq, including rules requiring that the minimum trading price of our Common Stock not close below \$1.00 per share for 30 consecutive business days. If we again are unable to meet the continued listing requirements, our Common Stock and Preferred Stock may be subject to delisting from The Nasdaq Capital Market if we are unable to regain compliance with such rules. The delisting of our Securities from the Nasdaq may decrease the market liquidity and market price of our Common Stock and Preferred Stock.

Changes in tax laws or regulations that are applied adversely to us may have a material adverse effect on our business, cash flow, financial condition or results of operations.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could adversely affect our business operations and financial performance. For example, the United States recently passed the Inflation Reduction Act, which provides for a minimum tax equal to 15% of the adjusted financial statement income of certain large corporations, as well as a 1% excise tax on certain share buybacks by public corporations that would be imposed on such corporations. In addition, it is uncertain if and to what extent various states will conform to newly enacted federal tax legislation. Changes in corporate tax rates, the realization of net deferred tax assets relating to our operations, the taxation of foreign earnings, and the deductibility of expenses could have a material impact on the value of our deferred tax assets, could result in significant one-time charges, and could increase our future U.S. tax expense.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Index

Exhibit Number	Exhibit Title
3.1	Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. (formerly Coronado Biosciences, Inc.) dated April 21, 2010 (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10 (file No. 000-54463) filed with the SEC on July 15, 2011).
3.2	First Certificate of Amendment of Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated May 20, 2011 (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10 (file No. 000-54463) filed with SEC on July 15, 2011).
3.3	Second Certificate of Amendment of Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated October 1, 2013 (incorporated by reference to Exhibit 3.8 of the Registrant's Annual Report on Form 10-K (file No. 001-35366) filed with SEC on March 14, 2014).

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- [3.4 Third Certificate of Amendment of Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated April 22, 2015 \(incorporated by reference to Exhibit 3.9 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with SEC on April 27, 2015\).](#)
- [3.5 Certificate of Designation of Rights and Preferences of the Fortress Biotech, Inc. 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock \(incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with the SEC on November 7, 2017\).](#)
- [3.6 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated June 18, 2020 \(incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with SEC on June 19, 2020\).](#)
- [3.7 Certificate of Amendment to the Certificate of Designations and Rights and Preferences of the Fortress Biotech, Inc. 9.375% Series A Cumulative Redeemable Perpetual Preferred Stock under the Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated June 18, 2020 \(incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with the SEC on June 19, 2020\).](#)
- [3.8 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated June 23, 2021 \(incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K \(file No. 001-35366\) filed with SEC on June 23, 2021\).](#)
- [3.9 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Fortress Biotech, Inc. dated July 8, 2022 \(incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K \(file No. 001-35366\) filed with SEC on July 11, 2022\).](#)
- [3.10 Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as Amended, of Fortress Biotech, Inc. dated October 9, 2023 \(incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K \(file No. 001-35366\) filed with SEC on October 10, 2023\).](#)
- [3.11 Fourth Amended and Restated Bylaws of the Company \(incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with SEC on June 25, 2024\).](#)
- [10.1 Amendment to the Fortress Biotech, Inc. 2013 Stock Incentive Plan \(incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with the SEC on May 29, 2024\).](#)
- [10.2 Amendment to the Fortress Biotech, Inc. 2012 Employee Stock Purchase Plan \(incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with the SEC on May 29, 2024\).](#)
- [10.3 Amendment to the Fortress Biotech, Inc. Amended and Restated Long Term Incentive Plan \(incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K \(file No. 001-35366\) filed with the SEC on May 29, 2024\).](#)
- [31.1 Certification of Chairman, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \(*\)](#)
- [31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \(*\)](#)
- [32.1 Certification of the Chairman, President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \(**\)](#)
- [32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \(**\)](#)

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101.INS	Inline XBRL Instance Document.(*)
101.SCH	Inline XBRL Taxonomy Extension Schema Document.(*)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.(*)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.(*)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.(*)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.(*)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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.

August 13, 2024

FORTRESS BIOTECH, INC.

By: /s/ Lindsay A. Rosenwald, M.D.
Lindsay A. Rosenwald, M.D., Chairman, President and Chief Executive Officer (Principal Executive Officer)

August 13, 2024

By: /s/ David Jin
David Jin, Chief Financial Officer (Principal Financial Officer)

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

I, Lindsay A. Rosenwald, M.D., certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Fortress Biotech, Inc. (the “Registrant”);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the Registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
- (5) The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: August 13, 2024

By: /s/ Lindsay A. Rosenwald, M.D.
Lindsay A. Rosenwald, M.D.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

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

I, David Jin, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Fortress Biotech, Inc. (the “Registrant”);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the Registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
- (5) The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: August 13, 2024

By: /s/ David Jin
David Jin
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Fortress Biotech, Inc. (the “Company”) for the quarterly period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lindsay A. Rosenwald, M.D., Chairman, President, and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Dated: August 13, 2024

By: /s/ Lindsay A. Rosenwald, M.D.
Lindsay A. Rosenwald, M.D.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Fortress Biotech, Inc. (the "Company") for the quarterly period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Jin, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Dated: August 13, 2024

By: /s/ David Jin
David Jin
Chief Financial Officer
(Principal Financial Officer)
