

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Vallon Pharmaceuticals, Inc.

Form: 10-Q

Date Filed: 2021-05-13

Corporate Issuer CIK: 1824293

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended

March 31, 2021

☐ **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: 001-40034

VALLON PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

82-4369909
(I.R.S. Employer
Identification No.)

100 N. 18th Street, Suite 300,
Philadelphia, PA
(Address of principal executive offices)

19103
(Zip Code)

Registrant's telephone number, including area code: (267)-207-3606

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|--|
| Common Stock, par value \$0.0001 per share | VLON | 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 checked="" type="checkbox"/> | | |

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

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

As of May 13, 2021, 6,812,836 shares of the Registrant's Common Stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on management's beliefs and assumptions and on information currently available to management. Some of the statements in the sections captioned "Part I—Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Quarterly Report contain forward-looking statements. In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," "continue," "ongoing" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements contained in this Quarterly Report include, but are not limited to, statements about:

- the likelihood of our clinical trials and non-clinical studies demonstrating safety and efficacy of our product candidates, and other positive results;
- the timing of initiation of our future clinical trials, and the reporting of data from our completed, current and future preclinical and clinical trials;
- the size of the market opportunity for our product candidates;
- our plans relating to commercializing our product candidates, if approved, including the geographic areas of focus and sales strategy;
- the success of competing therapies that are or may become available;
- our estimates of the number of patients in the United States who suffer from ADHD or narcolepsy and the number of patients that will enroll in our clinical trials;
- the beneficial characteristics, safety and efficacy of our product candidates;
- the timing or likelihood of regulatory filings and approval for our product candidates;
- our ability to obtain and maintain regulatory approval of our product candidates;
- our plans relating to the further development and manufacturing of our product candidates, including ADMIR;
- the expected potential benefits of strategic collaborations with third parties, including MEDICE Arzneimittel Putter GmbH & Co. KG ("Medice"), which is affiliated with one of our principal stockholders, Salmon Pharma, and represented by one member of our board of directors, and our ability to attract collaborators with development, regulatory and commercialization expertise;
- existing regulations and regulatory developments in the United States, the European Union, and other geographic territories;
- our plans and ability to obtain or protect intellectual property rights, including extensions of existing patent terms where available;
- our continued reliance on third parties to conduct additional clinical trials of our product candidates, and for the manufacture of our product candidates for preclinical studies and clinical trials;
- the need to hire additional personnel, and our ability to attract and retain such personnel;
- the accuracy of our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our financial performance;

- the sufficiency of our existing capital resources to fund our future operating expenses and capital expenditure requirements;
- the impacts of the COVID-19 pandemic on our operations;
- our expectations regarding the period during which we will qualify as an emerging growth company under the JOBS Act; and
- our ability to maintain the listing of our common stock on The Nasdaq Capital Market.

Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we have based these forward-looking statements largely on our current expectations and projections about our business, the industry in which we operate and financial trends that we believe may affect our business, financial condition, results of operations and prospects, and these forward-looking statements are not guarantees of future performance or development. You should refer to the “Risk Factors” section of this Quarterly Report for a discussion of other important factors that may cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. If the forward-looking statements prove to be inaccurate; the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. The forward-looking statements in this Quarterly Report represents our views as of the date of this Quarterly Report. We anticipate that subsequent events and developments will cause our views to change, however, except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein until after we distribute this Quarterly Report, whether as a result of any new information, future events or otherwise. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report.

This Quarterly Report includes trademarks and registered trademarks of Vallon Pharmaceuticals, Inc. Products or service names of other companies mentioned in this Quarterly Report may be trademarks or registered trademarks of their respective owners.

As used in this Quarterly Report, unless the context requires otherwise, the “Company,” “we,” “us” and “our” refer to Vallon Pharmaceuticals, Inc.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Vallon Pharmaceuticals, Inc. **Balance Sheets** **(in thousands, except share and per share amounts)**

| | March 31, 2021 | December 31, 2020 |
|---|-----------------------|--------------------------|
| Assets | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,980 | \$ 109 |
| Prepaid expenses and other current assets | 1,358 | 565 |
| Total current assets | 14,338 | 674 |
| Finance lease right-of-use asset, net | 261 | 279 |
| Property and equipment, net | 1 | 2 |
| Total assets | \$ 14,600 | \$ 955 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,347 | \$ 1,226 |
| Accrued expenses | 985 | 847 |
| Note payable, current | — | 47 |
| Finance lease liability, current | 95 | 105 |
| Total current liabilities | 2,427 | 2,225 |
| Note payable, non-current | — | 14 |
| Finance lease liabilities, non-current | 146 | 170 |
| Total liabilities | 2,573 | 2,409 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' equity (deficit): | | |
| Common stock, \$0.0001 par value; 250,000,000 shares authorized as of March 31, 2021 and December 31, 2020; 6,812,836 and 4,506,216 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively, which gives retroactive effect to the one-for-40 reverse stock split. See Note 1 to these financial statements. | — | — |
| Additional paid-in-capital | 27,264 | 11,145 |
| Accumulated deficit | (15,237) | (12,599) |
| Total stockholders' equity (deficit) | 12,027 | (1,454) |
| Total liabilities and stockholders' equity (deficit) | \$ 14,600 | \$ 955 |

See accompanying notes to these financial statements.

Vallon Pharmaceuticals, Inc.
Statements of Operations
(unaudited)
(in thousands, except share and per share amounts)

| | For the Three Months Ended March 31, 2021 | For the Three Months Ended March 31, 2020 |
|---|--|--|
| License revenue-related party | \$ — | \$ 100 |
| Operating expenses: | | |
| Research and development | 1,772 | 883 |
| General and administrative | 830 | 375 |
| Total operating expenses | <u>2,602</u> | <u>1,258</u> |
| Loss from operations | (2,602) | (1,158) |
| Other income | 61 | — |
| Revaluation of derivative liability | (89) | — |
| Interest expense, net | (8) | (2) |
| Net loss attributable to common stockholders | <u>\$ (2,638)</u> | <u>\$ (1,160)</u> |
| Net loss per share attributable to common stockholders, basic and diluted | <u>\$ (0.46)</u> | <u>\$ (0.26)</u> |
| Weighted-average common shares outstanding basic and diluted | <u>5,710,270</u> | <u>4,506,216</u> |

See accompanying notes to these financial statements.

Vallon Pharmaceuticals, Inc.
Statements of Stockholders' Equity (Deficit)
(unaudited)
(in thousands, except shares)

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Stockholders' Equity (Deficit) |
|----------------------------------|---------------------|---------------|-----------------------------------|----------------------------|---------------------------------------|
| | Shares (1) | Amount | | | |
| Balance, December 31, 2019 | 4,506,216 | \$ — | \$ 10,991 | \$ (7,777) | \$ (3,214) |
| Stock-based compensation expense | — | — | 35 | — | 35 |
| Net loss | — | — | — | (1,160) | (1,160) |
| Balance, March 31, 2020 | 4,506,216 | \$ — | \$ 11,026 | \$ (8,937) | \$ (2,089) |

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Stockholders' Equity (Deficit) |
|--|---------------------|---------------|-----------------------------------|----------------------------|---------------------------------------|
| | Shares (1) | Amount | | | |
| Balance, December 31, 2020 | 4,506,216 | \$ — | \$ 11,145 | \$ (12,599) | \$ (1,454) |
| Issuance of common stock for convertible notes | 54,906 | — | 439 | — | 439 |
| Issuance of common stock for IPO, net of issuance expenses | 2,250,000 | — | 15,104 | — | 15,104 |
| Issuance of common stock for services | 1,714 | — | 9 | — | 9 |
| Issuance of Underwriters Warrants | — | — | 399 | — | 399 |
| Stock-based compensation | — | — | 168 | — | 168 |
| Net loss | — | — | — | (2,638) | (2,638) |
| Balance, March 31, 2021 | 6,812,836 | \$ — | \$ 27,264 | \$ (15,237) | \$ 12,027 |

(1) The number of shares above give retroactive effect to the one-for-40 reverse stock split. See Note 1 to these financial statements.

See accompanying notes to these financial statements.

Vallon Pharmaceuticals, Inc.
Statements of Cash Flows
(unaudited)
(in thousands)

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | \$ (2,638) | \$ (1,160) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Amortization of finance lease right-of-use asset | 18 | 18 |
| Stock-based compensation expense | 168 | 35 |
| Revaluation of derivative liability | 89 | — |
| Forgiveness of PPP note | (61) | — |
| Non-cash interest, depreciation and other expense | 10 | — |
| Change in operating assets and liabilities: | | |
| Prepaid expenses and other current assets | (793) | (87) |
| Accounts payable | 121 | 200 |
| Accrued expenses | 138 | 226 |
| Net cash used in operating activities | <u>(2,948)</u> | <u>(766)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | — | (2) |
| Net cash used in investing activities | <u>—</u> | <u>(2)</u> |
| Cash flows from financing activities: | | |
| Proceeds from common stock, net of offering expenses | 15,503 | — |
| Proceeds from convertible notes | 350 | — |
| Payment of finance lease liability | (34) | (29) |
| Net cash provided by (used in) financing activities | <u>15,819</u> | <u>(29)</u> |
| Net increase (decrease) increase in cash and cash equivalents | 12,871 | (797) |
| Cash and cash equivalents, at beginning of period | 109 | 3,821 |
| Cash and cash equivalents, at end of period | <u>\$ 12,980</u> | <u>\$ 3,024</u> |
| Supplemental disclosure of cash flows information: | | |
| Interest paid | \$ — | \$ — |
| Noncash financing activities: | | |
| Conversion of convertible notes to common stock | \$ 350 | \$ — |

See accompanying notes to these financial statements.

Vallon Pharmaceuticals, Inc.
Notes to Financial Statements
(unaudited)

NOTE 1 - NATURE OF OPERATIONS, BUSINESS, GOING CONCERN AND LIQUIDITY

Vallon Pharmaceuticals, Inc. (“Vallon” or the “Company”), a Delaware corporation, is a biopharmaceutical company based in Philadelphia, PA, which is focused on the development and commercialization of proprietary biopharmaceutical products. The Company’s only clinical-stage product currently under development is ADAIR, a proprietary, abuse-deterrent oral formulation of immediate-release (short-acting) dextroamphetamine for the treatment of Attention-deficit/hyperactivity disorder, or ADHD, and Narcolepsy. The Company plans to develop other abuse-deterrent products which have potential for abuse in their current forms, beginning with the development of ADMIR, an abuse deterrent formulation of Ritalin, for which the Company is conducting formulation development work.

Vallon Pharmaceuticals, Inc. was incorporated in Delaware on January 11, 2018, which is the date of inception. The Company’s fiscal-year ends on December 31.

Immediately prior to the closing of the initial public offering of the Company’s common stock (the “IPO”) (Note 5), the Company effected a one-for-40 reverse stock split of its common stock. All share and per share amounts, excluding the number of authorized shares and par value, contained in these financial statements and accompanying notes, and this Quarterly Report on Form 10-Q give retroactive effect to the reverse split.

Business Formation:

On November 15, 2017, before the Company’s formation, Amiservice Development Ltd., a BVI corporation (“Amiservice”) entered into an agreement for the purchase of the ADAIR product rights for a payment of \$250,000. The Asset Purchase Agreement (“the APA”), by and between Amiservice and Arcturus Therapeutics Ltd. (“Arcturus”), was subject to several closing conditions. One of the key terms and conditions of the APA was that the purchasers provide funding of at least \$2.75 million towards the development of ADAIR.

On February 11, 2018, Ofir Levi, Chairman of the newly formed Vallon, purchased 196,875 common shares from the Company at par value for \$788. On June 7, 2018, Vallon entered into a stock purchase agreement with several investors pursuant to which Vallon issued 1,771,881 common shares for \$3.0 million (“Private Placement”). Subsequently, on June 22, 2018, the Company executed the amended APA, by and between Arcturus Therapeutics Ltd. Such APA was amended and restated from the initial agreement discussed above, dated as of November 15, 2017. In exchange for the ADAIR product rights, Vallon issued 843,750 common shares to Arcturus, valued at approximately \$1.4 million based upon the price at which the common shares were issued and sold in the Private Placement, which comprised approximately 30% of the then-outstanding common stock of the Company, on a fully diluted basis. In addition, Amiservice signed a consent and release agreement to all rights to the APA in exchange for approximately \$562,000 which represented a reimbursement for expenses Amiservice incurred on Vallon’s behalf in the amount of approximately \$310,000, the repayment of two promissory notes totaling approximately \$192,000 including interest, and approximately \$60,000 of other operating expenses incurred. The assets acquired in the ADAIR acquisition are classified as in-process research and development (“IPR&D”). Accounting for IPR&D assets in an asset acquisition follows the guidance in Accounting Standards Codifications (“ASC”) 730, *Research and Development*, which requires that both tangible and intangible identifiable research and development assets with no alternative future use be allocated a portion of the consideration transferred and charged to expense at the acquisition date. The Company recorded \$1.7 million to research and development expense on June 22, 2018, the date of acquisition, which included \$1.4 million of common shares issued for the acquisition, as well as, the original \$250,000 exclusivity payment and approximately \$60,000 in transaction fees.

Going Concern and Liquidity:

These financial statements have been prepared on the basis that the Company is a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has not generated any significant revenues from operations since inception, and does not expect to do so in the foreseeable future. The Company has incurred operating losses since its inception, and has incurred \$15.2 million in accumulated deficit through March 31, 2021. The Company has financed its working capital requirements to date through the issuance of common stock, convertible notes, short-term promissory notes, and a Paycheck Protection Program ("PPP") promissory note, as described in Note 4.

On January 11, 2021, the Company completed a \$350,000 convertible note financing and on February 12, 2021, the Company completed the IPO, raising net proceeds of \$15.5 million, as described in Note 5. On March 31, 2021, the Company had cash and cash equivalents totaling approximately \$13.0 million which management expects will provide funding for its ongoing business activities into the third quarter of 2022. However, the Company has based this estimate on assumptions that may prove to be wrong, and it could use capital resources sooner than it expects, therefore, there is substantial doubt about the Company's ability to continue as a going concern within one year of the date that these financial statements are being issued.

The Company's ability to continue as a going concern is dependent on its ability to raise additional capital to fund its business activities, including its research and development program. The Company's objective is to develop and commercialize biopharmaceutical products that treat central nervous system disorders, but there can be no assurances that the Company will be successful in this regard. Therefore, the Company intends to raise capital through additional issuances of common stock and /or short-term notes. Furthermore, the Company may not be able to obtain additional financing on acceptable terms and in the amounts necessary to fully fund its future operating requirements. If the Company is unable to obtain sufficient cash resources to fund its operations, it may be forced to reduce or discontinue its operations entirely. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from this uncertainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note B, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on March 29, 2021. There have been no material changes to the significant accounting policies during the period ended March 31, 2021, except for items mentioned below.

[A] Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's financial position at March 31, 2021 and the results of operations, stockholders' equity (deficit) and cash flows for the three months ended March 31, 2021 and 2020. All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company's annual financial statements. Results of operations for the three-month period ended March 31, 2021, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2021.

The balance sheet as of December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP for complete financial statements.

References in this Quarterly Report on Form 10-Q to "authoritative guidance" is to the Accounting Standards Codification issued by the Financial Accounting Standards Board ("FASB").

For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

[B] Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Estimates and assumptions are primarily made in relation to the valuation of share options, the embedded derivative of convertible notes, warrant issuance, valuation allowances relating to deferred tax assets, revenue recognition, accrued expenses and estimation of the incremental borrowing rate for the finance lease. If actual results differ from the Company's estimates, or to the extent these estimates are adjusted in future periods, the Company's results of operations could either benefit from, or be adversely affected by, any such change in estimate.

[C] Stock-based Compensation

The Company recognizes expense for employee and non-employee stock-based compensation in accordance with Accounting Standards Codification ("ASC") Topic 718, *Stock-Based Compensation*. ASC 718 requires that such transactions be accounted for using a fair value-based method. The estimated fair value of the options is amortized over the vesting period, based on the fair value of the options on the date granted, and is calculated using the Black-Scholes option-pricing model. The Company accounts for forfeitures as incurred. In considering the fair value of the underlying stock when the Company granted options, the Company considered several factors including the fair values established by market transactions. Stock option-based compensation includes estimates and judgments of when stock options might be exercised and stock price volatility. The timing of option exercises is out of the Company's control and depends upon a number of factors including the Company's market value and the financial objectives of the option holders. These estimates can have a material impact on the stock compensation expense but will have no impact on the cash flows. The estimation of share-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period the estimates are revised. The stock options granted, other than the 61,250 granted to Mr. Baker described in Note 10[A], as of March 31, 2021 vest primarily upon specified performance milestones. As Mr. Baker's stock option grant was pursuant to milestones associated with an underwritten public offering or a listing on a national stock exchange, management determined that no expense should be recognized for this grant until such time that the milestone becomes probable. The options vested on February 12, 2021, concurrent with the closing of the IPO and thus the expense for such options was recognized in the three months ended March 31, 2021. The Company elected to use the expected term, rather than the contractual term, for both employee and consultant options issued.

[D] Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not discussed below were assessed and determined to be either not applicable or are expected to have minimal impact on these financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principals in Topic 740. The amendments also improve consistent application of and simplify generally accepted accounting principles (GAAP) for other areas of Topic 740 by clarifying and amending the existing guidance. For public business entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period. The adoption of this standard, effective January 1, 2021, did not have a material impact on these financial statements.

