

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

FORM 10-Q/A
Amendment No. 1

(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, 2026

or

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

For the transition period from _____ to _____.

Commission File Number: 001-41964

Pelthos Therapeutics Inc.
(Exact name of registrant as specified in its charter)

Nevada

86-3335449

(State or other jurisdiction of incorporation or organization)

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

Pelthos Therapeutics Inc.
4020 Stirrup Creek Drive, Suite 110
Durham, NC 27703

(Address of principal executive offices) (Zip Code)

(919) 908-2400

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	PTHS	The NYSE American LLC

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☒

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

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

The number of shares of the registrant's common stock outstanding as of August 10, 2026 is 3,828,469.

Explanatory Note

Pelthos Therapeutics, Inc. (together with its subsidiaries, the “Company”, “we”, “our” or “us”) is filing this Quarterly Report on Form 10-Q/A (Amendment No. 1), (the “Amendment”), to amend our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2026, originally filed with the Securities and Exchange Commission, (the “SEC”) on May 14, 2026, (the “Original Report”). The purpose of this Quarterly Report on Form 10-Q/A is to restate our condensed consolidated financial statements for the fiscal quarter ended March 31, 2026 to correct material errors as indicated below.

Background of Restatement

As previously disclosed on the Company’s Current Report on Form 8-K filed on August 13, 2016, on August 12, 2026, the audit committee of our board of directors, (the “Audit Committee”), in consultation with management, concluded that the Company’s previously issued unaudited condensed consolidated balance sheet as of March 31, 2026, and the unaudited condensed consolidated statements of operations and comprehensive loss, unaudited condensed consolidated statements of stockholders’ equity (deficit) and the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2026 included in the Original Report (the “Non-Reliance Financial Statements”) should no longer be relied upon and be restated. This Amendment No. 1 is being filed on August 13, 2026 to restate the Non-Reliance Financial Statements.

The restatement resulted from a misapplication of Accounting Standards Codification (“ASC”) 820, Fair Value Measurements, related to certain Level 3 fair value measurements of the Company’s convertible debt, including valuation methodologies, specific valuation assumptions, and inputs, in the Company’s previously issued condensed consolidated financial statements for such periods.

Effects of Restatement

As a result of the factors described above, the Company has included in this Amendment a restatement of its condensed consolidated financial statements for the Non-Reliance Financial Statements. See Note 2—Restatement of Previously Issued Financial Statements” to the accompanying condensed consolidated financial statements included in this Amendment for additional information on the restatement and the related financial statement effects. The restatement of the condensed consolidated financial statements had no impact on our cash position.

Management considered the applicability of the New York Stock Exchange (“NYSE”) listing standards set forth in Section 303A.14, which implements Rule 10D-1 under the Securities Exchange Act of 1934, as amended, relating to the recovery of erroneously awarded incentive-based compensation. Based on this assessment, management determined that the circumstances giving rise to this Amendment do not constitute a triggering event under the Company’s compensation recovery (“clawback”) policy, as no accounting restatement requiring recovery of incentive-based compensation occurred. Accordingly, the clawback provisions were not applicable in connection with this Form 10-Q/A, and no compensation was subject to recovery.

Internal Control Considerations

We have concluded that the errors in our accounting for the convertible debt resulted from a material weakness in our internal control over financial reporting that existed during and as of the three months ended March 31, 2026, and which continues to exist. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim condensed consolidated financial statements will not be prevented or detected on a timely basis. For a discussion of management’s consideration of the material weakness identified, see Part I, Item 4: Controls and Procedures included in this Amendment.

Items Amended in this Form 10-Q/A

This Form 10-Q/A presents the Original Report, amended and restated with modifications as necessary to reflect the restatements. The following items have been amended to reflect the restatement:

- Part I, Item 1: Financial Statements
- Part I, Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4: Controls and Procedures
- Part II, Item 1A: Risk Factors.

In addition, our principal executive officer and principal financial officer have provided new certifications dated as of the date of this Amendment No. 1. These certifications are included as Exhibits 31.1, 31.2, 32.1 and 32.2 hereto.

For the convenience of the reader, this Form 10-Q/A sets forth the information in the Original Report in its entirety, as such information is modified and superseded where necessary to reflect the restatement. Except as described above, no other information included in the Original Report is being amended or updated by this Amendment. This Quarterly Report continues to describe the conditions as of the date of the Original Report, and the disclosures herein have not been updated to reflect events, results or developments that have occurred after the date of the Original Report, other than updating information regarding subsequent events. Accordingly, forward looking statements included in this Amendment represent management's views as of the date of the Original Report and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with our filings made with the SEC subsequent to the Original Report date.

PELTHOS THERAPEUTICS INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended March 31, 2026

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

PELTHOS THERAPEUTICS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2026 (Unaudited)	December 31, 2025
	As Restated	
ASSETS		
Cash and cash equivalents	\$ 31,976	\$ 17,973
Restricted cash, current	250	50
Accounts receivable, net	11,700	8,858
Inventory, net	23,418	23,574
Prepaid expenses and other current assets	2,457	2,955
Total current assets	69,801	53,410
Property and equipment, net	9,310	9,586
Operating lease right-of-use assets, net	3,146	3,250
Intangible assets, net	38,440	39,470
Goodwill	24,681	24,681
Total assets	\$ 145,378	\$ 130,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 6,147	\$ 2,986
Accrued expenses	12,835	15,364
Contingent consideration	1,000	2,200
Operating lease liabilities, current portion	640	635
Deferred revenue, current portion	978	966
Other liabilities	3,403	3,842
Total current liabilities	25,003	25,993
Operating lease liabilities, net of current portion	2,652	2,752
Deferred revenue, net of current portion	1,027	1,280
Convertible debt	39,119	31,441
Venture loan and security agreement, net	26,356	—
Other long-term liabilities	31,955	30,050
Total liabilities	126,112	91,516
Commitments and contingencies (Note 13)		
STOCKHOLDERS' EQUITY		
Preferred stock Series A, \$0.0001 par value, 150,000 shares authorized, 55,218 shares issued and outstanding as of March 31, 2026 and 150,000 shares authorized, 56,418 shares issued and outstanding as of December 31, 2025, respectively	—	—
Preferred stock Series C, \$0.0001 par value, 5,000 shares authorized, 2,600 and 2,600 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	—	—
Common stock, \$0.0001 par value, 200,000,000 shares authorized, 3,369,911 and 3,234,423 shares issued and outstanding as of March 31, 2026 and December 31, 2025, respectively	—	—
Additional paid in capital	106,945	103,675
Accumulated other comprehensive income	2,188	—
Accumulated deficit	(89,867)	(64,794)
Total stockholders' equity	19,266	38,881
Total liabilities and stockholders' equity	\$ 145,378	\$ 130,397