NOTE 3 - ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

| | March 31, 2021 | December 31, 2020 |
|---|-------------------|----------------------|
| Payroll and related | \$ 176 | \$ 342 |
| Clinical and preclinical trial and regulatory related | 490 | 137 |
| Chemistry and manufacturing | 154 | 117 |
| Financing related | — | 97 |
| Licensing related | 76 | 81 |
| Other | 89 | 73 |
| Total accrued expenses | <u>\$ 985</u> | <u>\$ 847</u> |

NOTE 4 - PPP NOTE AND CONVERTIBLE NOTES

In May 2020, the Company issued a promissory note under the PPP totaling \$61,000. As of December 31, 2020, the Company had utilized the entire proceeds from such note for payroll costs (greater than 75%), costs related to health care benefits and rent payments and in January 2021, the Company was notified that the loan along with accumulated interest had been forgiven. As the PPP note was forgiven, the Company recorded income from the extinguishment of its obligation in accordance with ASC 405-20-40-1, disclosed in the amount of \$61,000 included in other income on the accompanying Statements of Operations. The Company had accounted for the note under ASC 470. The note had a stated interest rate of 1% and had a two-year maturity. Payments were required to be made over a 1.5-year period beginning November 1, 2020 unless forgiven. The Company did not impute interest on the note as the rate was determined to be a below-market rate due to the scope exception in ASC 835-30-15-3(e) for government-mandated interest rates. Amounts due under the next twelve months are presented as notes payable – current on the Company’s balance sheet as of December 31, 2020.

On January 11, 2021, the Company entered into a Convertible Promissory Note Purchase Agreement with certain existing stockholders, including SALMON Pharma GmbH (“Salmon Pharma”), an affiliate of Medice, and David Baker, the Company’s Chief Executive Officer, pursuant to which the Company issued convertible promissory notes (the “2021 Convertible Notes”), for cash proceeds of \$350,000. The 2021 Convertible Notes bore an interest rate of 7.0% per annum, non-compounding, and had a maturity date of September 30, 2021. The 2021 Convertible Notes converted into 54,906 shares of the Company’s common stock upon completion of the IPO. The Company identified the mandatory conversion into shares of the Company’s common stock as a redemption feature, which requires bifurcation from the 2021 Convertible Notes and treated it as a derivative liability under ASC 815 as the redemption feature was not clearly and closely related to the debt. The Company evaluated the fair value of the derivative liability. Upon the conversion of the 2021 Convertible Notes to common stock at the closing of the IPO, the embedded derivative liability was remeasured and removed from the balance sheet.

NOTE 5 - EQUITY FINANCING

On February 12, 2021, the Company completed the IPO of 2,250,000 shares of common stock at a public offering price of \$8.00 per share. The gross proceeds from the IPO, before deducting underwriting discounts, commissions and other offering expenses payable by the Company, were \$18.0 million. Underwriting discounts and expenses totaled \$1.6 million and the Company incurred approximately \$905,000 of additional expenses related to completing the IPO, of which \$494,000 were incurred as of December 31, 2020 and included prepaids and other current assets on the Company’s balance sheet; thus aggregate net proceeds were approximately \$15.5 million. Immediately prior to the closing of the IPO, the Company effected a one-for-40 reverse stock split of its common stock.

In connection with the IPO, the Company granted the underwriters warrants (the “Underwriters’ Warrants”) to purchase an aggregate of 112,500 shares of common stock at an exercise price of \$10.00 per share, which is 125% of the initial public offering price. The Underwriters’ Warrants have a five-year term and are not exercisable prior to August 12, 2021. All of the Underwriters’ Warrants were outstanding at March 31, 2021. According to ASC 480-10-25-8 and ASC 480-10-25-14, a warrant is classified as a liability if the warrant obligates the issuer to repurchase its shares by transferring an asset. A warrant can also be classified as a liability if it (conditionally or unconditionally) obligates the issuer to settle the warrant by issuing a variable number of shares if the monetary value of the obligation is based on a predetermined fixed amount, variation in something other than the issuers stock price, or variations inversely related to the issuers stock price. Any other warrant would be classified as equity. Given that these warrants do not meet the criteria of debt classification, these warrants were classified as equity and the fair value of \$399,000 is reflected as additional paid-in capital. The Black-Scholes option-pricing model was used to estimate the fair value of the warrants with the following weighted-average assumptions:

| | |
|-------------------------|---------|
| Volatility | 85.0 % |
| Expected term in years | 2.5 |
| Dividend rate | 0.0 % |
| Risk-free interest rate | 0.155 % |

NOTE 6- STOCK-BASED COMPENSATION

The Company has granted stock options to purchase its common stock to employees and consultants under the 2018 Equity Incentive Plan, under which the Company may issue stock options, restricted stock and other equity-based awards. We have also granted certain stock options outside of the 2018 Equity Incentive Plan. As of March 31, 2021, all equity awards granted from the 2018 Equity Incentive Plan were in the form of stock options.

The Company measures equity-based awards granted to employees, and nonemployees based on their fair value on the date of the grant and recognize compensation expense for those awards over the requisite service period or performance-based period, which is generally the vesting period of the respective award. The measurement date for equity awards is the date of grant, and equity-based compensation costs are recognized as expense over the requisite service period, which is the vesting period or for certain performance-based awards the Company records the expense for these awards if it concludes that it is probable that the performance condition will be achieved. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes stock option-pricing model, which requires inputs based on certain subjective assumptions, including the expected stock price volatility, the expected term of the stock option, the risk-free interest rate for a period that approximates the expected term of the stock option, and the Company’s expected dividend yield. Expected volatility is calculated based on reported volatility data for a representative group of publicly traded companies for which historical information is available. The Company selects companies with comparable characteristics to it with historical share price information that approximates the expected term of the equity-based awards. The Company computes the historical volatility data using the daily closing prices for the selected companies’ shares during the equivalent period that approximates the calculated expected term of its stock options. The Company will continue to apply this method until a sufficient amount of historical information regarding the volatility of its stock price becomes available. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption. The Company uses the simplified method, under which the expected term is presumed to be the midpoint between the vesting date and the end of the contractual term. The Company utilizes this method due to lack of historical exercise data. The expected dividend yield is assumed to be zero as the Company has no current plans to pay any dividends on common stock. The fair value of each restricted common stock award is estimated on the date of grant based on the fair value of our common stock on that same date.

The Company’s stock-based compensation expense was recognized in operating expense as follows (in thousands):

| | For the Three Months Ended March 31, | |
|----------------------------|--------------------------------------|-------|
| | 2021 | 2020 |
| Research and development | \$ 20 | \$ 35 |
| General and administrative | 148 | — |
| Total | \$ 168 | \$ 35 |

The fair value of the options granted during the three months ended March 31, 2021 and 2020 was estimated by utilizing the following assumptions:

| | For the Three Months Ended March 31, | |
|------------------------------------|---|-------------|
| | 2021 | 2020 |
| Volatility | 80.0 % | 85.0 % |
| Expected term in years | 5.5-5.8 | 5.8 |
| Dividend rate | 0.0 % | 0.0 % |
| Risk-free interest rate | 0.63-0.81 % | 2.20 % |
| Fair value of option on grant date | \$ 4.08-5.31 | \$ 3.24 |

The table below represents the activity of stock options granted to employees and consultants:

| | Period from December 31, 2020 through March 31, 2021 | | | |
|----------------------------------|---|--|---|---|
| | Number of options | Weighted average exercise price | Weighted average remaining contractual terms (years) | Aggregate intrinsic value (\$ 000) (1) |
| Outstanding at December 31, 2020 | 266,250 | \$ 2.94 | 4.109 | \$ 474 |
| Granted during the period | 22,750 | 7.39 | — | — |
| Outstanding at March 31, 2021 | 289,000 | \$ 3.29 | 4.060 | \$ 460 |
| Exercisable at March 31, 2021 | 135,794 | \$ 2.28 | 3.770 | \$ 320 |

(1) The aggregate intrinsic value of options is calculated as the difference between the exercise price of the underlying options and the deemed fair value of the Company's common stock for those shares that had exercise prices lower than the deemed fair value of the Company's common stock.

As of March 31, 2021, there was approximately \$105,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to employees which is expected to be recognized over a weighted-average period of one year. As of March 31, 2021, there was approximately \$118,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to non-employees. That cost is expected to be recognized over a weighted-average period of 0.7 years.

NOTE 7 - INCOME TAXES

For the three months ended March 31, 2021 and 2020, respectively, no income tax expense or benefit was recognized. The Company's deferred tax assets are comprised primarily of net operating loss carryforwards. The Company maintains a full valuation allowance on its deferred tax assets since it has not yet achieved sustained profitable operations. As a result, the Company has not recorded any income tax benefit since its inception.

NOTE 8 - RELATED PARTY TRANSACTIONS

On January 6, 2020, the Company entered into a license agreement with Medice which grants Medice an exclusive license, with the right to grant sublicenses, to develop, use, manufacture, market and sell ADAIR throughout Europe. Medice is responsible for obtaining regulatory approval of ADAIR in the licensed territory. Under the license agreement, Medice paid Vallon a \$100,000 upfront payment and is required to pay milestone payments upon first obtaining regulatory approval to market and sell ADAIR in any country, territory or region in the licensed territory and upon achieving certain annual net sales thresholds. Medice will also pay tiered royalties on annual net sales of ADAIR at rates in the low double-digits. The initial term of the license agreement will expire five years after the date on which Medice first obtains regulatory approval in any country, territory or region in the licensed territory.

On January 11, 2021, the Company entered into a Convertible Promissory Note Purchase Agreement with certain existing stockholders, including Salmon Pharma, an affiliate of Medice, and David Baker, the Company's Chief Executive Officer, pursuant to which the Company issued the 2021 Convertible Notes for cash proceeds of \$350,000. The 2021 Convertible Notes bore an interest rate of 7.0% per annum, non-compounding, and had a maturity date of September 30, 2021. The 2021 Convertible Notes converted into 54,906 shares of the Company's common stock upon completion of the IPO.

NOTE 9 - FINANCE LEASE

The Company entered into a finance lease in October 2019 in relation to equipment utilized in the commercial scale manufacturing of ADAIR (\$ in thousands).

| | March 31, 2021 | December 31, 2020 |
|--|----------------|-------------------|
| Initial lease right-of-use asset | \$ 368 | \$ 368 |
| Accumulated amortization | \$ 107 | \$ 89 |
| Weighted-average remaining lease term - finance lease (in years) | 2.50 | 2.75 |
| Weighted-average discount rate - finance lease | 13.50 % | 13.50 % |

| | Three Months Ended March 31, | |
|--|------------------------------|-------|
| | 2021 | 2020 |
| Operating cash flows from finance lease amortization | \$ 18 | \$ 18 |
| Financing cash flows from finance lease payments | \$ 34 | \$ 29 |

The maturities of the finance lease liability as of March 31, 2021 (in thousands):

| | |
|----------------------------------|--------|
| 2021 | \$ 95 |
| 2022 | 114 |
| 2023 | 76 |
| Total lease payments | 285 |
| Less: Imputed interest | 44 |
| Present value of lease liability | \$ 241 |

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(A) Employment Agreements

On January 15, 2019, the Company entered into an employment agreement with David Baker, to serve as its President and Chief Executive Officer, which was subsequently superseded by a new employment agreement, effective as of April 20, 2021 (the "Baker Agreement"). The Baker Agreement provides for a base salary of \$400,000 per year, effective as of April 20, 2021.

Under the Baker Agreement, in the event of an involuntary termination by the Company or termination by Mr. Baker for good reason, Mr. Baker will receive:

- continued base salary for a period of 12 months, plus a pro-rated bonus for the year of termination, based on actual performance results for the entire year, and provided he was employed for at least six months during that year; and
- if he elects to continue receiving group health insurance coverage pursuant to COBRA, subsidized premiums for COBRA continuation coverage for a period of 12 months (or such earlier date that he obtains alternative coverage), such that he will continue to pay the premium cost for active employees who receive the same type of coverage during that period.

In the event of a termination within 12 months after the occurrence of a change in control transaction, the President and Chief Executive Officer will receive:

- continued base salary for a period of 18 months, plus a lump sum payment equal to 150% of his target bonus, without proration, for the fiscal year of termination;
- if he elects to continue receiving group health insurance coverage pursuant to COBRA, subsidized premiums for COBRA continuation coverage for a period of 18 months (or such earlier date that he obtains alternative coverage), such that he will continue to pay the premium cost for active employees who receive the same type of coverage during that period; and
- accelerated vesting of all outstanding stock-based awards held by the executive as of the date of termination, with any performance awards deemed satisfied at the “target” performance level, and any stock options remaining outstanding for their full term.

In exchange for the severance benefits described above, Mr. Baker must comply with certain confidentiality, non-competition and non-solicitation provisions, return all company property, and sign a release of claims in favor of the Company. The description of the terms above are qualified in their entirety by reference to the Baker Agreement, a copy of which is filed by the Company as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

(B) Clinical Trial Agreements

In January 2020, the Company entered into a service agreement, amended August 2020 and further amended January 2021, with a clinical research organization to provide clinical trial management services to the Company to assist the Company in its pivotal human abuse liability clinical trial of ADAIR, Study VAL-104. The agreement may be terminated by either party upon thirty days prior written notice. The total clinical trial cost is expected to be \$3.1 million of which approximately \$1.1 million and \$49,000 was expensed during the three months ended March 31, 2021 and 2020, respectively. The Company has expensed \$1.9 million cumulative from contract inception through the three months ended March 31, 2021 for Study VAL-104 and expects topline results from the study by the end of 2021.

(C) Consulting Agreements

Effective April 2, 2018, the Company entered into a consulting agreement with a consultant to serve as the Chief Medical Officer for the Company. Pursuant to the consulting agreement, the consultant is paid \$10,000 per month for his services. In October 2018 and May 2020, the Company granted the consultant 15,625 and 6,250 options, respectively. For the three months ended March 31, 2021 and 2020, the Company has incurred consulting fees in the amount of approximately \$30,000 and \$30,000, respectively, under the agreement. The agreement may be terminated by either party with 30 days' notice.

(D) Manufacturing Agreements

In August 2019, the Company entered into an agreement with a contract manufacturer for the commercial scale up and registration batches for ADAIR. The total contract is estimated at \$1.6 million of which approximately \$79,000 and \$79,000 was expensed under the agreement during the three months ended March 31, 2021 and 2020, respectively.

In October 2019, the Company entered into an agreement with a formulation development company for the formulation and development for an abuse-deterrent formulation of methylphenidate (Ritalin®). The total contract is estimated at \$232,000, of which \$6,000 and \$83,000 was expensed during the three months ended March 31, 2021 and 2020, respectively.

(E) Pre-Clinical Agreement (included in research and development expense)

In November 2019, the Company entered into an agreement with a clinical research organization for pre-clinical services. The total contract currently authorized is estimated at \$1.5 million of which \$245,000 and \$175,000 was expensed during the three months ended March 31, 2021 and 2020, respectively.

(F) COVID-19 Impact

The global COVID-19 pandemic continues to rapidly evolve, and the Company continues to monitor the COVID-19 situation closely, including the worldwide vaccine rollout and the recent outbreaks of various strains of the virus. The full impact of the COVID-19 pandemic on the Company's business, operations and clinical development timelines and plans remains uncertain, and will depend on certain developments, including the duration and spread of the outbreak and its future impact on the Company's clinical trial enrollment, clinical trial sites, CROs, third-party manufacturers, and other third parties with whom it does business, as well as its impact on regulatory authorities and the Company's key scientific and management personnel. To the extent possible, the Company is conducting business as usual, with necessary or advisable modifications to employee travel and with many of its employees and consultants working remotely. The Company will continue to actively monitor the rapidly evolving situation related to COVID-19 and may take further actions that alter its operations, including those that may be required by federal, state or local authorities, or that it determines are in the best interests of its employees and other third parties with whom the Company does business.

NOTE 11: FAIR VALUE MEASUREMENTS

The fair value of the embedded derivative liability identified in the 2021 Convertible Notes was a Level 3 fair value measurement. As of February 12, 2021, the embedded derivative was remeasured based upon the conversion price of \$8 per share upon closing of the IPO. As such, an expense of \$89,000 was recorded in the first quarter of 2021.

The following table presents the activity for the liability measured at estimated fair value using unobservable inputs for the three months ended March 31, 2021 (in thousands):

| | | |
|---|----|----|
| Beginning balance at January 1, 2021 | \$ | — |
| Additions during the quarter ended March 31, 2021 | | 89 |
| Transfer out of Level 3 | | 89 |
| Balance at March 31, 2021 | \$ | — |

NOTE 12: SUBSEQUENT EVENTS

On May 10, 2021, the Company appointed Leanne M. Kelly to serve as its Chief Financial Officer, and principal financial and accounting officer. In connection with Ms. Kelly's appointment, the Company entered into an employment agreement with Ms. Kelly (the "Kelly Agreement"), which provides for an initial base annual salary of \$275,000 and a target bonus opportunity equal to 35% of her base salary.

The Kelly Agreement also provides that the Company will recommend that the Board approve a stock option grant covering 100,000 common shares of the Company (the "Stock Option"). The Stock Option shall have an exercise price per share equal to the fair market value of a share of the Company's common stock on the date of grant and shall vest in installments and become exercisable as follows: (i) 70% of the shares underlying the Stock Option shall vest as follows: (x) 17,500 option shares on the first anniversary of her start date, and (y) the remaining 52,500 option shares in equal installments on a quarterly basis for the next three years, in each case subject to continued employment, and (ii) 30% of the shares underlying the Stock Option shall vest as follows: (x) 15,000 option shares on the date the Company submits a New Drug Application ("NDA") filing for ADAIR with the U.S. Food & Drug Administration, and (y) 15,000 option shares on the date when the U.S. Food & Drug Administration approves the NDA, provided that she is employed by the Company at the time the applicable performance objective is achieved.

The Kelly Agreement provides that if she is terminated by the Company other than for cause, or she resigns for good reason, in either case not in connection with a change in control, she will receive:

- continued base salary for a period of 9 months, plus a pro-rated bonus for the year of termination, based on actual performance results for the entire year, and provided she was employed for at least six months during that year; and
- if she elects to continue receiving group health insurance coverage pursuant to COBRA, subsidized premiums for COBRA continuation coverage for a period of 9 months (or such earlier date that she obtains alternative coverage), such that she will continue to pay the premium cost for active employees who receive the same type of coverage during that period.

If she is terminated by the Company other than for cause, or she resigns for good reason, in either case within the one-year period commencing on a change in control, she will receive:

- continued base salary for a period of 12 months, plus a lump sum payment equal to 100% of her target bonus, without proration, for the fiscal year of termination;
- if she elects to continue receiving group health insurance coverage pursuant to COBRA, subsidized premiums for COBRA continuation coverage for a period of 12 months (or such earlier date that she obtains alternative coverage), such that she will continue to pay the premium cost for active employees who receive the same type of coverage during that period; and
- accelerated vesting of all outstanding stock-based awards held by the executive as of the date of termination, with any performance awards deemed satisfied at the "target" performance level, and any stock options remaining outstanding for their full term.

In exchange for the severance benefits described above, Ms. Kelly must comply with certain confidentiality, non-competition and non-solicitation provisions, return all company property, and sign a release of claims in favor of the Company. The description of the terms above are qualified in their entirety by reference to the Kelly Agreement, a copy of which is filed by the Company as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

See description of the Baker Agreement under Note 10 - Employment Agreements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing elsewhere in this Quarterly Report, and the audited financial statements (and notes thereto), and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2020, included in our Annual Report on Form 10-K that was filed with the SEC on March 29, 2021. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of this Quarterly Report, our actual results could differ materially from the results described in, or implied by, these forward-looking statements.

Overview

We are a biopharmaceutical company primarily focused on the development and commercialization of proprietary biopharmaceutical products. Our only clinical-stage product currently under development is ADAIR, a proprietary, abuse-deterrent oral formulation of immediate-release (short-acting) dextroamphetamine for the treatment of Attention-deficit/hyperactivity disorder ("ADHD"), and Narcolepsy. In the future, we plan to develop other abuse-deterrent products that have potential for abuse in their current forms, beginning with the development of ADMIR, an abuse deterrent formulation of Ritalin, for which we are conducting formulation development work.

The ADAIR assets were acquired by us on June 22, 2018 pursuant to the terms and conditions of the Amended and Restated Asset Purchase Agreement with Arcturus Therapeutics, Inc. (the successor to Arcturus Therapeutics Ltd.), referred to herein collectively as Arcturus, and Amiservice Development Ltd., dated as of June 22, 2018 (the "Asset Purchase Agreement"). In exchange for the ADAIR assets, we issued 843,750 shares of our common stock to Arcturus (valued at approximately \$1.4 million based upon the price at which the common stock was issued and sold in the June 2018 private placement of our common stock) which comprised 30% of our then-outstanding common stock on a fully diluted basis.

We intend to develop ADAIR for registration through the Section 505(b)(2) approval pathway. We filed our Investigational New Drug ("IND"), application for ADAIR in June 2018 and the IND was cleared in July 2018. Subsequently, we have successfully completed a Phase 1 pivotal bioequivalence study of ADAIR and a Phase 1 food effect study. In 2019, we conducted a Phase 1 proof-of-concept intranasal human abuse potential study designed to compare ADAIR when insufflated (snorted) to the reference comparator, crushed immediate release dextroamphetamine sulfate tablets. We began enrollment of subjects in a pivotal intranasal abuse study during the fourth quarter of 2020 and expect to have topline results for the study by the end of 2021. We are also currently conducting a 13-week preclinical toxicology study on the final formulation of ADAIR and have begun planning additional non-clinical safety studies during 2021. We also plan to conduct additional preclinical studies of unintended routes of administration such as IV and intranasal administration.

We plan to develop other abuse-deterrent products that have potential for abuse in their current forms, beginning with the development of an abuse deterrent formulation of Ritalin ("ADMIR"), for which we are conducting formulation development work.

On January 6, 2020, we entered into a license agreement with Medice, who is affiliated with one of our principal stockholders, Salmon Pharma, and represented by one member of our board of directors, which grants Medice an exclusive license, with the right to grant sublicenses, to develop, use, manufacture, market and sell ADAIR throughout Europe. Medice currently markets several ADHD products in Europe and is the ADHD market leader in Europe based on branded prescription market share. Medice is responsible for obtaining regulatory approval of ADAIR in the licensed territory. Under the license agreement, Medice paid us a minimal upfront payment and will pay milestone payments of up to \$6.3 million in the aggregate upon first obtaining regulatory approval to market and sell ADAIR in any country, territory or region in the licensed territory and upon achieving certain annual net sales thresholds. Medice will also pay tiered royalties on annual net sales of ADAIR at rates in the low double-digits. The initial term of the license agreement will expire five years after the date on which Medice first obtains regulatory approval in any country, territory or region in the licensed territory.

Our objective is to develop and commercialize proprietary biopharmaceutical products. To this effect, we intend to develop and seek marketing approvals from the FDA and other worldwide regulatory bodies for ADAIR, and any other products we opt to pursue in the future, such as ADMIR. To achieve these objectives, we plan to:

- seek the necessary regulatory approvals to complete the clinical development of ADAIR for the treatment of ADHD and, if successful, file for marketing approval in the United States and other territories;
- prepare to commercialize ADAIR by establishing independent distribution capabilities or in conjunction with other biopharmaceutical companies in the United States and other key markets;
- commence development of other abuse-deterrent products such as ADMIR; and
- continue our business development activities and seek partnering, licensing, merger and acquisition opportunities or other transactions to further develop our pipeline and drug-development capabilities and take advantage of our financial resources for the benefit of increasing stockholder value.

Emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. Therefore, we may not be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.” For as long as we continue to be an emerging growth company, we also intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory stockholder vote on executive compensation, and any golden parachute payments not previously approved, exemption from the requirement of auditor attestation in the assessment of our internal control over financial reporting and exemption from any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis). We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the end of the second fiscal quarter, (ii) the end of the fiscal year in which we have total annual gross revenues of \$1.07 billion or more during such fiscal year, (iii) the date on which we issue more than \$1 billion in non-convertible debt in a three-year period, or (iv) the end of the fiscal year following the fifth anniversary of the date of the first sale of our Common Stock pursuant to an effective registration statement filed under the Securities Act.

The global COVID-19 pandemic continues to rapidly evolve, and we will continue to monitor the COVID-19 situation closely, including the worldwide vaccine rollout and the recent outbreaks of various strains of the virus. The full impact of the COVID-19 pandemic on our business, operations and clinical development timelines and plans remains uncertain, and will depend on certain developments, including the duration and spread of the outbreak and its future impact on our clinical trial enrollment, clinical trial sites, CROs, third-party manufacturers, and other third parties with whom we do business, as well as its impact on regulatory authorities and our key scientific and management personnel. To the extent possible, we are conducting business as usual, with necessary or advisable modifications to employee travel and with most of our employees and consultants working remotely. We will continue to actively monitor the rapidly evolving situation related to COVID-19 and may take further actions that alter our operations, including those that may be required by federal, state or local authorities, or that we determine are in the best interests of our employees and other third parties with whom we do business.

Reverse Split

On February 10, 2021, the Company filed a certificate of amendment to its amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, which effected a one-for-40 reverse stock split (the “*reverse split*”) of its issued and outstanding shares of common stock at 11:59 PM Eastern Time on that date. As a result of the reverse split, every 40 shares of common stock issued and outstanding were reclassified into one share of common stock. No fractional shares were issued in connection with the reverse split and any fractional shares were rounded up to the nearest whole share.

The reverse split did not change the par value of the common stock or the authorized number of shares of common stock. The reverse split affected all stockholders uniformly and did not alter any stockholder's percentage interest in equity. All outstanding options and other securities entitling their holders to purchase or otherwise receive shares of common stock have been adjusted as a result of the reverse split, as required by the terms of each security. The number of shares available to be awarded under the Company's 2018 Equity Incentive Plan have also been appropriately adjusted.

All share and per share amounts, excluding the number of authorized shares and par value, contained in this Quarterly Report on Form 10-Q give retroactive effect to the reverse split.

Initial Public Offering ("IPO"); Underwriting Agreement

As previously disclosed, on February 12, 2021, we consummated the initial public offering of our common stock through which we sold 2,250,000 shares of our common stock for total gross proceeds of \$18.0 million, resulting in net proceeds of approximately \$15.5 million after deducting \$1.6 million in underwriter's discounts, expenses and commissions, and \$905,000 of other expenses incurred in connection with the offering.

As part of the closing of the IPO, we also issued warrants to purchase an aggregate of 112,500 shares of common stock to certain of the underwriter's affiliates. Such warrants may be exercised beginning on August 11, 2021 (180 days from the commencement of sales of the IPO) until February 12, 2026 (five years after the commencement of sales in the IPO).

2021 Convertible Note Financing

On January 11, 2021, we entered into a Convertible Promissory Note Purchase Agreement with certain existing stockholders, including SALMON Pharma GmbH ("Salmon Pharma"), an affiliate of Medice, and David Baker, our Chief Executive Officer, pursuant to which we issued convertible promissory notes (the "2021 Convertible Notes") for cash proceeds of \$350,000. The 2021 Convertible Notes bear an interest rate of 7.0% per annum, non-compounding, and had a maturity date of September 30, 2021. The 2021 Convertible Notes were convertible into shares of our capital stock offered to investors in any subsequent equity financing after the date of their issuance in which we issued any of our equity securities (a "Qualified Financing"), and were convertible at a twenty percent (20%) discount to the price per share offered in such Qualified Financing. Such Qualified Financing included the initial public offering of our common stock, consummated on February 12, 2021; therefore, the 2021 Convertible Notes converted into an aggregate of 54,906 shares of our common stock immediately prior to the closing of the IPO, as agreed upon among the parties thereto.

Financial Operations Overview

Revenue

We have not generated any significant revenue, and we do not expect to generate any revenue from the sale of any products unless or until we obtain regulatory approval of and commercialize ADAIR. The only revenue we have generated was the \$100,000 license fee from the Medice license agreement recognized in the three months ended March 31, 2020.

Research and Development Expenses

Since our incorporation, our operations have primarily been limited to building our management and corporate team, acquiring the ADAIR assets from Arcturus and conducting our clinical program for ADAIR. Research and development costs are expensed as incurred. Research and development expenses include personnel costs associated with research and development activities, including third party contractors to perform research, conduct clinical trials and manufacture drug supplies and materials. The Company accrues for costs incurred by external service providers, including contract research organizations and clinical investigators, based on its estimates of service performed and costs incurred.

Our research and development expenses have consisted primarily of in-process research and development expenses which consisted of non-cash costs acquiring the ADAIR assets of \$1.7 million, costs incurred in preparing for and conducting the development program for ADAIR, working on commercial manufacturing of ADAIR and developing formulations for ADMIR. We expect to significantly increase our research and development efforts by conducting the remaining studies necessary for the development and approval of ADAIR and for preparing for commercial supplies of the product. Future research and development expenses may include:

- employee -related expenses, such as salaries, bonuses and benefits, consultant-related expenses such as consultant fees and bonuses, share-based compensation, overhead related expenses and travel related expenses for our research and development personnel;
- expenses incurred under agreements with contract research organizations (“CROs”), as well as consultants that support the implementation of the clinical and non-clinical studies described above;
- manufacturing and packaging costs in connection with conducting clinical trials and for stability and other studies required to support the NDA filing as well as manufacturing drug product for commercial launch;
- formulation, research and development expenses related to ADMIR; and other products we may choose to develop; and
- costs for sponsored research.

Research and development activities will continue to be central to our business model. Products in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to be significant over the next several years as we increase personnel and compensation costs and conduct the studies described above, and prepare to seek regulatory approval for ADAIR and any other future product, such as ADMIR.

The duration, costs and timing of clinical trials of ADAIR and any other future product, such as ADMIR, will depend on a variety of factors that include, but are not limited to:

- the number of trials required for approval;
- the per patient trial costs;
- the number of patients that participate in the trials;
- the number of sites included in the trials;
- the countries in which the trial is conducted;
- the length of time required to enroll eligible patients;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- the potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up;
- the timing and receipt of regulatory approvals; and
- the efficacy and safety profile of our product candidates.

In addition, the probability of success for ADAIR and any other future products, such as ADMIR, will depend on numerous factors, including competition, manufacturing capability and commercial viability.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation and consulting related expenses for executives and other administrative personnel, professional fees and other corporate expenses, including legal and accounting fees, travel expenses, facilities-related expenses, and consulting services relating to our formation and corporate matters.

We anticipate that our general and administrative expenses will increase in the future to support our continued research and development activities and increased costs of operating as a public company. These increases will likely include increased costs related to the hiring of personnel, including compensation and employee-related expenses, including stock-based compensation, and fees to outside consultants, lawyers and accountants, among other expenses. Additionally, we anticipate increased costs associated with being a public company, including expenses related to services associated with maintaining compliance with The Nasdaq Capital Market and SEC requirements, directors and officers insurance, increased legal and accounting costs and investor relations costs. In addition, if ADAIR obtains regulatory approval for marketing, we expect that we would incur expenses associated with building a commercialization team if we have not sold or licensed the rights to commercialize ADAIR to a third party in territories not under the license agreement with Medice.

Interest Expense and Revaluation of Derivative Instruments

In January 2021, we entered into a Convertible Promissory Note Purchase Agreement pursuant to which we issued \$350,000 in 2021 Convertible Notes. The 2021 Convertible Notes automatically converted into 54,906 shares of our common stock concurrently with the closing of the IPO. We identified the mandatory conversion into shares of our common stock as a redemption feature, which requires bifurcation from the 2021 Convertible Notes and treated it as a derivative liability under ASC 815 as the redemption feature was not clearly and closely related to the debt. We evaluated the fair value of the derivative liability at issuance. Upon the conversion of the 2021 Convertible Notes to common stock at the closing of the IPO, the embedded derivative liability was remeasured and removed from the balance sheet.

Critical Accounting Policies

The Company's critical accounting policies are described in Note B, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on March 29, 2021. There have been no material changes to the significant accounting policies during the period ended March 31, 2021, except for items mentioned in Note 2 of the financial statements in this Quarterly Report on Form 10-Q.

Results of Operations**Comparison of the three months ended March 31, 2021 and 2020**

The following table summarizes the results of our operations for the periods indicated:

| | <u>Three Months Ended</u> <u>March 31, 2021</u> | <u>Three Months Ended</u> <u>March 31, 2020</u> (in thousands) | <u>Change \$</u> |
|-------------------------------------|--|--|------------------|
| License revenue-from related party | \$ — | \$ 100 | \$ (100) |
| Operating expenses: | | | |
| Research and development | 1,772 | 883 | 889 |
| General and administrative | 830 | 375 | 455 |
| Total operating expenses | <u>2,602</u> | <u>1,258</u> | <u>1,344</u> |
| Loss from operations | <u>(2,602)</u> | <u>(1,158)</u> | <u>1,444</u> |
| Other income | 61 | — | 61 |
| Revaluation of derivative liability | (89) | — | (89) |
| Interest expense, net | (8) | (2) | (6) |
| Net loss | <u>\$ (2,638)</u> | <u>\$ (1,160)</u> | <u>\$ 1,478</u> |

License Revenue - From Related Party

We determined there is a single performance obligation with respect to our involvement in the joint development committee in regards to the Medice license agreement and thus the entire \$100,000 allocable consideration was assigned to that accounting unit and recognized in the first quarter of 2020.

Research and Development Expenses

Research and development expenses increased by approximately \$889,000 to \$1.8 million from \$883,000 for the three months ended March 31, 2020 to the three months ended March 31, 2021. The increase in research and development expenses was primarily due to increases of: \$1.0 million primarily related to the registration development program of ADAIR offset by decreases of \$77,000 related to the formulation work for ADMIR. In the three months ended March 31, 2020 we had expensed \$60,000 for the estimate of costs to complete the services related to the Medice license agreement and the amortization of that in the first quarter of 2021 was \$3,000, thus resulting in a decrease in research and development expense of \$57,000 for the three months ended March 31, 2021.

General and Administrative Expenses

General and administrative expenses increased by approximately \$455,000 to \$830,000 from \$375,000 the three months ended March 31, 2020 to the three months ended March 31, 2021. The increase was primarily related to increased costs for directors and officers insurance of \$200,000, non-cash stock compensation of \$148,000, consultant related expenses of \$51,000 and brand development of \$25,000.

Other Income

In May 2020, the Company issued a promissory note under the PPP totaling \$61,000. As of December 31, 2020, the Company had utilized the entire proceeds from such note for payroll costs (greater than 75%), costs related to health care benefits and rent payments and in January 2021, the Company was notified that the note along with accumulated interest had been forgiven. As the PPP note was forgiven, the Company recorded income from the extinguishment of its obligation in accordance with ASC 405-20-40-1.

Revaluation of Derivative Liability

For the three months ended March 31, 2021, pursuant to ASC-815, we revalued the embedded derivative liability associated with the Convertible Notes, resulting in \$89,000 in the fair value of the derivative liability associated with the Convertible Notes.

Income Taxes

For the three months ended March 31, 2021 and 2020, respectively, no income tax expense or benefit was recognized. Our deferred tax assets are comprised primarily of net operating loss carryforwards. We maintain a full valuation allowance on our deferred tax assets since we have not yet achieved sustained profitable operations. As a result, we have not recorded any income tax benefit since our inception.

Net Loss

We recorded \$2.6 million in net loss for the three months ended March 31, 2021, as compared to \$1.2 million in net loss during the three months ended March 31, 2020. The increase in net loss was primarily due to increases of \$889,000 in research and development expenses and \$445,000 in general and administrative expenses and a decrease in licensing revenue of \$100,000.