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

PELTOS THERAPEUTICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2026	2025
	(As Restated)	
Revenue		
Net product revenues	\$ 10,665	\$ —
License and collaboration revenues	241	—
Total revenue	10,906	—
Operating expenses		
Cost of goods sold	1,673	—
Selling, general and administrative	21,104	1,640
Research and development	186	194
Amortization of intangible assets	1,031	—
Total operating expenses	23,994	1,834
Operating loss	(13,088)	(1,834)
Other (expense) income		
Interest expense	(2,353)	(134)
Change in fair value of convertible debt	(9,632)	—
Total other expense	(11,985)	(134)
Net loss before provision for income taxes	(25,073)	(1,968)
Provision for income taxes	—	—
Net loss	\$ (25,073)	\$ (1,968)
Other comprehensive income:		
Change in fair value of convertible debt due to instrument credit risk	2,188	—
Comprehensive loss	\$ (22,885)	\$ (1,968)
Net loss per common share - basic and diluted	\$ (7.57)	\$ (3.21)
Weighted average number of common shares outstanding - basic and diluted	3,311,742	612,889

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

PELTHOS THERAPEUTICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(Unaudited)
(in thousands, except share and per share amounts)

	Preferred A Shares	Preferred A Shares Par	Preferred C Shares	Preferred C Shares Par	Common Shares	Par	Additional Paid-in Capital	Accumulated Other Comprehensive Income (As Restated)	Accumulated Deficit (As Restated)	Total Stockholders' Equity (As Restated)
Balance, December 31, 2025	56,418	\$ —	2,600	\$ —	3,234,423	\$ —	\$ 103,675	\$ —	\$ (64,794)	\$ 38,881
Stock-based compensation	—	—	—	—	—	—	1,240	—	—	1,240
Restricted stock unit expense	—	—	—	—	15,488	—	668	—	—	668
Warrants issued for venture loan and security agreement	—	—	—	—	—	—	1,362	—	—	1,362
Conversion of Preferred A Shares	(1,200)	—	—	—	120,000	—	—	—	—	—
Change in fair value of convertible debt due to instrument credit risk (as restated)	—	—	—	—	—	—	—	2,188	—	2,188
Net loss (as restated)	—	—	—	—	—	—	—	—	(25,073)	(25,073)
Balance, March 31, 2026	<u>55,218</u>	<u>\$ —</u>	<u>2,600</u>	<u>\$ —</u>	<u>3,369,911</u>	<u>\$ —</u>	<u>\$ 106,945</u>	<u>\$ 2,188</u>	<u>\$ (89,867)</u>	<u>\$ 19,266</u>

	Preferred A Shares	Preferred A Shares Par	Preferred C Shares	Preferred C Shares Par	Common Shares	Par	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, December 31, 2024	—	\$ —	2,600	\$ —	610,389	\$ —	\$ 18,761	\$ —	\$ (21,475)	\$ (2,714)
Stock-based compensation	—	—	—	—	—	—	404	—	—	404
Restricted stock unit expense	—	—	—	—	4,635	—	52	—	—	52
Shares issued for services	—	—	—	—	1,692	—	30	—	—	30
Shares issued for cash	—	—	—	—	1,650	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	(1,968)	(1,968)
Balance, March 31, 2025	<u>—</u>	<u>\$ —</u>	<u>2,600</u>	<u>\$ —</u>	<u>618,366</u>	<u>\$ —</u>	<u>\$ 19,247</u>	<u>\$ —</u>	<u>\$ (23,443)</u>	<u>\$ (4,196)</u>

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

PELTOS THERAPEUTICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2026	2025
	(As Restated)	
Cash flow from operating activities:		
Net loss	\$ (25,073)	\$ (1,968)
Adjustments to reconcile net loss to net cash used in operating activities		
Accretion of interest for royalty obligations	1,077	—
Change in fair value of convertible notes	9,632	—
Depreciation of property and equipment	469	—
Amortization of intangible assets	1,031	—
Amortization of debt discount	195	94
Lease amortization expense	70	—
Stock-based compensation	1,908	486
Changes in operating assets and liabilities:		
Accounts receivable	(2,842)	—
Inventory	156	—
Prepaid expenses	498	49
Operating lease right-of-use assets	104	—
Accounts payable	3,161	707
Accrued expenses	(1,908)	—
Contingent consideration	(1,200)	—
Operating lease liabilities	(163)	—
Deferred revenue	(241)	—
Net cash used in operating activities	(13,126)	(632)
Cash flow from investing activities:		
Purchases of property and equipment	(194)	—
Net cash used in investing activities	(194)	—
Cash flow from financing activities:		
Proceeds from venture loan and security agreement, net	29,337	—
Proceeds from loan payable, net of debt discount	—	250
Payment of venture loan and security agreement issuance costs	(1,814)	—
Net cash provided by financing activities	27,523	250
Net increase in cash and cash equivalents	14,203	(382)
Cash, cash equivalents and restricted cash as of beginning of period	18,023	513
Cash, cash equivalents and restricted cash as of end of period	\$ 32,226	\$ 131

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

PELTHOS THERAPEUTICS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2026 AND 2025 (CONTINUED)
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2026	2025
Reconciliation to condensed consolidated balance sheets:		
Cash and cash equivalents	\$ 31,976	\$ 131
Restricted cash	250	—
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 32,226</u>	<u>\$ 131</u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest expense	\$ 691	\$ —
Supplemental non-cash investing and financing activities:		
Warrants issued for venture loan and security agreement	\$ 1,362	\$ —
Payment-in-kind on convertible debt	\$ 234	\$ —
Offering costs recorded to debt discount	\$ —	\$ 27

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

PELTHOS THERAPEUTICS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollar values in thousands, except per share data)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Description of Business

Pelthos Therapeutics Inc. (the “Company”) is a bio-pharmaceutical company committed to commercializing innovative, safe, and efficacious therapeutic products to help patients with unmet treatment burdens. The Company currently has three U.S. Food and Drug Administration (“FDA”) approved products in its commercial portfolio, in various stages of commercialization, including ZELSUVMI®, XEPI®, and XEGLYZE®.

The Company is currently actively promoting one commercial product, ZELSUVMI (berdazimer) topical gel, 10.3% for the treatment of molluscum contagiosum, which was approved by the FDA in January 2024 and was commercially launched in July 2025. Berdazimer sodium is the active pharmaceutical ingredient (“API”) used in ZELSUVMI and is the backbone of the NITRICIL™ platform technology. During the fourth quarter of 2025, the Company acquired the rights to both XEPI and XEGLYZE, for the treatment of impetigo and head lice, respectively, and is preparing them for future commercialization. The Company leases its manufacturing facility, owns and operates the equipment used in the production of the ZELSUVMI API, and has the personnel, know-how, and experience to produce the API for ZELSUVMI.

In addition, the Company also has rights to clinical stage assets that selectively target the sodium ion-channel known as “NaV1.7”, which has been genetically validated as a pain receptor in human physiology. A NaV1.7 blocker is a chemical entity that modulates the structure of the sodium-channel in a way to modulate the transmission of pain perception to the central nervous system.

Company Background

The Company was effectively formed on July 1, 2025 with a merger transaction between Channel Therapeutics Corporation (“Channel”) and LNHC, Inc. (“LNHC”). See below within this Note 1 as well as Note 4 — “Acquisition of LNHC, Inc.” for further information regarding the merger transaction between Channel and LNHC.

Chromocell Therapeutics Corporation (“Chromocell”) was incorporated in Delaware on March 19, 2021. On February 21, 2024, Chromocell completed the initial public offering of its Common Stock (the “IPO”) by issuing 110,000 shares of its Common Stock at a price of \$60.00 per share. The aggregate net proceeds from the IPO were approximately \$5,900 after deducting \$900 in underwriting discounts and commissions and offering expenses.

On November 18, 2024, Chromocell merged with and into its wholly-owned subsidiary, Channel, a Nevada corporation, pursuant to an agreement and plan of merger, dated as of November 18, 2024 for the purposes of reincorporating Chromocell in Nevada.

LNHC was incorporated in the state of Delaware in September 2023 by Ligand Pharmaceuticals, Inc. (“Ligand”) and was initially formed to facilitate a transaction between Ligand and Novan, Inc. (“Novan”). On September 27, 2023, Ligand acquired certain assets of Novan, after providing debtor in possession financing and acquiring specific assets from Novan, under Section 363 of the U.S. Bankruptcy Code (a “363 transaction”). Novan was a medical dermatology company focused on developing and commercializing innovative therapeutic products for skin diseases. Through its NITRICIL technology platform, Novan developed ZELSUVMI (berdazimer gel, 10.3%), formerly named SB206, as a topical prescription gel for the treatment of viral skin infections, with a focus on molluscum contagiosum. As of the acquisition date in September 2023 by Ligand, all assets and liabilities acquired in the Novan acquisition were held by LNHC, which was a wholly owned subsidiary of Ligand, including the NITRICIL technology platform.

On March 24, 2025, LNHC assigned its intellectual property portfolio related to the Novan acquisition, including the NITRICIL technology, to Ligand and entered into an exclusive license and sublicense agreement with Ligand, pursuant to which Ligand licensed to the Company the intellectual property rights necessary to make, use, sell or offer to sell ZELSUVMI for the treatment of molluscum contagiosum in humans worldwide, except for Japan.

On March 24, 2025, LNHC and Ligand also entered into a master services agreement under which Ligand, or related parties, may contract with LNHC to provide API for clinical or commercial use related to the NITRICIL technology. In addition, the agreement also allows Ligand to require LNHC to provide manufacturing technology transfer services, if requested, for products other than ZELSUVMI, to a potential third-party manufacturer.

The Merger

On July 1, 2025 (the “Merger Closing Date”), the Company consummated the previously announced merger transaction pursuant to that certain Agreement and Plan of Merger (the “Merger”) by and among the Company, CHRO Merger Sub, Inc. a Delaware Corporation and a wholly owned subsidiary of the Company (“Merger Sub”), LNHC, and solely for the purposes of Article III of the merger agreement, Ligand. Pursuant to the merger agreement, (i) Merger Sub merged with and into LNHC, with LNHC as the surviving company in the Merger and, after giving effect to such Merger, continuing as a wholly-owned subsidiary of the Company and (ii) the Company’s name was changed from Channel Therapeutics Corporation to Pelthos Therapeutics Inc.

The Merger was accounted for as a business combination using the acquisition method of accounting under the provisions of *Accounting Standards Codification* (“ASC”) 805, Business Combinations (“ASC 805”). The Company and LNHC each meet the definition of a business as defined by ASC 805 by virtue of having inputs, processes and outputs. In addition, LNHC met the definition of a VIE given the entity does not have sufficient equity to finance its activities without additional financial support, as assessed immediately prior to the Merger. Finally, the Company owns 100% of the shares of LNHC following the close of the Merger and is therefore the primary beneficiary of the LNHC business. As a result, the Company is deemed to be the accounting acquirer in the Merger, and the Merger is accounted for as a business combination in which the Company acquired the LNHC business. The LNHC assets acquired, and liabilities assumed in connection with the Merger are recorded at their acquisition date fair values. See Note 4 — “Acquisition of LNHC, Inc.” for further information regarding the LNHC acquisition.

At the effective time of the Merger, the Company issued an aggregate of 31,278 shares of the Company’s Series A Preferred Stock to Ligand as consideration for the LNHC shares.

The shares of Series A Preferred Stock issued to Ligand in the Merger were not registered under the Securities Act and were issued and sold in reliance on the exemption from registration requirements thereof provided by Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering.

The shares of the Company’s Common Stock listed on the NYSE American LLC (“NYSE American”), previously trading through the close of business on July 1, 2025 under the ticker symbol “CHRO,” commenced trading on NYSE American under the ticker symbol “PTHS” on July 2, 2025. The Company’s Common Stock is represented by a new CUSIP number, 171126 204.

The July 1, 2025 Merger resulted in the Company having (i) a commercial product, ZELSUVMI; (ii) the facility, equipment and know-how to manufacture the API used in ZELSUVMI; and (iii) clinical-stage NaV1.7 assets.

Securities Purchase Agreement

Concurrently with the execution of the merger agreement, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with LNHC and certain investors, which included Ligand (collectively, the “PIPE Investors”), pursuant to which, among other things, on the Merger Closing Date and immediately prior to the consummation of the Merger, the PIPE Investors purchased (either for cash or in exchange for the conversion of principal and interest payable under an outstanding convertible note issued by the Company), and the Company issued and sold to the PIPE Investors, an aggregate of 50,100 shares of the Company’s Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”) at a price per share equal to \$1,000 (such transaction, the “PIPE Financing”). The gross proceeds from the PIPE Financing were approximately \$50,100, consisting of approximately \$50,000 in consideration and the conversion of approximately \$100 of principal under an outstanding convertible note with a related party issued by the Company, before paying estimated expenses and before the settlement of certain outstanding bridge notes with the PIPE Investors, described below.

On July 1, 2025, the Company, LNHC and the PIPE Investors entered into Amendment No. 1 to Securities Purchase Agreement, pursuant to which, the Company, LNHC and the PIPE Investors consented to the inclusion of two additional PIPE Investors in the PIPE Financing and a corresponding decrease in the amount of certain PIPE Investors' investments in the PIPE Financing such that the aggregate amount of the PIPE Financing would remain unchanged (the "Securities Purchase Agreement Amendment").

Each share of Series A Preferred Stock is convertible at any time at the holder's option into a number of shares of Common Stock, par value \$0.0001 per share equal to (i) \$1,000, subject to adjustment, plus any all declared and unpaid dividends thereon as of such date of determination, plus any other amounts owed to such holder pursuant to the Certificate of Designations of Rights and Preferences of Series A Convertible Preferred Stock (the "Certificate of Designations"), divided by (ii) \$1 (adjusted to \$10 as a result of the ten-for-one Reverse Stock Split), subject to adjustments.

In general, a holder of shares of Series A Preferred Stock may not convert any portion of Series A Preferred Stock if the holder, together with its affiliates, would beneficially own more than 49.9% in the case of Ligand or 4.99% or 9.99%, in the case of the other PIPE Investors (the "Maximum Percentage"), of the number of shares of the Company's Common Stock outstanding immediately after giving effect to such exercise, provided, however, that a holder may increase or decrease the Maximum Percentage by giving 61 days' notice to the Company, but not to any percentage in excess of 9.99%.