Liquidity and Capital Resources

Overview

For the period from January 11, 2018 (inception) through March 31, 2021, we have an accumulated deficit of \$15.2 million and we do not expect to have positive cash flow from operations for the foreseeable future. As of March 31, 2021, we had cash and cash equivalents of \$13.0 million which management expects will provide funding for our ongoing business activities into the third quarter of 2022; however, we have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect therefore there is substantial doubt about our ability to continue as a going concern. We expect to continue to incur significant and increasing operating losses at least for the foreseeable future. We do not expect to generate product revenue unless and until we successfully complete development, obtain regulatory approval for, and successfully commercialize ADAIR, or any other future products, including ADMIR. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending on the timing of planned clinical trials and our expenditures on other research and development activities. We anticipate that our expenses will increase substantially as we:

- conduct clinical trials and non-clinical studies;
- scale up manufacturing capabilities with third-party contract manufacturer(s);
- conduct ongoing stability studies of ADAIR;
- seek to identify, acquire, develop and commercialize additional products, such as ADMIR;
- integrate acquired technologies into a comprehensive regulatory and product development strategy;
- maintain, expand and protect our intellectual property portfolio;
- hire scientific, clinical, quality control and administrative personnel;
- add operational, financial and management information systems and personnel, including personnel to support our drug development efforts;
- seek regulatory approvals for any products that successfully complete clinical trials;
- ultimately establish a sales, marketing and distribution infrastructure and scale up external manufacturing capabilities to commercialize any drug candidates for which we may obtain regulatory approval, including through the license agreement with Medice; and
- operate as a public company.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|--|--|
| | (in thousands) | |
| Net cash provided by (used in): | | |
| Operating activities | \$ (2,948) | \$ (766) |
| Investing activities | — | (2) |
| Financing activities | 15,819 | (29) |
| Net decrease in cash and cash equivalents | <u>\$ 12,871</u> | <u>\$ (797)</u> |

Cash Flows from Operating Activities

For the three months ended March 31, 2021 and 2020, \$2.9 million and \$766,000 were used in operating activities, respectively. The \$2.2 million increase was primarily due to the \$1.5 million increase in our net loss offset by a \$793,000 increase in prepaid expenses and increased accounts payable and accrued expenses of \$259,000. The net loss for the three months ended March 31, 2021 included non-cash expenses of \$168,000 in non-cash stock compensation, \$89,000 in revaluation of derivative liability and \$18,000 amortization of finance lease right-of-use asset offset by \$61,000 of other income from the forgiveness of the PPP note.

Cash Flows from Investing Activities

Net cash used in investing activities was \$0 for the three months ended March 31, 2021 and \$2,000 for the three months ended March 31, 2020.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$15.8 million during the three months ended March 31, 2021 related to the net proceeds from our IPO and 2021 Convertible Notes financings compared to \$29,000 used in financing activities during the three months ended March 31, 2020 related to our finance lease.

Contractual Obligations and Other Commitments

As of March 31, 2021, there have been no changes to our contractual obligations and commitments since December 31, 2020. For a discussion of our contractual obligations, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2020 Annual Report on Form 10K.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Emerging Growth Company Status

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and may remain an emerging growth company for up to five years. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- reduced disclosure about our executive compensation arrangements;
- no non-binding stockholder advisory votes on executive compensation or golden parachute arrangements; and

· exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We have taken advantage of reduced reporting requirements in this report and may continue to do so until such time that we are no longer an emerging growth company. We will remain an “emerging growth company” until the earliest of (a) the last day of the fiscal year in which we have total annual gross revenues of \$1.07 billion or more, (b) December 31, 2026, the last day of the fiscal year following the fifth anniversary of the completion of the our IPO, (c) the date on which we have issued more than \$1.0 billion in nonconvertible debt during the previous three years or (d) the date on which we are deemed to be a large accelerated filer under the rules of the SEC. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period for complying with new or revised accounting standards. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to a smaller reporting company.

Item 4. Controls and Procedures.

Management’s Evaluation of our Disclosure Controls and Procedures

Our Chief Executive Officer evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2021. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC 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. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2021, our Chief Executive Officer has concluded that, as of such date, our disclosure controls and procedures, as defined above, are effective.

Changes in Internal Control over Financial Reporting

We are taking actions to remediate the material weaknesses relating to our internal controls over financial reporting as described in our Annual Report on Form 10-K. Except as otherwise disclosed herein, there have been no changes in our internal control over financial reporting during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently a party to any material legal proceedings. From time to time, we may be subject to various legal proceedings and claims that arise in the ordinary course of our business activities. Regardless of the outcome, litigation can have a material adverse effect on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, except as set forth below.

Public health crises such as pandemics or similar outbreaks could materially and adversely affect our preclinical and clinical trials, business, financial condition and results of operations.

In March 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a national emergency with respect to COVID-19. The COVID-19 pandemic continues affect the U.S. and global economies and may affect our operations and certain other third parties on which we rely, including by causing disruptions in the supply of our product candidates and the conduct of future clinical trials. Moreover, the COVID-19 pandemic may adversely affect the operations of the FDA and other health authorities, resulting in delays of reviews and approvals with respect to our product candidates. While the potential economic impact brought by, and the duration of the COVID-19 pandemic is difficult to assess or predict, the impact of the COVID-19 pandemic on the global financial markets may reduce our ability to access capital, which could negatively impact our short-term and long-term liquidity. In addition, the loss of any of our employees as a result of COVID-19, or another pandemic, may adversely affect our operations. The ultimate impact of the COVID-19 pandemic is highly uncertain, and we do not yet know the full extent of potential delays or impacts that COVID-19 may have on our business, financing or clinical trial activities.

Some examples of potential disruptions that may result from the COVID-19 pandemic, include, but are not limited to:

- delays or difficulties in enrolling patients in our clinical trials;
- delays or difficulties in initiating or expanding clinical trials, including delays or difficulties with clinical site initiation and recruiting clinical site investigators and clinical site staff;
- increased rates of patients withdrawing from our clinical trials following enrollment as a result of contracting COVID-19 or other health conditions or being forced to quarantine;
- interruption of key clinical trial activities, such as clinical trial site data monitoring and efficacy, safety and translational data collection, processing and analyses, due to limitations on travel imposed or recommended by federal, state or local governments, employers and others or interruption of clinical trial subject visits, which may impact the collection and integrity of subject data and clinical study endpoints;
- delays or disruptions in preclinical experiments and IND-enabling studies due to restrictions of on-site staff and unforeseen circumstances at CROs and vendors, including any delays caused by the COVID-19 outbreak;
- interruption or delays in the operations of the FDA and comparable foreign regulatory agencies;
- interruption of, or delays in receiving, supplies of our product candidates from our contract manufacturing organizations due to staffing shortages, production slowdowns or stoppages and disruptions in delivery systems;
- delays in receiving approval from local regulatory authorities to initiate our planned clinical trials;
- limitations on employee or other resources that would otherwise be focused on the conduct of our clinical trials and pre-clinical work, including because of sickness of employees or their families, the desire of employees to avoid travel or contact with large groups of people, an increased reliance on working from home, school closures or mass transit disruptions;
- changes in regulations as part of a response to the COVID-19 pandemic which may require us to change the ways in which our clinical trials are conducted, which may result in unexpected costs, or to discontinue the clinical trials altogether;
- delays in necessary interactions with regulators, ethics committees and other important agencies and contractors due to limitations in employee resources or forced furlough of government or contractor personnel; and

- refusal of the FDA to accept data from clinical trials in affected geographies outside the United States.

The COVID-19 global pandemic continues to rapidly evolve. The extent to which the outbreak may affect our clinical trials, business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, actions to contain the outbreak or treat its impact, such as social distancing and quarantines or lock-downs in the United States, and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease, and the ongoing worldwide vaccine rollout. Future developments in these and other areas present material uncertainty and risk with respect to our clinical trials, business, financial condition and results of operations.

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 Number | Description |
|---------------------------|---|
| 10.1# | Employment Agreement, dated as of April 20, 2021, by and between the Company and David Baker |
| 10.2# | Employment Agreement, dated as of May 10, 2021, by and between the Company and Leanne M. Kelly |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

Unless otherwise indicated, exhibits are filed herewith.

Indicates a management contract or any compensatory plan, contract or arrangement.

* This certification will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

SIGNATURES

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

VALLON PHARMACEUTICALS, INC.

Date: May 13, 2021

By: /s/ David Baker

Name: David Baker

Title: President and Chief Executive Officer

Exhibit 10.1

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this “Agreement”) is made as of the 20th day of April, 2021 (the “Effective Date”), between Vallon Pharmaceuticals, Inc. (the “Company”) and David Baker (“Executive”). In consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment Term. The Company shall continue to employ Executive, and Executive accepts continued employment with the Company, upon the terms and subject to the conditions set forth in this Agreement, for the period beginning on the Effective Date and ending on the Date of Termination (as defined in Section 4(e) of this Agreement) (the “Term”).

2. Terms of Employment.

(a) Position and Duties. During the Term, Executive shall be employed by the Company as President and Chief Executive Officer and shall have such duties, responsibilities and authorities as are customarily associated with his position (including, but not limited to, the general management of the affairs of the Company) and such additional duties and responsibilities consistent with his positions as may, from time to time, be properly and lawfully assigned to him. Executive shall report directly to the Board of Directors of the Company (the “Board”). Executive shall act at all times in compliance in all respects with the policies, rules and decisions adopted from time to time by the Company and perform all of the duties and obligations required of him by this Agreement in a loyal and conscientious manner.

(b) Board Service. During the Term, the Company shall cause the Nominating and Corporate Governance Committee of the Board or its equivalent (the “Nominating Committee”) to nominate Executive to serve as a member of the Board each year Executive’s term of Board service is to be slated for reelection to the Board. If, during the Term, the Company’s stockholders vote in favor of the Nominating Committee’s nomination of Executive to serve as a member of the Board, Executive agrees to serve in such capacity and also agrees that any such Board service shall be without additional compensation.

(c) Engaging in Other Activities. During the Term, Executive shall devote his full time and attention to the Company and its affiliates and shall not be employed by or provide services to any other person or entity, except that Executive shall be permitted to provide services to any person or entity with permission of the Board or its Chairperson. During the Term, it shall not be a violation of this Agreement for Executive, subject to the requirements of Section 8 hereof, to (i) serve on civic, charitable or religious boards or engage in other activities for such organizations, (ii) with the consent of the Board, which consent shall not be unreasonably withheld, serve on up to two corporate boards unrelated to the Company (and retain all compensation in whatever form for such service), and (iii) manage personal investments, so long as such activities (individually or in the aggregate) do not interfere with the performance of Executive’s responsibilities as set forth in Sections 2(a) or 2(b) of this Agreement or Executive’s fiduciary duties to the Company.



(d) Location. Executive shall perform his duties and responsibilities hereunder principally at the Company's corporate headquarters; provided that Executive may be required under reasonable business circumstances to travel outside of such location in connection with performing his duties under this Agreement.

(e) Affiliates. Executive agrees to serve, without additional compensation, as an officer and director of each of the other members of the Company's affiliates, as determined by the Company. As used in this Agreement, the term "affiliate" shall mean any entity controlled by, controlling, or under common control with, the Company.

3. Compensation and Benefits.

(a) Base Salary. During the Term, the Company shall pay Executive an annualized base salary ("Annual Base Salary") of \$400,000, payable in regular installments in accordance with the Company's normal payroll practices. During the Term, the Annual Base Salary shall be reviewed by the Board or a committee thereof at such time as the salaries of other senior executives of the Company are reviewed generally, but no less frequently than once a year. The Annual Base Salary shall not be reduced other than in connection with an across-the-board salary reduction which applies in a comparable manner to other senior executives of the Company. If so increased or reduced, then such adjusted salary will thereafter be the Annual Base Salary for all purposes under this Agreement.

(b) Annual Incentives. For each fiscal year during the Term, Executive shall be eligible to participate in an annual bonus plan under terms and conditions no less favorable than other senior executives of the Company; provided that Executive's target annual bonus opportunity shall be 50% of his Annual Base Salary (or such higher amount as determined by the Board or a committee thereof from time to time) (the "Target Annual Incentive"). Executive's payment under the annual bonus plan shall be based on the extent to which the performance objectives established by the Board or a committee thereof have been achieved; such objectives shall be established in consultation with Executive and communicated to him by the end of January of the applicable year. Unless a different payment date is established in the bonus plan by the Company, the bonus payment shall be made in a single lump sum within two and one-half months following the end of the Company's fiscal year.

Except as set forth in Section 5(b) or 5(c) below, Executive must be employed on the last day of the fiscal year to receive payment of any annual bonus earned for that fiscal year. Nothing contained in this Section 3(b) will guarantee Executive any specific amount of bonus compensation or prevent the Company from establishing performance goals and targets applicable only to Executive.

(c) PTO. During the Term, Executive shall be eligible for at least four (4) weeks paid time off ("PTO") per year in accordance with the Company's policies in effect from time to time for its senior vice presidents generally. Executive may carry over up to one (1) week of unused PTO into the next following year only.

(d) Expense Reimbursement. Executive shall be reimbursed for all reasonable travel and other out-of-pocket expenses actually and properly incurred by Executive prior to and during the Term in connection with carrying out his duties hereunder in accordance with the Company's policies in effect from time to time for its senior executives generally.

(e) Benefits. During the Term, and except as otherwise provided in this Agreement, Executive shall be eligible to participate in all welfare, perquisite, fringe benefit, insurance, retirement and other benefit plans, practices, policies and programs, maintained by the Company and its affiliates applicable to senior executives of the Company generally, in each case as amended from time to time, including a car allowance of \$500 per month, a life insurance benefit equal to two times his Annual Base Salary, timely replacement of, and reimbursement of monthly charges related to, telephone and computer equipment reasonably required by Executive to perform his duties hereunder, and membership in one airline club. In addition, during the Term, to the extent the Company maintains a Simple IRA or a 401(k) plan, it shall match Executive's elective deferrals thereunder on a dollar-for-dollar basis (i.e., one dollar matched by the Company for each dollar of elective deferral by Executive) up to 3% of Executive's Annual Base Salary, subject to applicable IRS limits. The Company shall also purchase short and long term disability coverage for Executive.

4. Termination of Employment.

(a) Death and Disability. Executive's employment shall terminate automatically upon Executive's death. If the Company determines in good faith that the Disability (as defined below) of Executive has occurred during the Term, it may give to Executive written notice in accordance with Section 11 of this Agreement of its intention to terminate Executive's employment; provided that (i) such notice is provided no later than 150 calendar days following the determination of Executive's Disability, and (ii) Executive has not returned to full-time employment during the period between such determination and the giving of such notice. In such event, Executive's employment shall terminate effective on the 30th calendar day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the 30 calendar days after such receipt, Executive shall not have returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" shall mean the inability of Executive to perform the essential duties of the position held by Executive by reason of any medically determined physical or mental impairment that is reasonably expected to result in death or lasts for 120 calendar days in any one-year period, all as determined by an independent licensed physician mutually acceptable to the Company and Executive or Executive's legal representative.

(b) Cause. Executive's employment with the Company may be terminated by the Company with or without Cause. For purposes of this Agreement, "Cause" shall mean: (i) the continued failure of Executive to perform Executive's duties as set forth in Section 2 hereof or Executive's material disregard of the reasonable and lawful directives of the Company (in each case other than any such failure resulting from any medically determined physical or mental impairment) that is not cured by Executive within 20 calendar days after a written demand for performance is delivered to Executive by the Company which specifically identifies the manner in which the Company believes that Executive has not performed Executive's duties or disregarded a directive of the Board; (ii) Executive's commission of any material act of fraud, misappropriation or embezzlement against or in connection with the Company or any of its affiliates or their respective businesses or operations; (iii) Executive's commission of, or indictment for or otherwise being formally charged with, any crime involving dishonesty or for any felony; (iv) the engaging by Executive in misconduct that is materially detrimental to the financial condition or business reputation of the Company or any of its affiliates, including due to any adverse publicity; or (v) a material breach by Executive of his obligations under Section 8,

or his representations under Section 9, of this Agreement. In addition to the notice and opportunity to cure set forth in subsection (i) above, to the extent that any of the grounds set forth in subsections (ii), (iv) or (v) above is capable of being cured, the Company shall not have Cause unless it has furnished Executive with written notice specifically identifying the conduct allegedly giving rise to Cause, and he has failed to cure such ground within 20 days of the delivery of such notice.

(c) Good Reason. Executive's employment with the Company may be terminated by Executive with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following without Executive's consent: (i) a material reduction by the Company of Executive's title, duties, responsibilities, authority or reporting relationship set forth in Section 2(a); provided that the loss of the title of "President", or the loss of the responsibility of "principal financial officer" (either individually or in the aggregate) will not, in and of itself, constitute Good Reason if the individual who is appointed to the position of President, or who assumes the responsibility of "principal financial officer", reports directly or indirectly to Executive; (ii) a material reduction by the Company of Executive's Annual Base Salary (other than as provided in Section 3(a) of this Agreement); (iii) a material breach of the Company of this Agreement or of any other agreement between Executive and the Company; or (iv) a material change in geographic location at which Executive must principally perform services under this Agreement from the Company's offices at which Executive was principally employed (the Company has determined that a relocation of more than 25 miles would constitute such a material change). A termination of Executive's employment by Executive under Sections 4(c)(i), (ii),(iii) or (iv) shall not be deemed to be for Good Reason unless (x) Executive gives notice to the Company of the existence of the event or condition constituting Good Reason within 30 calendar days after becoming aware of the initial occurrence or existence of such event or condition, and (y) the Company fails to cure such event or condition within 30 calendar days after receiving such notice. Additionally, Executive must terminate his employment within 90 calendar days after the initial occurrence of the circumstance constituting Good Reason for such termination to be "Good Reason" hereunder.

(d) Notice of Termination. Any termination by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party in accordance with Section 11. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the Date of Termination.