The shares of Series A Preferred Stock issued and sold to the PIPE Investors were not registered under the Securities Act and were issued and sold in reliance on the exemption from registration requirements thereof provided by Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering.

The closing of the PIPE Financing occurred on July 1, 2025, immediately prior to the consummation of the Merger.

On July 1, 2025, certain PIPE Investors entered into Series A Convertible Preferred Stockholder Side Letters (each, a "Side Letter") with the Company, pursuant to which, immediately after the closing of the PIPE Financing on July 1, 2025, the PIPE Investors converted 23,810 shares of Series A Preferred Stock not exceeding such PIPE Investors' Maximum Percentage into an aggregate of 2,381,000 shares of the Company's Common Stock (after giving effect to the reverse stock split discussed in Note 12 — "Stockholders' Equity"), by providing the Company with a completed and signed Conversion Notice under the Certificate of Designation. Approximately 57,568 shares of the Company's Series A Preferred Stock were issued and outstanding immediately following the Effective Time. Immediately following the Merger and the PIPE Financing, the Company's security holders as of immediately prior to the Merger owned approximately 7.4% of the outstanding shares of the Company and LNHC security holders owned approximately 56.1% of the outstanding shares of the Company, in each case on a fully diluted basis, calculated using the treasury stock method.

Net Proceeds from PIPE Financing

Certain PIPE Investors were a party to the ZELSUVMI Royalty Agreement while other PIPE Investors were a party to the Channel Products Royalty Agreement, (collectively, the "July 1, 2025 Royalty Agreements") as described in Note 10 — "License and Other Agreements". Further, certain PIPE Investors were not a party to the July 1, 2025 Royalty Agreements. As the PIPE Financing and July 1, 2025 Royalty Agreements were negotiated together, aggregate proceeds were allocated based on their relative fair value basis. The Company will account for future royalties due as liabilities and will accrete the financing using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated life of the royalty agreements.

Effective January 1, 2025, LNHC entered into a bridge loan agreement with Ligand under which any amounts of cash transferred from Ligand to LNHC, or settlement of LNHC's expenses directly by Ligand, starting from January 1, 2025, were considered a loan from Ligand to LNHC. The maximum borrowing under the bridge loan agreement was \$18,000, (the "Ligand Bridge Note"). The repayment of the Ligand Bridge Note loan at the closing of the Merger was offset against Ligand's funding commitment in the PIPE Financing. The balance of the Ligand Bridge Note was \$12,732, resulting in \$5,268 of funding provided to the Company as of the Merger Closing Date as part of the PIPE Financing. In addition, on April 16, 2025, LNHC entered into a bridge loan agreement with two third-party lenders, part of the group of strategic investors who participated in the PIPE Financing, for an aggregate amount, including interest, of \$6,053. The repayment of April 16, 2025 bridge note at the closing of the Merger was offset against the strategic investors funding commitment in the PIPE Financing. In addition, as part of the Merger closing, a settlement of a related party note of \$100 and settlement of a third-party note with a professional services firm of \$1,455 also occurred.

The following are details of the Merger and PIPE Financing as it relates to Series A Preferred Stock and proceeds from the PIPE Financing:

	Series A Preferred Shares Issued	Allocated Gross Proceeds	Notes Settlement	Payables Settlement and Expenses	Net Proceeds
Beginning Balance as of July 1, 2025	—	\$ —	\$ —	\$ —	\$ —
Preferred Stock (Series A) Issued - Merger	31,278	—	—	—	—
Preferred Stock (Series A) Issued - PIPE Financing	50,100	50,100	(20,340)	(2,376)	27,384
Preferred Stock (Series A) Converted to Common Stock	(23,810)	—	—	—	—
Ending Balance as of July 1, 2025	57,568	\$ 50,100	\$ (20,340)	\$ (2,376)	\$ 27,384

NOTE 2 – RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During August 2026, the Company identified errors in its previously issued financial statements for the quarter ended March 31, 2026, specifically related to a misapplication of ASC 820, Fair Value Measurements, related to certain Level 3 fair value measurements of the Company's convertible debt, including valuation methodologies, specific valuation assumptions, and inputs, in the Company's previously issued condensed consolidated financial statements for the first quarter of 2026. Specifically, the valuation inputs related to provisions in a subordination agreement related to the convertible debt entered into in January 2026, including extended payoff terms and a conversion rate reset feature, were not properly reflected in the valuation.

As a result of the corrected application of the fair value measurement guidance, the Company corrected its calculation of the fair value of its convertible notes. Due to these changes in the Company's accounting for the fair value of its convertible notes, the Company corrected its financial statements as of and for the three months ended March 31, 2026. As a result, the following items have been restated: (i) convertible debt which is included in total liabilities as of March 31, 2026, (ii) accumulated other comprehensive income as of March 31, 2026, (iii) accumulated deficit as of March 31, 2026, and (iv) change in fair value of convertible debt, (v) total other (expense) income, (vi) net loss and net loss per share and (vii) change in fair value of convertible debt due to instrument credit risk for the three months ended March 31, 2026.

The impact of the restatement on the condensed consolidated financial statements for March 31, 2026 is presented below. The accompanying notes to the unaudited consolidated interim financial statements have been restated as applicable. The restatement had no impact on net cash flows from operating, investing or financing activities.

Condensed Consolidated Balance Sheets

	March 31, 2026		
	As Previously Reported	Adjustments	As Restated
Convertible debt	\$ 23,283	\$ 15,836	\$ 39,119
Total liabilities	110,276	15,836	126,112
Accumulated other comprehensive income	3,189	(1,001)	2,188
Accumulated deficit	(75,032)	(14,835)	(89,867)
Total stockholders' equity	35,102	(15,836)	19,266

Condensed Consolidated Statements of Operations and Comprehensive Loss

Three Months Ended March 31, 2026			
	As Previously Reported	Adjustments	As Restated
Change in fair value of convertible debt	\$ 5,203	\$ (14,835)	\$ (9,632)
Total other (expense) income	2,850	(14,835)	(11,985)
Net loss before provision for income taxes	(10,238)	(14,835)	(25,073)
Net loss	(10,238)	(14,835)	(25,073)
Net loss per common share - basic and diluted	\$ (3.09)	(4.48)	\$ (7.57)
Other comprehensive income:			
Change in fair value of convertible debt due to instrument credit risk	\$ 3,189	(1,001)	\$ 2,188
Comprehensive loss	(7,049)	(15,836)	(22,885)

Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)

Three Months Ended March 31, 2026			
	As Previously Reported	Adjustments	As Restated
Change in fair value of convertible debt due to instrument credit risk	\$ 3,189	\$ (1,001)	\$ 2,188
Net loss	(10,238)	(14,835)	(25,073)
Accumulated other comprehensive income at March 31, 2026	3,189	(1,001)	2,188
Accumulated deficit at March 31, 2026	(75,032)	(14,835)	(89,867)
Total stockholders' equity at March 31, 2026	35,102	(15,836)	19,266

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2026			
	As Previously Reported	Adjustments	As Restated
Net loss	\$ (10,238)	\$ (14,835)	\$ (25,073)
Change in fair value of convertible notes	(5,203)	14,835	9,632

NOTE 3 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (AS RESTATED)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal, recurring adjustments, considered necessary for a fair presentation of the results for the interim periods ended March 31, 2026 and 2025. Although management believes that the disclosures in these unaudited condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in consolidated financial statements that have been prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the SEC.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2025, filed with the SEC on March 19, 2026. The interim results for the three months ended March 31, 2026 are not necessarily indicative of the results to be expected for the year ending December 31, 2026 or for any future interim periods.

As described in “Note 2—Restatement of Previously Issued Financial Statements”, the Company’s condensed consolidated financial statements as of and for the three months ended March 31, 2026 are restated in this Quarterly Report on Form 10-Q/A (Amendment No. 1) (this “Amendment”) to correct a misapplication of ASC 820, Fair Value Measurements, related to the certain Level 3 fair value measurements of the Company’s convertible debt, including valuation methodologies, specific significant valuation assumptions, and inputs, in the Company’s previously issued condensed consolidated financial statements for such periods. The restated condensed consolidated financial statements are indicated as “As Restated” in the condensed consolidated financial statements and accompanying notes, as applicable.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Pelthos Therapeutics Inc. and its wholly owned subsidiaries, LNHC, Chromocell Therapeutics Australia Pty. Ltd, and Channel Pharmaceutical Corporation (“CPC”). All significant intercompany balances and transactions have been eliminated.

See Note 4 — “Acquisition of LNHC, Inc.” for further information regarding the LNHC acquisition.

Liquidity and Ability to Continue as a Going Concern

A fundamental principle of the preparation of financial statements in accordance with U.S. GAAP is the assumption that an entity will continue in existence as a going concern, which contemplates continuity of operations and the realization of assets and settlement of liabilities occurring in the ordinary course of business. In accordance with this requirement, the Company has prepared its accompanying condensed consolidated financial statements assuming the Company will continue as a going concern.

The Company has evaluated principal conditions and events, in the aggregate, and concluded that there was not substantial doubt about its ability to continue as a going concern within one year from the date that these financial statements are issued. The Company identified the following conditions:

- During the three months ended March 31, 2026, the Company had a net loss of approximately \$25,073.
- As of March 31, 2026, the Company had cash of approximately \$31,976 and working capital of \$44,798.
- For the three months ended March 31, 2026, the Company recorded net revenue in the amount of \$10,665, which represents three months of activity for its lead product, ZELSUVMI, which was commercially launched in mid-2025.
- For the three months ended March 31, 2026, the Company recorded total operating expenses of \$23,994.

- As discussed in Note 8 — “Notes Payable,” on January 12, 2026 the Company borrowed \$30,000 of a \$50,000 lending facility. The remaining \$20,000 of the facility may be borrowed upon the achievement by the Company of certain milestones set forth in the Venture Loan and Security Agreement.

Based on current projections, including forecasted cash flows related to net product sales of ZELSUVMI, proceeds from the convertible note agreement in November 2025, proceeds from the initial draw of the January 2026 Venture Loan and Security Agreement, and the potential additional availability under the January 2026 Venture Loan and Security Agreement, management believes it has sufficient capital, or access to capital, to fund its operations through at least the next twelve months following the issuance of these condensed consolidated financial statements.

Use of Estimates

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

Significant estimates made by management include provisions for distribution service fees, co-payment assistance, government and payor rebates and fees, inventory net realizable value, useful lives of amortizable intangible assets, valuation of assets and liabilities in business combinations, valuation of convertible debt, developmental timelines related to licensed products, valuation of future obligations related to licensees and contractual payments, deferred income taxes and contingencies. Actual results may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company’s future results of operations will be affected.

Business Acquisitions

The Company accounts for business acquisitions using the acquisition method of accounting in accordance with ASC 805. ASC 805 requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values, as determined in accordance with ASC 820, Fair Value Measurements (“ASC 820”), as of the acquisition date. For certain assets and liabilities, book value approximates fair value. In addition, ASC 805 establishes that consideration transferred be measured at the closing date of the acquisition at the then-current market price. Under ASC 805, acquisition-related costs (i.e., advisory, legal, valuation and other professional fees) are expensed in the period in which the costs are incurred. The application of the acquisition method of accounting requires the Company to make estimates and assumptions related to the estimated fair values of net assets acquired, which require significant management judgment. See Note 4 — “Acquisition of LNHC, Inc.” for further information regarding the LNHC acquisition.

Reclassifications

Certain amounts in the Company’s condensed consolidated statements of operations for the three months ended March 31, 2025 have been reclassified to conform to the current presentation, in addition to certain line items within the historical condensed consolidated statements of cash flows.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash as of March 31, 2026 relates to a deposit account securing the Company’s corporate credit card program and a deposit account set up for the benefit of Nomis RoyaltyVest LLC associated with the ZELSUVMI Royalty Agreement, as described in Note 10 — “License and Other Agreements”.

Accounts Receivable, Net

Accounts receivables are stated as amounts due, net of estimates for discounts offered in customer contracts and any expected credit losses. The Company estimates expected credit losses using the “expected loss” model, which is based on an assessment of the collectability of customer accounts, including collection history, credit quality, the age of past-due balances, current conditions, and reasonable and supportable future conditions that might impact a customer’s ability to pay. The allowance for credit losses is periodically analyzed and adjusted as needed through a charge to selling, general and administrative expense. Amounts deemed to be uncollectible are charged against the allowance for credit losses. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between the transfer of the promised good to the customer and receipt of payment will be one year or less. As of March 31, 2026, the Company did not record an allowance for credit losses, based on its history of collections from its customers.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with financial institutions, and these deposits may at times be in excess of federally insured limits. In addition, the Company assesses the creditworthiness of its customers on an on-going basis. As of March 31, 2026, three of the Company’s wholesaler customers accounted for 92% of its total gross accounts receivable balance at 39%, 28% and 25%, respectively. In addition, for the three months ended March 31, 2026, these three wholesalers accounted for 92% of gross revenue at 36%, 28% and 28%, respectively.

Inventory

The Company measures inventory using the first-in, first-out method and values inventory at the lower of cost or net realizable value. Inventory value includes costs related to materials, manufacturing, labor, conversion and overhead expenses. The Company adjusts its inventory for potentially obsolete inventory. The adjustment for obsolescence is generally an estimate of the value of inventory that is expected to expire in the future based on projected sales volume and product expiration or expected sell-by dates. These assumptions require the Company to analyze the aging of and forecasted demand for its inventory and make estimates regarding future product sales.

Prior to obtaining initial regulatory approval for ZELSUVMI in January 2024, inventory costs related to the production of pre-launch inventory were expensed as research and development costs. Subsequent to January 5, 2024, the date of the FDA’s approval of ZELSUVMI, inventory costs were capitalized by LNHC. As part of the Merger, certain inventoried items were revalued subject to ASC 805. See Note 4 — “Acquisition of LNHC, Inc.” for additional detail.