(e) Date of Termination. "Date of Termination" means, as applicable, the date of Executive's death, the Disability Effective Date, or the date on which the termination of Executive's employment by the Company for Cause or without Cause or by Executive for Good Reason or without Good Reason is effective.

(f) Resignation from All Positions. Notwithstanding any other provision of this Agreement, upon the termination of Executive's employment for any reason, unless otherwise requested by the Board, Executive shall immediately resign from all positions that he holds or has

ever held with the Company and its affiliates, including the Board and the boards of directors or committees of the Company's affiliates. Executive hereby agrees to execute any and all documentation to effectuate such resignations upon request by the Company, but he shall be treated for all purposes as having so resigned upon termination of his employment, regardless of when or whether he executes any such documentation.

5. Severance Payments.

(a) Any Termination of Employment. If, during or at the expiration of the Term, Executive's employment with the Company and its affiliates shall terminate for any reason or no reason, then:

(i) Accrued Benefits. The Company shall pay, or cause to be paid, to Executive the sum of: (A) the portion of Executive's Annual Base Salary earned through the Date of Termination, to the extent not previously paid, (B) the amount of any annual bonus that has been earned by Executive for a completed fiscal year or other measuring period preceding the Date of Termination, but has not yet been paid to Executive, and (C) any unreimbursed business expenses to the extent reimbursable in accordance with the Company's reimbursement policies (the sum of the amounts described in clauses (A) through and including (C) shall be referred to as the "Accrued Benefits"). The Accrued Benefits shall be paid to Executive in a single lump sum within 30 calendar days after the Date of Termination.

(ii) Other Benefits. To the extent not previously paid or provided, the Company shall pay or provide, or cause to be paid or provided, to Executive (or his estate) any other amounts or benefits (including, as applicable, any payment of long-term incentive awards) required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company, including any benefits to which Executive is entitled under the Consolidated Omnibus Budget Reconciliation Act (such other amounts and benefits described in this Section 5(a)(ii) shall be hereinafter referred to as the "Other Benefits") in accordance with the terms and normal procedures of each such plan, program, policy or practice or contract or agreement, based on accrued and vested benefits through the Date of Termination.

(b) Good Reason, Other than for Cause (not During the Change in Control Protection Period). If, during the Term (other than during the Change in Control Protection Period, as defined below), the Company shall terminate Executive's employment other than for Disability or Cause, or if Executive shall terminate employment for Good Reason, then, in addition to providing the Accrued Benefits and Other Benefits, as set forth in Section 5(a) above, and subject to Sections 6 and 8(f) below, the Company shall pay or provide the following amounts and benefits to Executive:

(i) Severance. The Company shall continue to pay to Executive the Annual Base Salary, as of the Date of Termination, for the period beginning on the Date of Termination and ending 12 months thereafter (the "Severance Period"), which shall be payable over the Severance Period in regular installments in accordance with the Company's normal payroll practices as they may exist from time to time, with the installments that otherwise would be paid prior to the first payroll date following the date the Release described in Section 6 becomes

effective and irrevocable in accordance with its terms (the "Release Effective Date") being paid (without interest) on such payroll date in a lump sum and the remaining installments being paid as otherwise scheduled assuming payments had begun immediately after the Date of Termination.

(ii) Continued Health Insurance. If Executive elects COBRA coverage under the applicable medical and dental plans of the Company, the Company will subsidize a portion of the applicable monthly COBRA premium during the Severance Period, so that Executive will only be required to pay the premiums applicable to continuing employees during that time; provided that such subsidy shall cease on the date on which Executive becomes eligible for medical and dental coverage from a third party.

(iii) Pro-Rated Annual Incentive. Executive will be eligible to receive an annual incentive under the annual bonus plan for the fiscal year during which the Date of Termination occurs, based on actual performance results during the entire fiscal year and without regard to any discretionary adjustments that have the effect of reducing the amount of the annual incentive (other than discretionary adjustments applicable to all senior executives who did not terminate employment), pro-rated based on the number of days in the Company's fiscal year through (and including) the Date of Termination ("Pro-Rated Annual Incentive"), which, if earned, shall be payable in a single lump sum at the same time that payments are made to other participants in the annual bonus plan for that fiscal year; provided, however, that Executive shall be entitled to such a Pro-Rated Annual Incentive only if Executive was employed by the Company for at least six months during the fiscal year in which the Date of Termination occurred.

(c) Good Reason, Other than for Cause During the Change in Control Protection Period. If, during the Term and during the period beginning upon the occurrence of a "Change in Control" (as defined in the Company's 2018 Equity Incentive Plan) and ending on the first anniversary of the occurrence of the Change in Control (the "Change in Control Protection Period"), the Company shall terminate Executive's employment other than for Disability or Cause, or if Executive shall terminate employment for Good Reason, then, in addition to providing the Accrued Benefits and Other Benefits, as set forth in Section 5(a) above, and subject to Sections 6 and 8(f) below, the Company shall pay or provide the following amounts and benefits to Executive:

(i) Enhancements. The Company shall pay or provide, or cause to be paid or provided, to Executive the payments and benefits set forth in Section 5(b)(i) and (ii) above (but not Section 5(b)(iii) above), provided that when applying those provisions, the Severance Period shall mean the period beginning on the Date of Termination and ending 18 months thereafter.

(ii) Target Annual Incentive. In lieu of (and not in duplication of) the Pro-Rated Annual Incentive set forth in Section 5(b)(iii) above, Executive shall be entitled to receive an amount equal to the product of (x) 1.50 and (y) his Target Annual Incentive for the fiscal year in which the Date of Termination occurs, without pro-ration (and even if the Date of Termination occurs within the first 6 months of the fiscal year), which amount shall be paid to Executive within 15 business days after the Release Effective Date.

(iii) Equity. Notwithstanding anything contained in the applicable Company equity plan and award agreements to the contrary, all outstanding and unvested equity awards of

the Company granted to Executive shall become immediately vested and exercisable; provided that any such awards the vesting of which depends upon the achievement of performance objectives shall vest at the "target" achievement level for each performance objective. In addition, all outstanding and vested Company stock options (including those that vest pursuant to the operation of the immediately preceding sentence) will remain exercisable for the full duration of their term.

(d) **Section 280G.** Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any accrual, acceleration, payment, benefit or distribution by the Company or any of its affiliated companies to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be an excess parachute payment within the meaning of section 280G of the Internal Revenue Code of 1986, as amended (the "Code") (such excess only, an "Excess Payment"), then Executive shall forfeit all Excess Payments if the after-tax value to Executive of the Payments, as reduced by such forfeiture, would be greater than the after-tax value to Executive of the Payments absent such forfeiture. The forfeiture of Excess Payments, if applicable, shall be applied to the severance described in Section 5(c) hereof, then to cancellation of accelerated vesting of performance-based equity awards (based on the reverse order of the date of grant), then to cancellation of accelerated vesting of other equity awards (based on the reverse order of the date of grant), and then to any other Payments on a pro-rata basis. All determinations required to be made under this Section 5(d), including whether and when a Payment is subject to section 280G of the Code, and the value of a Payment for purposes of section 280G of the Code, and the assumptions to be utilized in arriving at such determination, shall be made by an accounting firm with expertise in such matters designated by the Company (the "Accounting Firm"). The Company will direct the Accounting Firm to provide its determination and detailed supporting calculations both to the Company and Executive within 15 business days after the date of the event giving rise to the Payment or such other time as is requested by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. All fees and expenses of the Accounting Firm for services performed pursuant to this Section 5(d) shall be borne solely by the Company.

6. Release. Notwithstanding anything contained herein to the contrary, the Company shall not be obligated to make any payment or provide any benefit under Sections 5(b) or 5(c) hereof unless: (a) Executive or Executive's legal representative first executes within 21 calendar days after the Date of Termination (or such longer period as required by applicable law) a release of claims agreement in the form attached hereto as Exhibit A, with such changes as the Company, after consulting with Executive or Executive's legal representative, may determine to be required or reasonably advisable in order to make the release enforceable and otherwise compliant with applicable law (the "Release"); (b) Executive does not revoke the Release; and (c) the Release becomes effective and irrevocable in accordance with its terms.

7. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or any of its affiliates may have against Executive or others, except as otherwise may be provided in Section 8 hereof. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the

provisions of this Agreement and such amounts shall not be reduced whether or not Executive obtains other employment.

8. Executive's Covenants.

(a) Confidentiality. During the Term and thereafter, Executive agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Executive to perform Executive's responsibilities for the Company under this Agreement, any of the Company's Confidential Information (as defined in paragraph (k) below) acquired by Executive during the course of, or in connection with, Executive's employment with the Company. Executive acknowledges that the Confidential Information is the exclusive property of the Company. Upon termination of Executive's employment with the Company, for any reason, or at the request of the Company at any time, Executive shall promptly return to the Company all property then in Executive's possession, custody or control belonging to the Company, including all Confidential Information. Executive shall not retain any copies of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents in any form whatsoever (including information contained in computer or other electronic memory or on any computer or electronic storage device) relating in any way to the affairs of the Company and which were entrusted to Executive or obtained by Executive at any time during the Term.

(b) Assignment of Rights. Executive shall promptly disclose to the Company and hereby assigns and transfers to the Company all of Executive's right, title and interest in and to:

(i) any and all patents, inventions, discoveries, concepts, processes, methods, formulas, techniques, trade secrets, know-how, and related rights, whether or not patentable; and

(ii) any and all copyrights and works of authorship, whether or not copyrightable,

if and only to the extent that such intellectual property was conceived, created or reduced to tangible form by Executive in the course of performing his duties for the Company, and either relates to the business of the Company, or was conceived, created or reduced to tangible form with the use or assistance of the Company's facilities, materials or personnel. Without limiting the generality of the foregoing, this assignment requirement applies to applications for U.S. or foreign letters patent and copyright registration granted upon such inventions, discoveries, and works of authorship and similar items as hereinabove set forth.

Executive shall deliver to the Company any and all instruments necessary to confirm complete ownership by the Company of any and all rights as described above, and upon the failure of Executive to furnish such documents, this Agreement shall constitute such documentation for all purposes. Executive further agrees during and after Executive's employment by the Company, to cooperate fully, including giving testimony in support of Executive's inventorship, as may be necessary in the opinion of the Company to obtain and/or maintain letters patent and to vest the entire ownership of such letters patent with the Company.

(c) Non-Competition. Executive and the Company agree that Executive is being employed in an important fiduciary capacity with the Company, that the Company is engaged in a highly competitive business and that Executive will have access to the Company's Confidential

Information. Executive and the Company further agree that it is appropriate to place reasonable limits as set forth herein on Executive's ability to compete with the Company to protect and preserve the legitimate business interests and goodwill of the Company. Executive agrees that, during the Term and thereafter during the Protection Period (as defined in paragraph (k) below), Executive will not, directly or indirectly (in a business capacity where Executive could use specialized knowledge, training, skill or expertise, Confidential Information, or customer contacts obtained from the Company to the detriment of the Company), own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, or consultant to any business or activity that is Competitive with the Company (as defined in paragraph (k) below). After the end of the Term, the covenant in this Section 8(c) shall restrict Executive's conduct within the Restricted Area (as defined in paragraph (k) below). Executive agrees that in his position, it is expected that Executive will receive Confidential Information related to the Restricted Area and if Executive was permitted to engage in competition with the Company within the Restricted Area, it would lead to unfair competition and it would be a significant disadvantage to the Company that would likely cause irreparable harm. Notwithstanding the foregoing, the ownership of not more than two percent (2%) of the outstanding securities of any company listed on any public exchange or regularly traded in the over-the-counter market, assuming Executive's involvement with any such company is solely that of a security holder, shall not constitute a violation of this Section 8(c).

(d) Customer Non-Solicitation. Executive agrees that, during the Term and thereafter during the Protection Period, Executive will not, directly or indirectly (in a capacity where Executive could use specialized knowledge, training, skill or expertise, Confidential Information, or customer contacts or information obtained from the Company to the detriment of the Company): (i) on behalf of a business that is Competitive with the Company, solicit, attempt to solicit, call on, or accept business from any Customer (as defined in paragraph (k) below); or (ii) in any manner cause or attempt to cause any Customer to divert, terminate, limit, modify or fail to enter into any existing or potential business relationship with the Company.

(e) Employee Non-Solicitation. Executive agrees that, during the Term and thereafter during the Protection Period, Executive will not directly or indirectly engage, solicit, hire, attempt to hire, or encourage any current employee or former employee (limited to former employees whose employment has been terminated or concluded for less than 6 months) of the Company to leave or terminate his or her employment relationship with the Company.

(f) Non-Disparagement. Executive agrees that he will not do or say anything that could reasonably be expected to disparage or impact negatively the name or reputation in the marketplace of the Company or any of its affiliates, employees, officers, directors, stockholders, members, principals or assigns. Subject to Executive's continuing obligations to comply with Section 8(a) (Confidential Information) hereof, nothing in this Section 8(f) shall preclude Executive from responding truthfully to any legal process or truthfully testifying in a legal or regulatory proceeding, provided that, to the extent permitted by law and Section 8(i) hereof, Executive promptly informs the Company of any such obligation prior to participating in any such proceedings. The Company, defined for purposes of this Section 8(f) as the Board and its individual members, agrees in turn that it will not do or say anything that could reasonably be expected to disparage or impact negatively the name or reputation in the marketplace of Executive,

provided that nothing in this Section 8(f) shall prevent the Company from responding truthfully to any legal process or truthfully testifying in a legal or regulatory proceeding.

(g) Divisible Provisions. The individual terms and provisions of this Section 8 are intended to be separate and divisible provisions and if, for any reason, any one or more of them is held to be invalid or unenforceable, neither the validity nor the enforceability of any other provision of this Section 8 shall thereby be affected. It is the intention of Executive and the Company that the potential restrictions on Executive's solicitation and future employment imposed by this Section 8 be reasonable in both duration and geographic scope and in all other respects. If for any reason any court of competent jurisdiction shall find any provisions of this Section 8 unreasonable in duration or geographic scope or otherwise, Executive and the Company agree that the restrictions and prohibitions contained herein may be modified by a court of competent jurisdiction and shall be effective to the fullest extent allowed under applicable law in such jurisdiction.

(h) Injunctive Relief and Remedies. In event of a breach or threatened breach of any of Executive's duties and obligations under this Section 8, the Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages it may suffer), to (i) seek temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach, (ii) cease making payments or providing benefits under Section 5 of this Agreement (other than paragraph 5(a) thereof), and (iii) seek any other relief obtainable through statutory or common law means (including, but not limited to, applicable trade secrets law).

Executive hereby expressly acknowledges that the harm that might result to the Company's business as a result of any noncompliance by Executive with the provisions of this Section 8 may be largely irreparable. The restrictions stated in this Section 8 are in addition to and not in lieu of protections afforded to trade secrets and confidential information under applicable law. Nothing in this Section 8 is intended to or shall be interpreted as diminishing or otherwise limiting the Company's right under applicable law to protect its trade secrets and confidential information.

(i) Protected Activity. Nothing contained in this Agreement, or any other agreement, policy, practice, procedure, directive or instruction maintained by the Company shall prohibit Executive from reporting possible violations of federal, state or local laws or regulations to any federal, state or local governmental agency or commission (a "Government Agency") or from making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations.

Executive does not need prior authorization of any kind to make any such reports or disclosures to any Government Agency and Executive is not required to notify the Company that Executive has made such reports or disclosures. Nothing in this Agreement limits any right Executive may have to receive a whistleblower award or bounty for information provided to any Government Agency. Executive hereby acknowledges that the Company has informed Executive, in accordance with 18 U.S.C. § 1833(b), that Executive may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure: (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(j) Notification/Survival. To enable the Company to monitor Executive's compliance with the obligations imposed by this Section 8, Executive agrees to inform the Company during the Protection Period, of the identity of any subsequent employer and Executive's new job title. Executive agrees that he will disclose the existence of this Section 8 to any subsequent employer. Following the expiration of the Term or this Agreement, this Section 8 shall survive and be of full force and effect.

(k) Definitions. As used in this Section 8, the following definitions shall apply

"Company" means the Company and its subsidiaries and affiliates.

"Competitive with the Company" means a person, entity, business or activity that focuses on the development and commercialization of abuse deterrent biopharmaceutical products for the treatment of Attention-deficit/hyperactivity disorder, or ADHD, or any other proprietary biopharmaceutical products in development by the Company during Executive's employment hereunder.

"Confidential Information" means information pertaining to the business of the Company that is generally not known to or readily ascertainable to the industry in which the Company competes, and that gives or tends to give the Company a competitive advantage over persons who do not possess such information or the secrecy of which is otherwise of value to the Company in the conduct of its business regardless of when and by whom such information was developed or acquired, and regardless of whether any of these are described in writing, copyrightable or considered copyrightable, patentable or considered patentable. Confidential Information includes, but is not limited to, the Company's trade secrets, financial information or plans, pricing and profit information, sales and marketing information or plans, business or strategic plans, information concerning methods of operation, proprietary systems or software, legal or regulatory information, cost and pricing information or policies, information concerning new or potential products or markets, clinical data, medical or other data relating to participants in clinical trials, or research and/or analysis, information related to present and potential customers, vendors and suppliers (including, but not limited to, lists, contact information, requirements, contract terms, and pricing), methods of operations, research and development, product information, business technical information, including technical data, techniques, solutions, test methods, quality control systems, processes, design specifications, technical formulas, procedures and information, all agreements, schematics, manuals, studies, reports, and statistical information relating to the Company, all formulations, database files, information technology, strategic alliances, products, services, programs and processes used or sold, and all software licensed or developed by the Company, computer programs, systems and/or software, ideas, inventions, business information, know-how, improvements, designs, redesigns, creations, discoveries and developments of the Company. Confidential Information includes all forms of the information, whether oral, written or contained in electronic or any other format.