Property and Equipment, Net

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives as follows:

Computer equipment	3 years
Software	3 - 5 years
Furniture and fixtures	5 - 7 years
Manufacturing and laboratory equipment	7 years

Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements. Expenditures for maintenance and repairs are expensed as incurred. Improvements and betterments that add new functionality or extend the useful life of an asset are capitalized. Leases for real estate often include tenant improvement allowances, which the Company assesses according to applicable accounting guidance to determine the appropriate owner, and capitalizes such tenant improvement assets accordingly.

Intangible Assets, Net and Goodwill

Intangible assets represent certain identifiable intangible assets, including product rights consisting of pharmaceutical product licenses and patents. Amortization for pharmaceutical products licenses is computed using the straight-line method based on the lesser of the term of the agreement and the useful life of the license. Amortization for pharmaceutical patents is computed using the straight-line method based on the useful life of the patent.

Definite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. In the event impairment indicators are present or if other circumstances indicate that an impairment might exist, then management compares the future undiscounted cash flows directly associated with the asset or asset group to the carrying amount of the asset group being determined for impairment. If those estimated cash flows are less than the carrying amount of the asset group, an impairment loss is recognized. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Considerable judgment is necessary to estimate the fair value of these assets, accordingly, actual results may vary significantly from such estimates.

Indefinite-lived intangible assets, including goodwill, are not amortized. The Company tests the carrying amounts of goodwill for recoverability on an annual basis on July 1 or when events or changes in circumstances indicate evidence that a potential impairment exists, using a fair value based test.

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. Goodwill is reviewed for impairment at the reporting unit level at least annually, or more frequently if an event occurs indicating the potential for impairment. During a goodwill impairment review, management performs an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance. If, after assessing the totality of these qualitative factors, management determines that it is not more likely than not that the fair value of reporting unit is less than the carrying amount, then no additional assessment is deemed necessary.

The Company did not identify indicators of impairment for intangible assets or goodwill during the three months ended March 31, 2026.

Leases

The Company leases office space under non-cancelable lease agreements. The Company applies the accounting guidance in ASC 842, Leases ("ASC 842"). As such, the Company assesses all arrangements, that convey the right to control the use of property, plant and equipment, at inception, to determine if it is, or contains, a lease based on the unique facts and circumstances present in that arrangement. For those leases identified, the Company determines the lease classification, recognition, and measurement at the lease commencement date. For arrangements that contain a lease, the Company: (i) identifies lease and non-lease components; (ii) determines the consideration in the contract; (iii) determines whether the lease is an operating or financing lease; and (iv) recognizes lease Right of Use ("ROU") assets and corresponding lease liabilities. Lease liabilities are recorded based on the present value of lease payments over the expected lease term. The corresponding ROU asset is measured from the initial lease liability, adjusted by (i) accrued or prepaid rents; (ii) remaining unamortized initial direct costs and lease incentives; and (iii) any impairments of the ROU asset.

The Company elected the practical expedient to not separate non-lease components from the lease components. Fixed lease payments on operating leases are recognized over the expected term of the lease on a straight-line basis. Variable lease expenses that are not considered fixed are expensed as incurred. Fixed and variable lease expense on operating leases is recognized within operating expenses within the condensed consolidated statements of operations. The Company has elected the short-term lease exemption and, therefore, does not recognize an ROU asset or corresponding liability for lease arrangements with an original term of 12 months or less.

The interest rate implicit in the Company's lease contracts is typically not readily determinable and as such, the Company uses its incremental borrowing rate based on the information available at the lease commencement date, which represents an internally developed rate that would be incurred to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in a similar economic environment.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for an amount by which the carrying amount of the asset exceeds the fair value of the asset.

The Company did not identify indicators of impairment for the long-lived assets during the three months ended March 31, 2026.

Fair Value Measurements and Fair Value of Financial Instruments

The Company determines fair value, per ASC 820, based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2 Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3 Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

See Note 8 — "Notes Payable", Note 9 — "Reedy Creek Liability" and Note 10 — "License and Other Agreements" for additional detail regarding the carrying value of certain balances reflected within the accompanying condensed consolidated financial statements.

Revenue Recognition

Pursuant to ASC 606, Revenue from Contracts with Customers ("ASC 606"), the Company recognizes revenue when a customer obtains control of promised goods or services. Revenue is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. To determine revenue recognition for contracts with customers within the scope of ASC 606, the Company performs the following 5 steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied.

Net Product Revenues

The Company sells ZELSUVMI to national and regional wholesalers in the United States. The wholesalers are considered the Company's customers for accounting purposes.

Revenue from product sales is recognized when the customer obtains control of the Company's product, which typically occurs on delivery. Revenue from product sales is recorded at the transaction price, net of estimates for variable consideration consisting of prompt-pay discounts, distribution service fees, government rebates, co-payment assistance and payor rebates and administration fees for which reserves are established. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a liability (if the amount is payable to a party other than the customer).

Variable consideration is estimated using the expected-value amount method, which is the sum of probability-weighted amounts in a range of possible consideration amounts. In making these estimates, the Company considers historical data, including patient mix and inventory sold to customers that has not yet been dispensed. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results vary materially from the Company's estimates, the Company will adjust these estimates, which will affect net product sales and earnings in the period such estimates are adjusted. These items, as applicable based on current contractual agreements and obligations on behalf of the Company, include:

- Prompt-Pay Discounts — The Company generally provides discounts on product sales to its customers for prompt payment. The Company estimates that its customers will earn these discounts. These discounts are recorded as a reduction of gross revenue and accounts receivable at the time such revenue is recognized.
- Distribution Service Fees — The Company pays certain distribution service fees, such as fees for certain data that customers provide to the Company or for distribution services provided to the Company. Fees paid to its customers are recorded as a reduction of gross revenue and accounts receivable, unless the payment is: (i) for a distinct good or service from the customer; and (ii) the Company can reasonably estimate the fair value of the goods or services received. If both conditions are met, the Company records the consideration paid to the customer as selling, general and administrative expense.
- Co-payment Assistance — Co-payment assistance represents financial assistance to qualified patients, assisting them with prescription drug co-payments required by insurance. The program is administered by a third-party on the Company's behalf. Co-payment assistance is recorded as a reduction of revenue and a current liability is established and included in accrued expenses at the time such revenue is recognized.
- Government Rebates — The Company estimates government rebates, primarily Medicaid, based upon a range of possible outcomes for the estimated patient mix. Medicaid rebates relate to the Company's estimated obligations to states under reimbursement arrangements. Rebates are recorded as a reduction of gross revenue and a current liability is established and included in accrued expenses at the time such gross revenue is recognized. The amount of the rebate for each unit of product reimbursed by the state Medicaid program is established by law and is adjusted upward if the wholesale acquisition cost increases more than inflation (measured by the Consumer Price Index). The liability for Medicaid rebates consists of: (i) estimated current quarter claims; (ii) estimated prior quarter claims for which an invoice has not been received; (iii) prior quarter claims based on unpaid invoices received; and (iv) estimated claims for inventory in the distribution channel at period end.
- Payor Rebates and Administration Fees — Payor rebates and administration fees represent the estimated obligations to third parties, primarily benefit managers. The payor rebates and administration fees result from formulary position, price increase limit allowances (price protection) and administration fees. The liability payor rebates and administration fees are based on the estimated payors buying patterns and the resulting applicable contractual rebate rate(s) to be earned over a contractual period. Payor rebates and administration fees are recorded as a reduction of revenue and a liability is established and included in accrued expenses at the time such revenue is recognized.