"Customer" means any actual or potential customer or client of the Company that (i) Executive knows to have been engaged as a customer or client of the Company during the 1 year period prior to the Date of Termination, (ii) Executive knows to have been contacted by the Company during the 1 year period prior to the Date of Termination or (iii) about which Executive

had been provided or had access to Confidential Information during his employment with the Company.

"Protection Period" means the applicable Severance Period; provided, however, that such period shall be extended for an additional period of time equal to the time that elapses from the commencement of a breach of the covenants contained in this Section 8 until the termination of such breach.

"Restricted Area" means the geographic area or areas where Executive conducted activities on behalf of the Company (including its Affiliates). It is intended as of the Effective Date that the Restricted Area will include the entire United States, as Executive is engaged to provide services and has duties related to this entire geographic area.

9. Representations. Executive hereby represents and warrants to the Company that Executive is not party to any contract, understanding, agreement or policy, whether or not written, with his current employer (or any other previous employer) or otherwise, that would be breached by Executive's entering into, or performing services under, this Agreement. Executive further represents that he has disclosed to the Company in writing all material threatened, pending, or actual claims against Executive that are unresolved and still outstanding as of the Effective Date, in each case of which he is aware, resulting or arising from his service with his current employer (or any other previous employer) or his membership on any boards of directors.

10. Cooperation. During the Term and thereafter, Executive shall cooperate with the Company and its affiliates, without additional consideration, in any internal investigation or administrative, regulatory, or judicial proceeding as reasonably requested by the Company including, without limitation, Executive's being available to the Company and its affiliates upon reasonable notice for interviews and factual investigations, appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information, and turning over to the Company all relevant documents that are or may come into Executive's possession, all at times and on schedules that are reasonably consistent with Executive's other permitted activities and commitments and otherwise taking into account Executive's reasonable business obligations. Executive shall be reimbursed for the reasonable expenses Executive incurs in connection with any such cooperation and/or assistance and shall receive from the Company hourly compensation equal to the Annual Base Salary immediately prior to the Date of Termination divided by 2,200 hours, in each case in connection with any assistance or cooperation that occurs after the Date of Termination. Any such reimbursements or per diem compensation shall be paid to Executive no later than the 15th day of the month immediately following the month in which such expenses were incurred or such cooperation and/or assistance was provided (subject to Executive's timely submission to the Company of proper documentation with respect thereto).

11. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by electronic mail, or sent by reputable overnight carrier, in each case with proof of receipt, to the recipient. Notices to Executive shall be sent to the address of Executive most recently provided to the Company. Notices to the Company should be sent to Vallon Pharmaceuticals, Inc., at the address of its corporate headquarters, Attention: Ofir Levi.

Any notice under this Agreement will be deemed to have been given when so delivered, sent or mailed.

12. Severability. The invalidity or unenforceability of any particular provision in this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if the invalid or unenforceable provision were omitted.

13. Complete Agreement. This Agreement, along with the Indemnity Agreement between Executive and the Company dated as of the Effective Date, embodies the complete agreement and understanding between the parties with respect to the subject matter hereof and effective as of its date supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way, including the employment agreement between Executive and the Company dated as of January 15, 2019, which agreement shall be considered null and void as of the Effective Date without any further action or notice; provided, however, that no provision in this Agreement shall be construed to adversely affect any of Executive's rights to compensation, expense reimbursement or benefits (including equity compensation) payable in accordance with the terms of Executive's prior employment agreements with the Company (and applicable equity award agreements) or any of Executive's rights to indemnification with respect to Executive's service under Executive's prior employment agreements with the Company, all of which are expressly agreed to survive the execution of this Agreement. The payments and benefits provided under Section 5 shall be in full satisfaction of the Company's obligations to Executive upon his termination of employment. Notwithstanding the foregoing, the Company and Executive agree that Executive shall be entitled to earn \$100,000 upon achievement of Milestone #2 as defined in the consulting agreement between Executive and the Company dated as of January 15, 2018 (the "Consulting Agreement") (for the avoidance of doubt, notwithstanding the second paragraph of Section 2 of the Consulting Agreement, Consultant shall be paid 100% of the bonus upon achievement of the Milestone #2, despite the termination of the Consulting Agreement and regardless of how long after such termination Milestone #2 is achieved). Executive must be employed by the Company on the date Milestone #2 is achieved, except that (i) if Executive's employment is terminated by the Company for any reason within two months prior to successful completion of Milestone #2, then 100% of the associated cash bonus shall be paid to Consultant upon achievement of the milestone, and (ii) if Company terminates Executive's employment for any reason between two and four months prior to successful completion of Milestone #2, then 50% of the associated cash bonus shall be paid to Consultant upon achievement of the milestone.

14. Withholding of Taxes. The Company and its affiliates may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company and its affiliates are required to withhold pursuant to any law or government regulation or ruling.

15. Successors and Assigns.

(a) This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 15(c), without the prior written consent of Executive this Agreement shall not be assignable by the Company, except to an affiliate.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

16. Choice of Law. This Agreement shall be governed, construed, interpreted and enforced in accordance with the substantive laws of the Commonwealth of Pennsylvania, without regard to conflicts of law principles. The parties hereto irrevocably agree to submit to the jurisdiction and venue of the federal and state courts located in Philadelphia, Pennsylvania in any court action or proceeding brought with respect to or in connection with this Agreement.

17. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

18. Section 409A Compliance.

(a) In General. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Code ("Section 409A") or are exempt therefrom and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered so as to be in compliance therewith.

(b) Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A, and for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service" within the meaning of Section 409A.

(c) Reimbursements or In-Kind Benefits. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A: (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of Executive's taxable year following the taxable year in which the expense occurred, or such earlier date as required hereunder.

(d) Six Month Delay. Notwithstanding anything contained in this Agreement to the contrary, if Executive is a "specified employee," as determined under the Company's policy for identifying specified employees on the Date of Termination, then to the extent required in order to comply with Section 409A, all payments, benefits or reimbursements paid or provided under this Agreement that constitute a "deferral of compensation" within the meaning of Section 409A, that are provided as a result of a "separation from service" within the meaning of Section 409A and that would otherwise be paid or provided during the first six months following such Date of Termination shall be accumulated through and paid or provided (without interest), within 20 calendar days after the first business day that is more than six months after the date of his separation from service (or, if Executive dies during such six-month period, within 20 calendar days after Executive's death).

(e) Payment Dates. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (*e.g.*, "within 20 calendar days after the Release described in Section 6 becomes effective and irrevocable"), the actual date of payment within the specified period shall be within the sole discretion of the Company. In the event the payment period under this Agreement for any nonqualified deferred compensation commences in one calendar year and ends in a second calendar year, the payments shall not be paid (or installments commenced) until the later of the first payroll date of the second calendar year, or the date that such Release becomes effective and irrevocable, to the extent necessary to comply with Section 409A. For purposes of Section 409A, Executive's right to receive any "installment" payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

19. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by electronic mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above.

VALLON PHARMACEUTICALS, INC.

/s/ Ofir Levi

By: Ofir Levi PhD

Its: Chairman

EXECUTIVE

/s/ David Baker

David Baker

EXHIBIT A
GENERAL RELEASE

This General Release (this "Release") is made and entered into as of this [•] day of [•], 20[•], by and between Vallon Pharmaceuticals, Inc. (the "Company") and David Baker ("Executive").

1. Employment Status. Executive's employment with the Company and its affiliates terminated effective as of [•], 20[•] (the "Separation Date").

2. Payments and Benefits. Upon the effectiveness of the terms set forth herein, the Company shall provide Executive with the benefits set forth in Section 5(b) of the Employment Agreement between Executive and the Company dated as of April 20, 2021 (the "Employment Agreement"), upon the terms, and subject to the conditions, of the Employment Agreement. Executive agrees that Executive is not entitled to receive any additional payments as wages, vacation or bonuses except as otherwise provided under Section 5(b)/5(c) of the Employment Agreement.

3. No Liability. This Release does not constitute an admission by the Company, or any of its parents, subsidiaries, affiliates, divisions, officers, directors, partners, agents, or employees, or by Executive, of any unlawful acts or of any violation of federal, state or local laws.

4. Release. In consideration of the payments and benefits set forth in Section 2 above, Executive for himself, his heirs, administrators, representatives, executors, successors and assigns does hereby irrevocably and unconditionally release, acquit and forever discharge the Company and each of its parents, subsidiaries, affiliates, divisions, successors, assigns, officers, directors, partners, agents, attorneys, and former and current employees, including without limitation all persons acting by, through, under or in concert with any of them (collectively, "Releasees"), and each of them, from any and all claims, demands, actions, causes of action, costs, attorney fees, and all liability whatsoever, whether known or unknown, fixed or contingent, which Executive has, had, or may ever have against the Releasees relating to or arising out of Executive's employment or separation from employment with the Company, from the beginning of time and up to and including the date Executive executes this Release. This Release includes, without limitation, (i) law or equity claims; (ii) contract (express or implied) or tort claims; (iii) claims for wrongful discharge, retaliatory discharge, whistle blowing, libel, slander, defamation, unpaid compensation, intentional infliction of emotional distress, fraud, public policy, contract or tort, and implied covenant of good faith and fair dealing; (iv) claims arising under any federal, state, or local laws of any jurisdiction that prohibit age, sex, race, national origin, color, disability, religion, veteran, military status, sexual orientation, or any other form of discrimination, harassment, or retaliation (including without limitation under the Age Discrimination in Employment Act of 1967 as amended by the Older Workers Benefit Protection Act ("ADEA"), the National Labor Relations Act, Executive Order 11246, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, Title VII of the Civil Rights Act of 1964 as amended by the Civil Rights Act of 1991, Section 1981 of the Civil Rights Act of 1966, the Equal Pay Act of 1962, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Family and Medical Leave Act of 1993, the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Genetic Information Non-discrimination Act, the Sarbanes-Oxley Act, the Employee

Polygraph Protection Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Equal Pay Act, the Lilly Ledbetter Fair Pay Act, the Post-Civil War Civil Rights Act (42 U.S.C. §§1981-1988), or any other foreign, federal, state or local law or judicial decision), (v) claims arising under the Employee Retirement Income Security Act (excluding claims for amounts that are vested benefits or that Executive is otherwise entitled to receive under any employee benefit plan of the Company or any of its affiliates in accordance with the terms of such plan and applicable law), and (vi) any other statutory or common law claims related to Executive's employment with the Company or the separation of Executive's employment with the Company; provided, however, that nothing herein shall release any obligation of the Company under the Employment Agreement.

5. Protected Activity. Nothing contained in this Release limits Executive's ability to file a charge or complaint with any federal, state or local governmental agency or commission (a "Government Agency"). In addition, nothing in this Release or any other Company agreement, policy, practice, procedure, directive or instruction shall prohibit Executive from reporting possible violations of federal, state or local laws or regulations to any Government Agency or making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations.

Executive does not need prior authorization of any kind to make any such reports or disclosures and Executive is not required to notify the Company that Executive has made such reports or disclosures.

If Executive files any charge or complaint with any Government Agency, and if the Government Agency pursues any claim on Executive's behalf, or if any other third party pursues any claim on Executive's behalf, Executive waives any right to monetary or other individualized relief (either individually, or as part of any collective or class action) that arises out of alleged facts or circumstances on or before the effective date of this Release; provided that nothing in this Release limits any right Executive may have to receive a whistleblower award or bounty for information provided to the Securities and Exchange Commission or other Government Agency.

6. Bar. Executive and the Company acknowledge and agree that if he or it should hereafter make any claim or demand or commence or threaten to commence any action, claim or proceeding against the other party with respect to any cause, matter or thing which is the subject of the releases under Section 4 of this Release, this Release may be raised as a complete bar to any such action, claim or proceeding, and the applicable Releasee may recover from the other party all costs incurred in connection with such action, claim or proceeding, including attorneys' fees.

7. Governing Law. This Release shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to conflicts of laws principles.

8. Acknowledgment. Executive has read this Release, understands it, and voluntarily accepts its terms, and Executive acknowledges that he has been advised by the Company to seek the advice of legal counsel before entering into this Release, and has been provided with a period of at least twenty-one (21) days in which to consider entering into this Release. Executive acknowledges and agrees that the payments and benefits provided under Section 2 of this Release represent substantial value over and above that to which Executive would otherwise be entitled.

9. Revocation. Executive has a period of seven (7) days following the execution of this Release during which Executive may revoke this Release by delivering written notice to the Company, and this Release shall not become effective or enforceable until such revocation period has expired. Executive understands that if he revokes this Release, it will be null and void in its entirety, and he will not be entitled to any payments or benefits provided in this Release, including without limitation those under Section 2 above.

10. Miscellaneous. This Release is the complete understanding between Executive and the Company in respect of the subject matter of this Release and supersedes all prior agreements relating to the same subject matter. Executive has not relied upon any representations, promises or agreements of any kind except those set forth herein in signing this Release. In the event that any provision of this Release should be held to be invalid or unenforceable, each and all of the other provisions of this Release shall remain in full force and effect. If any provision of this Release is found to be invalid or unenforceable, such provision shall be modified as necessary to permit this Release to be upheld and enforced to the maximum extent permitted by law.

11. Counterparts. This Release may be executed by the parties hereto in counterparts, which taken together shall be deemed one original.

VALLON PHARMACEUTICALS, INC.

[Form of release - Do not sign]

By:
Its:

EXECUTIVE

[Form of release - Do not sign]

David Baker

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made as of the 11th day of May 2021, between Vallon Pharmaceuticals, Inc. (the "Company") and Leanne M. Kelly ("Executive"). In consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment Term. The Company shall employ Executive, and Executive accepts employment with the Company, upon the terms and subject to the conditions set forth in this Agreement, for the period beginning on May 10, 2021 (the "Effective Date") and ending on the Date of Termination (as defined in Section 4(e) of this Agreement) (the "Term").

2. Terms of Employment.

(a) Position and Duties. During the Term, Executive shall be employed by the Company as Chief Financial Officer and shall have such duties, responsibilities and authorities as are customarily associated with her position and such additional duties and responsibilities consistent with her position as may, from time to time, be properly and lawfully assigned to her. Executive shall report directly to the Chief Executive Officer. Executive shall act at all times in compliance in all respects with the policies, rules and decisions adopted from time to time by the Company and perform all of the duties and obligations required of her by this Agreement in a loyal and conscientious manner.

(b) Engaging in Other Activities. During the Term, Executive shall devote her full time and attention to the Company and its affiliates and shall not be employed by or provide services to any other person or entity. During the Term, it shall not be a violation of this Agreement for Executive, subject to the requirements of Section 8 hereof, to (i) serve on civic, charitable or religious boards or engage in other activities for such organizations, (ii) with the consent of the Board of Directors of the Company (the "Board"), which consent shall not be unreasonably withheld, serve on up to one corporate board unrelated to the Company (and retain all compensation in whatever form for such service), and (iii) manage personal investments, so long as such activities (individually or in the aggregate) do not interfere with the performance of Executive's responsibilities as set forth in Sections 2(a) or 2(b) of this Agreement or Executive's fiduciary duties to the Company.

(c) Location. Initially, Executive shall be permitted to perform her duties and responsibilities hereunder principally at her personal residence. Once the Company establishes a physical corporate headquarters, and subject to applicable remote work or work-at-home policies or requirements, Executive shall perform her duties and responsibilities hereunder principally at those corporate headquarters. In any event, Executive may be required under reasonable business circumstances to travel outside of her principal work location in connection with performing her duties under this Agreement.

(d) Affiliates. Executive agrees to serve, without additional compensation, as an officer and director of each of the other members of the Company's affiliates, as determined by

the Company. As used in this Agreement, the term “ affiliate” shall mean any entity controlled by, controlling, or under common control with, the Company.

3. Compensation and Benefits.

(a) Base Salary. During the Term, the Company shall pay Executive an annualized base salary (“Annual Base Salary”) of \$275,000, payable in regular installments in accordance with the Company’s normal payroll practices. During the Term, the Annual Base Salary shall be reviewed by the Board or a committee thereof at such time as the salaries of other senior executives of the Company are reviewed generally, but no less frequently than once a year. The Annual Base Salary shall not be reduced other than in connection with an across-the-board salary reduction which applies in a comparable manner to other senior executives of the Company. If so increased or reduced, then such adjusted salary will thereafter be the Annual Base Salary for all purposes under this Agreement.

(b) Annual Incentives. For each fiscal year during the Term, Executive shall be eligible to participate in an annual bonus plan under terms and conditions no less favorable than other senior executives of the Company; provided that Executive’s target annual bonus opportunity shall be 35% of her Annual Base Salary (or such higher amount as determined by the Board or a committee thereof from time to time) (the “Target Annual Incentive”) and pro-rated for the 2021 fiscal year. Executive’s payment under the annual bonus plan shall be based on the extent to which the performance objectives established by the Board or a committee thereof have been achieved. Unless a different payment date is established in the bonus plan by the Company, the bonus payment shall be made in a single lump sum within two and one-half months following the end of the Company’s fiscal year. Except as set forth in Section 5(b) or 5(c) below, Executive must be employed on the last day of the fiscal year to receive payment of any annual bonus earned for that fiscal year. Nothing contained in this Section 3(b) will guarantee Executive any specific amount of bonus compensation or prevent the Company from establishing performance goals and targets applicable only to Executive.