License and Collaboration Revenues

The Company has one agreement related to an out-license of intellectual property to a third party. Per ASC 606, the Company determines if there are distinct performance obligations identified in the arrangement. The Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, the Company's management utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the estimated performance period and the appropriate method of measuring progress during the performance period for purposes of recognizing revenue.

The Company re-evaluates the estimated performance period and measure of progress each reporting period and, if necessary, adjusts related revenue recognition accordingly. These arrangements often include milestone as well as royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements from or payments to the collaboration partner. Because of the risk that products in development will not receive regulatory approval, the Company does not recognize any contingent payments until regulatory approval becomes probable. Future sales-based royalties are not recorded until the subsequent sale occurs.

See Note 7 — “Sato Agreement” for further information regarding license and collaboration revenues.

Cost of Goods Sold

Cost of goods sold includes direct and indirect costs related to the manufacture, production, packaging, and distribution of the Company’s commercial products. These costs primarily consist of manufacturing costs, including allocated overhead, supply costs, third-party logistics and distribution expenses, quality control and assurance costs, and freight and shipping charges incurred in fulfilling customer orders.

Additionally, the Company’s product is subject to strict quality control and monitoring that is performed throughout the manufacturing process, including release of work-in-process to finished goods. In the event that certain batches or units of product do not meet quality specifications, the Company records a write-down of any potential unmarketable inventory to its estimated net realizable value.

As part of the Merger, certain inventoried items were revalued subject to ASC 805. See Note 4 — “Acquisition of LNHC, Inc.” for additional detail.

The amount of expense related to inventory write down as a result of excess, obsolescence, scrap, or other reasons is recorded as cost of goods sold in the condensed consolidated statements of operations. The Company had no write-offs of inventory during the three months ended March 31, 2026.

Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expense consists of personnel and non-personnel expenses to support growing sales of ZELSUVMI. Personnel-related expenses include salaries, incentive pay, benefits and share-based compensation for personnel engaged in sales, marketing, regulatory, quality, medical, non-capitalizable manufacturing, finance, information technology and administrative functions. As the majority of the Company’s contracts are short-term in nature, sales commissions are generally recorded as selling, general and administrative expense when incurred as the amortization period would have been less than one year.

Non-personnel-related expense includes: (i) selling, patient services, pharmacovigilance, marketing, advertising, travel, sponsorships and trade shows; and (ii) other general and administrative costs, including consulting, legal, patent, insurance, accounting, information technology and facilities.

The Company uses a third-party logistics provider (“3PL”) to perform a full order-to-cash service, which includes warehousing and shipping directly to its customers on its behalf. Activities performed by the 3PL are recorded in SG&A. SG&A expenses are recognized as they are incurred.

Royalty and/or milestone payments due to third parties under license arrangements for commercial products are expensed within SG&A and recorded as a current liability in the periods in which the obligation is incurred.

Research and Development Expense

Research and development (“R&D”) expense consists of personnel and non-personnel expenses. Personnel-related expense includes salaries, bonus, benefits and share-based compensation for personnel engaged in research and development functions. Non-personnel-related expense includes subcontractors and materials used for R&D activities, development, clinical trials, clinical supply and distribution, and other professional services.

R&D expenses are recognized as they are incurred based on actual work completed through monitoring invoices received and discussions with internal personnel and external service providers as to the progress or stage of completion of preclinical activities, clinical studies and related supporting services for non-commercial assets.

Contingent milestone payments due to third parties under R&D arrangements or license agreements, are expensed within R&D and recorded as a current liability in the periods in which the obligation is incurred.

Stock-Based Compensation

The Company accounts for stock-based compensation costs under the provisions of ASC 718, Compensation—Stock Compensation (“ASC 718”), which requires the measurement and recognition of compensation expense related to the fair value of stock-based compensation awards that are ultimately expected to vest. Stock-based compensation expense recognized includes the compensation cost for all stock-based payments granted to employees, officers, and directors based on the grant date fair value estimated in accordance with the provisions of ASC 718. ASC 718 is also applied to awards modified, repurchased, or cancelled during the periods reported. Stock-based compensation is recognized as expense over the employee’s requisite vesting period and over the non-employee’s period of providing goods or services.

Basic and Diluted Net Loss per Common Share

Basic loss per common share is computed by dividing the net loss by the weighted average number of shares of Common Stock outstanding for each year. Diluted loss per share is computed by dividing the net loss by the weighted average number of shares of Common Stock outstanding plus the dilutive effect of shares issuable through the common stock equivalents. The weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. The following securities, presented on a common stock equivalent basis, have been excluded from the calculation of weighted average common shares outstanding for the three months ended March 31, 2026 and 2025 because the effect is anti-dilutive due to the net loss reported in each of those periods.

All share amounts presented in the table below represent the total number outstanding as of the end of each period indicated.

	March 31, 2026	March 31, 2025
Convertible notes payable	605,449	—
Preferred stock series A	5,521,800	—
Preferred stock series C	34,667	34,667
Warrants to purchase common stock	70,988	5,500
Stock options	1,539,363	87,049
Nonvested restricted stock units	460,195	24,583

Income Taxes

The Company accounts for income taxes pursuant to the provision of ASC 740 “Accounting for Income Taxes,” (“ASC 740”) which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of the ASC 740 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, it is more likely than not that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740, the benefit of a tax position is recognized in the condensed consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying condensed consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax

positions will more likely than not be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

Segment Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the Company’s Chief Executive Officer, the chief operating decision-maker (“CODM”). For accounting purposes, the CODM is making decisions regarding resource allocation and assessing performance based on consolidated net loss as if presented in the Company’s condensed consolidated financial statements. The Company views its operations and manages its business in two operating segments, the Commercial Operations segment, and the Research and Development Operations segment. See Note 15 — “Segment Information” for additional detail.

Related Party Transactions

The Company has historically separately presented certain related party transactions and balances in its condensed consolidated financial statements. See Note 8 — “Notes Payable” and Note 10 — “License and Other Agreements” for additional detail regarding related party transactions.

Recently Issued Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires disaggregated information about a reporting entity’s effective tax rate reconciliation, as well as information related to income taxes paid to enhance the transparency and decision usefulness of income tax disclosures. This ASU will be effective for the annual periods beginning after December 15, 2024. The Company has adopted ASU 2023-09 for the year-ended December 31, 2025.