(c) Stock Option. Within 30 calendar days after the Effective Date, the Company shall recommend to the Board or a committee thereof to grant Executive an option to purchase up to 100,000 common shares of the Company (the “Stock Option”) under the Company’s 2018 Equity Incentive Plan (the “Equity Plan”). The Stock Option shall have an exercise price per share equal to the “Fair Market Value” (as defined in the Equity Plan) of a share of the Company’s common stock on the date of grant. The Stock Option shall vest in installments and become exercisable as follows: (i) 70% of the shares underlying the Stock Option shall vest as follows: (x) 17,500 option shares on the first anniversary of the Effective Date, and (y) the remaining 52,500 option shares in equal installments on a quarterly basis for the next three years, in each case subject to Executive’s continued employment, and (ii) 30% of the shares underlying the Stock Option shall vest as follows: (x) 15,000 option shares on the date the Company submits a New Drug Application (“NDA”) filing for ADAIR with the U.S. Food & Drug Administration, and (y) 15,000 option shares on the date when the U.S. Food & Drug Administration approves the NDA, provided that Executive is employed by the Company at the time the applicable performance objective is achieved. Except as specifically provided in this Section 3(c), the Stock Option shall be granted upon the terms, and subject to the conditions, of the Equity Plan and the award agreement evidencing the grant of the Stock Option, as provided

to senior executives of the Company generally. During the Term, the Company may, but shall have no obligation to, grant additional equity compensation awards to Executive under this Agreement or under the Equity Plan.

(d) PTO. During the Term, Executive shall be eligible for at least four (4) weeks paid time off ("PTO") per year in accordance with the Company's policies in effect from time to time for its senior vice presidents generally. Executive may carry over up to one (1) week of unused PTO into the next following year only.

(e) Expense Reimbursement. Executive shall be reimbursed for all reasonable travel and other out-of-pocket expenses actually and properly incurred by Executive prior to and during the Term in connection with carrying out her duties hereunder in accordance with the Company's policies in effect from time to time for its senior executives generally.

(f) Benefits. During the Term, and except as otherwise provided in this Agreement, Executive shall be eligible to participate in all welfare, perquisite, fringe benefit, insurance, retirement and other benefit plans, practices, policies and programs, maintained by the Company and its affiliates applicable to senior executives of the Company generally, in each case as amended from time to time.

4. Termination of Employment.

(a) Death and Disability. Executive's employment shall terminate automatically upon Executive's death. If the Company determines in good faith that the Disability (as defined below) of Executive has occurred during the Term, it may give to Executive written notice in accordance with Section 11 of this Agreement of its intention to terminate Executive's employment; provided that (i) such notice is provided no later than 150 calendar days following the determination of Executive's Disability, and (ii) Executive has not returned to full-time employment during the period between such determination and the giving of such notice. In such event, Executive's employment shall terminate effective on the 30th calendar day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the 30 calendar days after such receipt, Executive shall not have returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" shall mean the inability of Executive to perform the essential duties of the position held by Executive by reason of any medically determined physical or mental impairment that is reasonably expected to result in death or lasts for 120 calendar days in any one-year period, all as determined by an independent licensed physician mutually acceptable to the Company and Executive or Executive's legal representative.

(b) Cause. Executive's employment with the Company may be terminated by the Company with or without Cause. For purposes of this Agreement, "Cause" shall mean: (i) the continued failure of Executive to perform Executive's duties as set forth in Section 2 hereof or Executive's material disregard of the reasonable and lawful directives of the Company (in each case other than any such failure resulting from any medically determined physical or mental impairment) that is not cured by Executive within 20 calendar days after a written demand for performance is delivered to Executive by the Company which specifically identifies the manner in which the Company believes that Executive has not performed Executive's duties or

disregarded a directive of the Board; (ii) Executive's commission of any material act of fraud, misappropriation or embezzlement against or in connection with the Company or any of its affiliates or their respective businesses or operations; (iii) Executive's commission of, or indictment for or otherwise being formally charged with, any crime involving dishonesty or for any felony; (iv) the engaging by Executive in misconduct that is materially detrimental to the financial condition or business reputation of the Company or any of its affiliates, including due to any adverse publicity; or (v) a material breach by Executive of her obligations under Section 8, or her representations under Section 9, of this Agreement. In addition to the notice and opportunity to cure set forth in subsection (i) above, to the extent that any of the grounds set forth in subsections (ii), (iv) or (v) above is capable of being cured, the Company shall not have Cause unless it has furnished Executive with written notice specifically identifying the conduct allegedly giving rise to Cause, and she has failed to cure such ground within 20 days of the delivery of such notice.

(c) Good Reason. Executive's employment with the Company may be terminated by Executive with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following without Executive's consent: (i) a material reduction by the Company of Executive's title, duties, responsibilities, authority or reporting relationship set forth in Section 2(a); (ii) a material reduction by the Company of Executive's Annual Base Salary (other than as provided in Section 3(a) of this Agreement); (iii) a material breach of the Company of this Agreement or of any other agreement between Executive and the Company; or (iv) a material change in geographic location at which Executive must principally perform services under this Agreement from the location at which Executive was principally employed (the Company has determined that a relocation of more than 50 miles would constitute such a material change). A termination of Executive's employment by Executive under Sections 4(c)(i), (ii), (iii) or (iv) shall not be deemed to be for Good Reason unless (x) Executive gives notice to the Company of the existence of the event or condition constituting Good Reason within 30 calendar days after becoming aware of the initial occurrence or existence of such event or condition, and (y) the Company fails to cure such event or condition within 30 calendar days after receiving such notice. Additionally, Executive must terminate her employment within 90 calendar days after the initial occurrence of the circumstance constituting Good Reason for such termination to be "Good Reason" hereunder.

(d) Notice of Termination. Any termination by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party in accordance with Section 11. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the Date of Termination.

(e) Date of Termination. "Date of Termination" means, as applicable, the date of Executive's death, the Disability Effective Date, or the date on which the termination of Executive's employment by the Company for Cause or without Cause or by Executive for Good Reason or without Good Reason is effective.

(f) Resignation from All Positions. Notwithstanding any other provision of this Agreement, upon the termination of Executive's employment for any reason, unless otherwise requested by the Board, Executive shall immediately resign from all positions that she holds or has ever held with the Company and its affiliates, including the boards of directors or committees of the Company's affiliates. Executive hereby agrees to execute any and all documentation to effectuate such resignations upon request by the Company, but she shall be treated for all purposes as having so resigned upon termination of her employment, regardless of when or whether she executes any such documentation.

5. Severance Payments.

(a) Any Termination of Employment. If, during or at the expiration of the Term, Executive's employment with the Company and its affiliates shall terminate for any reason or no reason, then:

(i) Accrued Benefits. The Company shall pay, or cause to be paid, to Executive the sum of: (A) the portion of Executive's Annual Base Salary earned through the Date of Termination, to the extent not previously paid, (B) the amount of any annual bonus that has been earned by Executive for a completed fiscal year or other measuring period preceding the Date of Termination, but has not yet been paid to Executive, and (C) any unreimbursed business expenses to the extent reimbursable in accordance with the Company's reimbursement policies (the sum of the amounts described in clauses (A) through and including (C) shall be referred to as the "Accrued Benefits"). The Accrued Benefits shall be paid to Executive in a single lump sum within 30 calendar days after the Date of Termination.

(ii) Other Benefits. To the extent not previously paid or provided, the Company shall pay or provide, or cause to be paid or provided, to Executive (or her estate) any other amounts or benefits (including, as applicable, any payment of long-term incentive awards) required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company, including any benefits to which Executive is entitled under the Consolidated Omnibus Budget Reconciliation Act (such other amounts and benefits described in this Section 5(a)(ii) shall be hereinafter referred to as the "Other Benefits") in accordance with the terms and normal procedures of each such plan, program, policy or practice or contract or agreement, based on accrued and vested benefits through the Date of Termination.

(b) Good Reason, Other than for Cause (not During the Change in Control Protection Period). If, during the Term (other than during the Change in Control Protection Period, as defined below), the Company shall terminate Executive's employment other than for Disability or Cause, or if Executive shall terminate employment for Good Reason, then, in addition to providing the Accrued Benefits and Other Benefits, as set forth in Section 5(a) above, and subject to Sections 6 and 8(f) below, the Company shall pay or provide the following amounts and benefits to Executive:

(i) Severance. The Company shall continue to pay to Executive the Annual Base Salary, as of the Date of Termination, for the period beginning on the Date of Termination and ending 9 months thereafter (the "Severance Period"), which shall be payable over the

Severance Period in regular installments in accordance with the Company's normal payroll practices as they may exist from time to time, with the installments that otherwise would be paid prior to the first payroll date following the date the Release described in Section 6 becomes effective and irrevocable in accordance with its terms (the "Release Effective Date") being paid (without interest) on such payroll date in a lump sum and the remaining installments being paid as otherwise scheduled assuming payments had begun immediately after the Date of Termination.

(ii) Continued Health Insurance. If Executive elects COBRA coverage under the applicable medical and dental plans of the Company, the Company will subsidize a portion of the applicable monthly COBRA premium during the Severance Period, so that Executive will only be required to pay the premiums applicable to continuing employees during that time; provided that such subsidy shall cease on the date on which Executive becomes eligible for medical and dental coverage from a third party.

(iii) Pro-Rated Annual Incentive. Executive will be eligible to receive an annual incentive under the annual bonus plan for the fiscal year during which the Date of Termination occurs, based on actual performance results during the entire fiscal year and without regard to any discretionary adjustments that have the effect of reducing the amount of the annual incentive (other than discretionary adjustments applicable to all senior executives who did not terminate employment), pro-rated based on the number of days in the Company's fiscal year through (and including) the Date of Termination ("Pro-Rated Annual Incentive"), which, if earned, shall be payable in a single lump sum at the same time that payments are made to other participants in the annual bonus plan for that fiscal year; provided, however, that Executive shall be entitled to such a Pro-Rated Annual Incentive only if Executive was employed by the Company for at least six months during the fiscal year in which the Date of Termination occurred.

(c) Good Reason, Other than for Cause During the Change in Control Protection Period. If, during the Term and during the period beginning upon the occurrence of a "Change in Control" (as defined in the Equity Plan) and ending on the first anniversary of the occurrence of the Change in Control (the "Change in Control Protection Period"), the Company shall terminate Executive's employment other than for Disability or Cause, or if Executive shall terminate employment for Good Reason, then, in addition to providing the Accrued Benefits and Other Benefits, as set forth in Section 5(a) above, and subject to Sections 6 and 8(f) below, the Company shall pay or provide the following amounts and benefits to Executive:

(i) Enhancements. The Company shall pay or provide, or cause to be paid or provided, to Executive the payments and benefits set forth in Section 5(b)(i) and (ii) above (but not Section 5(b)(iii) above), provided that when applying those provisions, the Severance Period shall mean the period beginning on the Date of Termination and ending on the first anniversary thereof.

(ii) Target Annual Incentive. In lieu of (and not in duplication of) the Pro-Rated Annual Incentive set forth in Section 5(b)(iii) above, Executive shall be entitled to receive her Target Annual Incentive for the fiscal year in which the Date of Termination occurs, without pro-ration (and even if the Date of Termination occurs within the first 6 months of the

fiscal year), which amount shall be paid to Executive within 15 business days after the Release Effective Date.

(iii) Equity. Notwithstanding anything contained in the applicable Company equity plan and award agreements to the contrary, all outstanding and unvested equity awards of the Company granted to Executive shall become immediately vested and exercisable; provided that any such awards the vesting of which depends upon the achievement of performance objectives shall vest at the “target” achievement level for each performance objective. In addition, all outstanding and vested Company stock options (including those that vest pursuant to the operation of the immediately preceding sentence) will remain exercisable for the full duration of their term.

(d) Section 280G. Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any accrual, acceleration, payment, benefit or distribution by the Company or any of its affiliated companies to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a “Payment”) would be an excess parachute payment within the meaning of section 280G of the Internal Revenue Code of 1986, as amended (the “Code”) (such excess only, an “Excess Payment”), then Executive shall forfeit all Excess Payments if the after-tax value to Executive of the Payments, as reduced by such forfeiture, would be greater than the after-tax value to Executive of the Payments absent such forfeiture. The forfeiture of Excess Payments, if applicable, shall be applied to the severance described in Section 5(c) hereof, then to cancellation of accelerated vesting of performance-based equity awards (based on the reverse order of the date of grant), then to cancellation of accelerated vesting of other equity awards (based on the reverse order of the date of grant), and then to any other Payments on a pro-rata basis. All determinations required to be made under this Section 5(d), including whether and when a Payment is subject to section 280G of the Code, and the value of a Payment for purposes of section 280G of the Code, and the assumptions to be utilized in arriving at such determination, shall be made by an accounting firm with expertise in such matters designated by the Company (the “Accounting Firm”). The Company will direct the Accounting Firm to provide its determination and detailed supporting calculations both to the Company and Executive within 15 business days after the date of the event giving rise to the Payment or such other time as is requested by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. All fees and expenses of the Accounting Firm for services performed pursuant to this Section 5(d) shall be borne solely by the Company.

6. Release. Notwithstanding anything contained herein to the contrary, the Company shall not be obligated to make any payment or provide any benefit under Section 5(b) or 5(c) hereof unless: (a) Executive or Executive’s legal representative first executes within 21 calendar days after the Date of Termination (or such longer period as required by applicable law) a release of claims agreement in the form attached hereto as Exhibit A, with such changes as the Company, after consulting with Executive or Executive’s legal representative, may determine to be required or reasonably advisable in order to make the release enforceable and otherwise compliant with applicable law (the “Release”); (b) Executive does not revoke the Release; and (c) the Release becomes effective and irrevocable in accordance with its terms.

7. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or any of its affiliates may have against Executive or others, except as otherwise may be provided in Section 8 hereof. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Executive obtains other employment.

8. Executive's Covenants.

(a) Confidentiality. During the Term and thereafter, Executive agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Executive to perform Executive's responsibilities for the Company under this Agreement, any of the Company's Confidential Information (as defined in paragraph (k) below) acquired by Executive during the course of, or in connection with, Executive's employment with the Company. Executive acknowledges that the Confidential Information is the exclusive property of the Company. Upon termination of Executive's employment with the Company, for any reason, or at the request of the Company at any time, Executive shall promptly return to the Company all property then in Executive's possession, custody or control belonging to the Company, including all Confidential Information. Executive shall not retain any copies of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents in any form whatsoever (including information contained in computer or other electronic memory or on any computer or electronic storage device) relating in any way to the affairs of the Company and which were entrusted to Executive or obtained by Executive at any time during the Term.

(b) Assignment of Rights. Executive shall promptly disclose to the Company and hereby assigns and transfers to the Company all of Executive's right, title and interest in and to:

(i) any and all patents, inventions, discoveries, concepts, processes, methods, formulas, techniques, trade secrets, know-how, and related rights, whether or not patentable; and

(ii) any and all copyrights and works of authorship, whether or not copyrightable,

if and only to the extent that such intellectual property was conceived, created or reduced to tangible form by Executive in the course of performing her duties for the Company, and either relates to the business of the Company, or was conceived, created or reduced to tangible form with the use or assistance of the Company's facilities, materials or personnel. Without limiting the generality of the foregoing, this assignment requirement applies to applications for U.S. or foreign letters patent and copyright registration granted upon such inventions, discoveries, and works of authorship and similar items as hereinabove set forth.

Executive shall deliver to the Company any and all instruments necessary to confirm complete ownership by the Company of any and all rights as described above, and upon the failure of Executive to furnish such documents, this Agreement shall constitute such documentation for all

purposes. Executive further agrees during and after Executive's employment by the Company, to cooperate fully, including giving testimony in support of Executive's inventorship, as may be necessary in the opinion of the Company to obtain and/or maintain letters patent and to vest the entire ownership of such letters patent with the Company.

(c) Non-Competition. Executive and the Company agree that Executive is being employed in an important fiduciary capacity with the Company, that the Company is engaged in a highly competitive business and that Executive will have access to the Company's Confidential Information. Executive and the Company further agree that it is appropriate to place reasonable limits as set forth herein on Executive's ability to compete with the Company to protect and preserve the legitimate business interests and goodwill of the Company. Executive agrees that, during the Term and thereafter during the Protection Period (as defined in paragraph (k) below), Executive will not, directly or indirectly (in a business capacity where Executive could use specialized knowledge, training, skill or expertise, Confidential Information, or customer contacts obtained from the Company to the detriment of the Company), own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, or consultant to any business or activity that is Competitive with the Company (as defined in paragraph (k) below). After the end of the Term, the covenant in this Section 8(c) shall restrict Executive's conduct within the Restricted Area (as defined in paragraph (k) below). Executive agrees that in her position, it is expected that Executive will receive Confidential Information related to the Restricted Area and if Executive was permitted to engage in competition with the Company within the Restricted Area, it would lead to unfair competition and it would be a significant disadvantage to the Company that would likely cause irreparable harm. Notwithstanding the foregoing, the ownership of not more than two percent (2%) of the outstanding securities of any company listed on any public exchange or regularly traded in the over-the-counter market, assuming Executive's involvement with any such company is solely that of a security holder, shall not constitute a violation of this Section 8(c).

(d) Customer Non-Solicitation. Executive agrees that, during the Term and thereafter during the Protection Period, Executive will not, directly or indirectly (in a capacity where Executive could use specialized knowledge, training, skill or expertise, Confidential Information, or customer contacts or information obtained from the Company to the detriment of the Company): (i) on behalf of a business that is Competitive with the Company, solicit, attempt to solicit, call on, or accept business from any Customer (as defined in paragraph (k) below); or (ii) in any manner cause or attempt to cause any Customer to divert, terminate, limit, modify or fail to enter into any existing or potential business relationship with the Company.

(e) Employee Non-Solicitation. Executive agrees that, during the Term and thereafter during the Protection Period, Executive will not directly or indirectly engage, solicit, hire, attempt to hire, or encourage any current employee or former employee (limited to former employees whose employment has been terminated or concluded for less than 6 months) of the Company to leave or terminate his or her employment relationship with the Company.

(f) Non-Disparagement. Executive agrees that she will not do or say anything that could reasonably be expected to disparage or impact negatively the name or reputation in the marketplace of the Company or any of its affiliates, employees, officers, directors, stockholders,

members, principals or assigns. Subject to Executive's continuing obligations to comply with Section 8(a) (Confidential Information) hereof, nothing in this Section 8(f) shall preclude Executive from responding truthfully to any legal process or truthfully testifying in a legal or regulatory proceeding, provided that, to the extent permitted by law and Section 8(i) hereof, Executive promptly informs the Company of any such obligation prior to participating in any such proceedings. The Company, defined for purposes of this Section 8(f) as the Board and its individual members, agrees in turn that it will not do or say anything that could reasonably be expected to disparage or impact negatively the name or reputation in the marketplace of Executive, provided that nothing in this Section 8(f) shall prevent the Company from responding truthfully to any legal process or truthfully testifying in a legal or regulatory proceeding.

(g) Divisible Provisions. The individual terms and provisions of this Section 8 are intended to be separate and divisible provisions and if, for any reason, any one or more of them is held to be invalid or unenforceable, neither the validity nor the enforceability of any other provision of this Section 8 shall thereby be affected. It is the intention of Executive and the Company that the potential restrictions on Executive's solicitation and future employment imposed by this Section 8 be reasonable in both duration and geographic scope and in all other respects. If for any reason any court of competent jurisdiction shall find any provisions of this Section 8 unreasonable in duration or geographic scope or otherwise, Executive and the Company agree that the restrictions and prohibitions contained herein may be modified by a court of competent jurisdiction and shall be effective to the fullest extent allowed under applicable law in such jurisdiction.

(h) Injunctive Relief and Remedies. In event of a breach or threatened breach of any of Executive's duties and obligations under this Section 8, the Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages it may suffer), to (i) seek temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach, (ii) cease making payments or providing benefits under Section 5 of this Agreement (other than paragraph 5(a) thereof), and (iii) seek any other relief obtainable through statutory or common law means (including, but not limited to, applicable trade secrets law). Executive hereby expressly acknowledges that the harm that might result to the Company's business as a result of any noncompliance by Executive with the provisions of this Section 8 may be largely irreparable. The restrictions stated in this Section 8 are in addition to and not in lieu of protections afforded to trade secrets and confidential information under applicable law. Nothing in this Section 8 is intended to or shall be interpreted as diminishing or otherwise limiting the Company's right under applicable law to protect its trade secrets and confidential information.

(i) Protected Activity. Nothing contained in this Agreement, or any other agreement, policy, practice, procedure, directive or instruction maintained by the Company shall prohibit Executive from reporting possible violations of federal, state or local laws or regulations to any federal, state or local governmental agency or commission (a "Government Agency") or from making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations. Executive does not need prior authorization of any kind to make any such reports or disclosures to any Government Agency and Executive is not required to notify the Company that Executive has made such reports or disclosures. Nothing in this Agreement limits any right Executive may have to receive a whistleblower award or bounty for

information provided to any Government Agency. Executive hereby acknowledges that the Company has informed Executive, in accordance with 18 U.S.C. § 1833(b), that Executive may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure: (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(j) Notification/Survival. To enable the Company to monitor Executive's compliance with the obligations imposed by this Section 8, Executive agrees to inform the Company during the Protection Period, of the identity of any subsequent employer and Executive's new job title. Executive agrees that she will disclose the existence of this Section 8 to any subsequent employer. Following the expiration of the Term or this Agreement, this Section 8 shall survive and be of full force and effect.

(k) Definitions. As used in this Section 8, the following definitions shall apply

"Company" means the Company and its subsidiaries and affiliates.

"Competitive with the Company" means a person, entity, business or activity that focuses on the development and commercialization of abuse deterrent biopharmaceutical products for the treatment of Attention-deficit/hyperactivity disorder, or ADHD, or any other proprietary biopharmaceutical products in development by the Company during Executive's employment hereunder.

"Confidential Information" means information pertaining to the business of the Company that is generally not known to or readily ascertainable to the industry in which the Company competes, and that gives or tends to give the Company a competitive advantage over persons who do not possess such information or the secrecy of which is otherwise of value to the Company in the conduct of its business regardless of when and by whom such information was developed or acquired, and regardless of whether any of these are described in writing, copyrightable or considered copyrightable, patentable or considered patentable. Confidential Information includes, but is not limited to, the Company's trade secrets, financial information or plans, pricing and profit information, sales and marketing information or plans, business or strategic plans, information concerning methods of operation, proprietary systems or software, legal or regulatory information, cost and pricing information or policies, information concerning new or potential products or markets, clinical data, medical or other data relating to participants in clinical trials, or research and/or analysis, information related to present and potential customers, vendors and suppliers (including, but not limited to, lists, contact information, requirements, contract terms, and pricing), methods of operations, research and development, product information, business technical information, including technical data, techniques, solutions, test methods, quality control systems, processes, design specifications, technical formulas, procedures and information, all agreements, schematics, manuals, studies, reports, and statistical information relating to the Company, all formulations, database files, information technology, strategic alliances, products, services, programs and processes used or sold, and all software licensed or developed by the Company, computer programs, systems and/or software, ideas, inventions, business information, know-how, improvements, designs, redesigns, creations,

discoveries and developments of the Company. Confidential Information includes all forms of the information, whether oral, written or contained in electronic or any other format.

"Customer" means any actual or potential customer or client of the Company that (i) Executive knows to have been engaged as a customer or client of the Company during the 1 year period prior to the Date of Termination, (ii) Executive knows to have been contacted by the Company during the 1 year period prior to the Date of Termination or (iii) about which Executive had been provided or had access to Confidential Information during her employment with the Company.

"Protection Period" means the applicable Severance Period; provided, however, that such period shall be extended for an additional period of time equal to the time that elapses from the commencement of a breach of the covenants contained in this Section 8 until the termination of such breach.

"Restricted Area" means the geographic area or areas where Executive conducted activities on behalf of the Company (including its Affiliates). It is intended as of the Effective Date that the Restricted Area will include the entire United States, as Executive is engaged to provide services and has duties related to this entire geographic area.

9. Representations. Executive hereby represents and warrants to the Company that Executive is not party to any contract, understanding, agreement or policy, whether or not written, with her current employer (or any other previous employer) or otherwise, that would be breached by Executive's entering into, or performing services under, this Agreement. Executive further represents that she has disclosed to the Company in writing all material threatened, pending, or actual claims against Executive that are unresolved and still outstanding as of the Effective Date, in each case of which she is aware, resulting or arising from her service with her current employer (or any other previous employer) or her membership on any boards of directors.

10. Cooperation. During the Term and thereafter, Executive shall cooperate with the Company and its affiliates, without additional consideration, in any internal investigation or administrative, regulatory, or judicial proceeding as reasonably requested by the Company including, without limitation, Executive's being available to the Company and its affiliates upon reasonable notice for interviews and factual investigations, appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information, and turning over to the Company all relevant documents that are or may come into Executive's possession, all at times and on schedules that are reasonably consistent with Executive's other permitted activities and commitments and otherwise taking into account Executive's reasonable business obligations. Executive shall be reimbursed for the reasonable expenses Executive incurs in connection with any such cooperation and/or assistance and shall receive from the Company hourly compensation equal to the Annual Base Salary immediately prior to the Date of Termination divided by 2,200 hours, in each case in connection with any assistance or cooperation that occurs after the Date of Termination. Any such reimbursements or per diem compensation shall be paid to Executive no later than the 15th day of the month immediately following the month in which such

expenses were incurred or such cooperation and/or assistance was provided (subject to Executive's timely submission to the Company of proper documentation with respect thereto).

11. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by electronic mail, or sent by reputable overnight carrier, in each case with proof of receipt, to the recipient. Notices to Executive shall be sent to the address of Executive most recently provided to the Company. Notices to the Company should be sent to Vallon Pharmaceuticals, Inc., 100 N. 18th Street, Suite 300, Philadelphia, PA 19103, Attention: Chief Executive Officer. Any notice under this Agreement will be deemed to have been given when so delivered, sent or mailed.

12. Severability. The invalidity or unenforceability of any particular provision in this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if the invalid or unenforceable provision were omitted.

13. Complete Agreement. This Agreement, along with the Indemnity Agreement between Executive and the Company dated as of the Effective Date, embodies the complete agreement and understanding between the parties with respect to the subject matter hereof and effective as of its date supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

14. Withholding of Taxes. The Company and its affiliates may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as the Company and its affiliates are required to withhold pursuant to any law or government regulation or ruling.

15. Successors and Assigns.

(a) This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 15(c), without the prior written consent of Executive this Agreement shall not be assignable by the Company, except to an affiliate.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

16. Choice of Law. This Agreement shall be governed, construed, interpreted and enforced in accordance with the substantive laws of the Commonwealth of Pennsylvania,

without regard to conflicts of law principles. The parties hereto irrevocably agree to submit to the jurisdiction and venue of the federal and state courts located in Philadelphia, Pennsylvania in any court action or proceeding brought with respect to or in connection with this Agreement.

17. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Executive, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

18. Section 409A Compliance.

(a) In General. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Code ("Section 409A") or are exempt therefrom and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered so as to be in compliance therewith.

(b) Separation from Service. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A, and for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service" within the meaning of Section 409A.

(c) Reimbursements or In-Kind Benefits. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A: (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year; and (iii) such payments shall be made on or before the last day of Executive's taxable year following the taxable year in which the expense occurred, or such earlier date as required hereunder.

(d) Six Month Delay. Notwithstanding anything contained in this Agreement to the contrary, if Executive is a "specified employee," as determined under the Company's policy for identifying specified employees on the Date of Termination, then to the extent required in order to comply with Section 409A, all payments, benefits or reimbursements paid or provided under this Agreement that constitute a "deferral of compensation" within the meaning of Section 409A, that are provided as a result of a "separation from service" within the meaning of Section 409A and that would otherwise be paid or provided during the first six months following such Date of Termination shall be accumulated through and paid or provided (without interest), within 20 calendar days after the first business day that is more than six months after the date of her separation from service (or, if Executive dies during such six-month period, within 20 calendar days after Executive's death).

(e) Payment Dates. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (*e.g.*, “within 20 calendar days after the Release described in Section 6 becomes effective and irrevocable”), the actual date of payment within the specified period shall be within the sole discretion of the Company. In the event the payment period under this Agreement for any nonqualified deferred compensation commences in one calendar year and ends in a second calendar year, the payments shall not be paid (or installments commenced) until the later of the first payroll date of the second calendar year, or the date that such Release becomes effective and irrevocable, to the extent necessary to comply with Section 409A. For purposes of Section 409A, Executive’s right to receive any “installment” payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

19. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by electronic mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above.

VALLON PHARMACEUTICALS, INC.

/s/ David Baker

By: David Baker

Its: President and Chief Executive Officer

EXECUTIVE

/s/ Leanne M. Kelly

Leanne M. Kelly

EXHIBIT A
GENERAL RELEASE

This General Release (this "Release") is made and entered into as of this [•] day of [•], 20[•], by and between Vallon Pharmaceuticals, Inc. (the "Company") and Leanne M. Kelly ("Executive").

1. Employment Status. Executive's employment with the Company and its affiliates terminated effective as of [•], 20[•] (the "Separation Date").

2. Payments and Benefits. Upon the effectiveness of the terms set forth herein, the Company shall provide Executive with the benefits set forth in Section 5(b)/(c) of the Employment Agreement between Executive and the Company dated as of May __, 2021 (the "Employment Agreement"), upon the terms, and subject to the conditions, of the Employment Agreement. Executive agrees that Executive is not entitled to receive any additional payments as wages, vacation or bonuses except as otherwise provided under Section 5(b)/(c) of the Employment Agreement.

3. No Liability. This Release does not constitute an admission by the Company, or any of its parents, subsidiaries, affiliates, divisions, officers, directors, partners, agents, or employees, or by Executive, of any unlawful acts or of any violation of federal, state or local laws.

4. Release. In consideration of the payments and benefits set forth in Section 2 above, Executive for herself, her heirs, administrators, representatives, executors, successors and assigns does hereby irrevocably and unconditionally release, acquit and forever discharge the Company and each of its parents, subsidiaries, affiliates, divisions, successors, assigns, officers, directors, partners, agents, attorneys, and former and current employees, including without limitation all persons acting by, through, under or in concert with any of them (collectively, "Releasees"), and each of them, from any and all claims, demands, actions, causes of action, costs, attorney fees, and all liability whatsoever, whether known or unknown, fixed or contingent, which Executive has, had, or may ever have against the Releasees relating to or arising out of Executive's employment or separation from employment with the Company, from the beginning of time and up to and including the date Executive executes this Release. This Release includes, without limitation, (i) law or equity claims; (ii) contract (express or implied) or tort claims; (iii) claims for wrongful discharge, retaliatory discharge, whistle blowing, libel, slander, defamation, unpaid compensation, intentional infliction of emotional distress, fraud, public policy, contract or tort, and implied covenant of good faith and fair dealing; (iv) claims arising under any federal, state, or local laws of any jurisdiction that prohibit age, sex, race, national origin, color, disability, religion, veteran, military status, sexual orientation, or any other form of discrimination, harassment, or retaliation (including without limitation under the Age Discrimination in Employment Act of 1967 as amended by the Older Workers Benefit Protection Act ("ADEA"), the National Labor Relations Act, Executive Order 11246, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, Title VII of the Civil Rights Act of 1964 as amended by the Civil Rights Act of 1991, Section 1981 of the Civil Rights Act of 1966, the Equal Pay Act of 1962, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Family and Medical Leave Act of

1993, the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Genetic Information Non-discrimination Act, the Sarbanes-Oxley Act, the Employee Polygraph Protection Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Equal Pay Act, the Lilly Ledbetter Fair Pay Act, the Post-Civil War Civil Rights Act (42 U.S.C. §§1981-1988), or any other foreign, federal, state or local law or judicial decision), (v) claims arising under the Employee Retirement Income Security Act (excluding claims for amounts that are vested benefits or that Executive is otherwise entitled to receive under any employee benefit plan of the Company or any of its affiliates in accordance with the terms of such plan and applicable law), and (vi) any other statutory or common law claims related to Executive's employment with the Company or the separation of Executive's employment with the Company; provided, however, that nothing herein shall release any obligation of the Company under the Employment Agreement.

5. Protected Activity. Nothing contained in this Release limits Executive's ability to file a charge or complaint with any federal, state or local governmental agency or commission (a "Government Agency"). In addition, nothing in this Release or any other Company agreement, policy, practice, procedure, directive or instruction shall prohibit Executive from reporting possible violations of federal, state or local laws or regulations to any Government Agency or making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations.

Executive does not need prior authorization of any kind to make any such reports or disclosures and Executive is not required to notify the Company that Executive has made such reports or disclosures.

If Executive files any charge or complaint with any Government Agency, and if the Government Agency pursues any claim on Executive's behalf, or if any other third party pursues any claim on Executive's behalf, Executive waives any right to monetary or other individualized relief (either individually, or as part of any collective or class action) that arises out of alleged facts or circumstances on or before the effective date of this Release; provided that nothing in this Release limits any right Executive may have to receive a whistleblower award or bounty for information provided to the Securities and Exchange Commission or other Government Agency.

6. Bar. Executive and the Company acknowledge and agree that if she or it should hereafter make any claim or demand or commence or threaten to commence any action, claim or proceeding against the other party with respect to any cause, matter or thing which is the subject of the releases under Section 4 of this Release, this Release may be raised as a complete bar to any such action, claim or proceeding, and the applicable Releasee may recover from the other party all costs incurred in connection with such action, claim or proceeding, including attorneys' fees.

7. Governing Law. This Release shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to conflicts of laws principles.

8. Acknowledgment. Executive has read this Release, understands it, and voluntarily accepts its terms, and Executive acknowledges that she has been advised by the Company to seek the advice of legal counsel before entering into this Release, and has been provided with a period of at least twenty-one (21) days in which to consider entering into this Release. Executive acknowledges and agrees that the payments and benefits provided under

Section 2 of this Release represent substantial value over and above that to which Executive would otherwise be entitled.

9. Revocation. Executive has a period of seven (7) days following the execution of this Release during which Executive may revoke this Release by delivering written notice to the Company, and this Release shall not become effective or enforceable until such revocation period has expired. Executive understands that if she revokes this Release, it will be null and void in its entirety, and she will not be entitled to any payments or benefits provided in this Release, including without limitation those under Section 2 above.

10. Miscellaneous. This Release is the complete understanding between Executive and the Company in respect of the subject matter of this Release and supersedes all prior agreements relating to the same subject matter. Executive has not relied upon any representations, promises or agreements of any kind except those set forth herein in signing this Release. In the event that any provision of this Release should be held to be invalid or unenforceable, each and all of the other provisions of this Release shall remain in full force and effect. If any provision of this Release is found to be invalid or unenforceable, such provision shall be modified as necessary to permit this Release to be upheld and enforced to the maximum extent permitted by law.

11. Counterparts. This Release may be executed by the parties hereto in counterparts, which taken together shall be deemed one original.

VALLON PHARMACEUTICALS, INC.

[Form of release - Do not sign]

By: _____

Its: _____

EXECUTIVE

[Form of release - Do not sign]

Leanne M. Kelly

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

I, David Baker, certify that:

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

Date: May 13, 2021

By: /s/ David Baker

David Baker
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Leanne M. Kelly, certify that:

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

Date: May 13, 2021

By: /s/ Leanne M Kelly
Leanne M. Kelly
Chief Financial Officer
(Principal Financial Officer)

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

I, David Baker, President and Chief Executive Officer of Vallon Pharmaceuticals, Inc. (the "*Company*"), do 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 the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2021 (the "*Quarterly Report*") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2021

By: /s/ David Baker

David Baker
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Leanne M. Kelly, Chief Financial Officer of Vallon Pharmaceuticals, Inc. (the "*Company*"), do 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 the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2021 (the "*Quarterly Report*") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2021

By: /s/ Leanne M. Kelly

Leanne M. Kelly
Chief Financial Officer
(Principal Financial Officer)