In November 2024, the FASB issued ASU No. 2024-03, “Disaggregation of Income Statement Expenses,” which requires disclosures of certain disaggregated income statement expense captions into specified categories within the footnotes to the financial statements. The requirements of the ASU are effective for annual periods beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027, with early adoption permitted. The requirements will be applied prospectively with the option for retrospective application. The Company is currently evaluating the impact ASU No. 2024-03 will have on its condensed consolidated financial statements.

Other new accounting pronouncements issued, but not effective until after March 31, 2026, did not and are not expected to have a material impact on the Company’s financial position, results of operations or liquidity.

NOTE 4 - ACQUISITION OF LNHC, INC.

The Company issued 31,278 shares of Series A Preferred Stock as consideration pursuant to the terms of the Merger and merger agreement. The total merger consideration was determined to have a fair value of \$39,410, calculated as follows:

Shares of Series A Preferred Stock issued in the Merger Agreement (1)		31,278
Series A Preferred Stock per share price (2)	\$	1,260
Total merger consideration	\$	39,410

- (1) Represents the number of shares of the Company’s Series A Preferred Stock issued to LNHC’s shareholders based on the exchange ratio as set forth in the Merger Agreement.
- (2) As the Company’s Series A Preferred Stock was immediately convertible into the Company’s common stock at a ratio of 1 to 100, the fair value estimate of the Company’s Series A Preferred Stock is calculated as the closing Company common stock price on June 30, 2025 multiplied by 100.

The preliminary purchase price is subject to additional further adjustments based on the final determination of purchase price adjustments, if any.

The Company made a preliminary allocation of the consideration transferred to the tangible and intangible assets acquired and liabilities assumed of LNHC as of July 1, 2025 based on their estimated fair value, including subsequent measurement period adjustments, described below, as follows:

Cash and cash equivalents	\$	2,761
Accounts receivable		48
Inventory		26,203
Prepaid expenses and other current assets		1,189
Intangible assets		33,200
Property and equipment		10,633
Operating lease right-of-use assets		3,595
Other assets		65
Accounts payable		(1,562)
Accrued liabilities		(9,201)
Short-term Bridge loan		(18,785)
Deferred revenue, current portion		(1,072)
Operating lease liabilities, current portion		(625)
Deferred revenue, long-term portion		(1,763)
Operating lease liabilities, long-term portion		(2,970)
Deferred tax liability		(7,387)
Other long-term liabilities		(19,600)
Fair value of net assets acquired		14,729
Goodwill		24,681
Consideration transferred	\$	39,410

The Company has estimated the preliminary fair value of assets acquired and liabilities assumed based on information currently available and will continue to adjust those estimates as additional information pertaining to events or circumstances present at the Merger Closing Date becomes available and final appraisals and analysis are completed. The Company will reflect measurement period adjustments, in the period in which the adjustments occur, and the Company will finalize its accounting for the acquisition within one year from July 1, 2025. A change in the fair value of the net assets may change the amount recognized to goodwill. If the final fair value estimates and tax adjustments related to the net assets acquired decrease from their preliminary estimates, the amount of goodwill will increase and if the final fair value estimates and tax adjustments related to the net assets acquired increase from their preliminary estimates, the amount of goodwill will decrease. In addition, the final fair value estimates related to the net assets acquired could impact the amount of amortization expense recorded associated with amounts allocated to intangible assets. The preliminary goodwill arising from the Merger is primarily attributable to expected synergies. The goodwill will not be deductible for federal tax purposes. The fair value measurements were primarily based on significant inputs that are not observable in the market, and thus represent Level 3 fair value measurements.

During the fourth quarter of 2025, the Company recorded measurement period adjustments for the Merger to reflect a decrease of \$5,944 in the deferred tax liability and a corresponding decrease in goodwill. This adjustment was based on a reassessment of the consolidated tax positions of the Company as of the acquisition date, taking into account the historical tax positions of both LNHC and Channel, including a reassessment of the previously assumed effective federal and state rate estimated as of July 1, 2025.

The fair value of developed technology was estimated using the “multi-period excess earnings” method, an income approach that considers the net cash flows expected to be generated by the intangible asset by excluding any cash flows related to contributory assets. Significant assumptions include the expected useful life of the patent, contributory asset charges and the concluded discount rate. The developed technology will be amortized on a straight-line basis over an

estimated useful life of 12.2 years. The \$32,200 fair value of the developed technology is within intangible assets in the table above.

The fair value of the Sato Pharmaceutical Co., Ltd. (“Sato”) licensing agreement was estimated using the “relief from royalty” method, an income approach that considers the market-based royalty a company would pay to enjoy the benefits of the trade name or technology in lieu of actual ownership of the technology. Significant assumptions include the royalty rate, forecasted cash flows of the license agreement and concluded discount rate. The \$1,000 fair value of this agreement is within intangible assets in the table above. The Sato licensing agreement was to be initially amortized on a straight-line basis over an estimated useful life of 13.0 years. See Note 6 — “Goodwill and Intangible Assets” and Note 7 — “Sato Agreement” for additional detail regarding subsequent changes regarding the fair value of the Sato licensing agreement, unrelated to the July 1, 2025 acquisition and the Company’s rights and obligation at that date.

The fair value of the inventory was estimated using the top/down method that considers the estimated selling price, costs to complete, disposal costs, profit margin on disposal effort, and holding costs. Significant assumptions include management’s estimates for the selling price and the costs to be incurred related to the disposal effort of the inventory.

The fair value of the Reedy Creek liability was estimated using the income approach that considers the royalties based on sales of ZELSUVMI. The \$19,600 fair value of this agreement is within other long-term liabilities in the table above. Significant assumptions include the management’s revenue forecast, royalty rate, and concluded discount rate. See Note 9— “Reedy Creek Liability” for additional detail regarding the fair value of the Reedy Creek liability.

Pro Forma Statement of Operations Information

The following unaudited pro forma financial information presents the combined results of operations as if LNHC had been combined with the Company as of January 1, 2025. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the periods presented, nor should it be taken as indication of the Company’s future consolidated results of operations.

The pro forma financial information has been calculated after applying the Company’s accounting policies and includes adjustments for transaction-related costs:

	Three Months Ended March 31,	
	2026	2025
Total revenue	\$ 10,906	\$ 294
Net loss	(25,073)	(9,479)

NOTE 5 - BALANCE SHEET ACCOUNT DETAILS

Prepaid expenses and other current assets consisted of the following:

	March 31, 2026	December 31, 2025
Prepaid Prescription Drug User Fee Act (PDUFA) fees	\$ 332	\$ 442
Prepaid insurance	530	766
Deposits for meetings and conferences	164	80
Commercial data platforms	117	364
Patient assistance platforms	38	75
Financial reporting platforms	20	98
Deferred offering costs	711	711
Other	545	419
Total prepaid expenses and other current assets	<u>\$ 2,457</u>	<u>\$ 2,955</u>

Inventory consisted of the following:

	March 31, 2026	December 31, 2025
Raw materials	\$ 678	\$ 436
Work-in-process	14,040	16,556
Finished goods	8,700	6,582
Total inventory	<u>\$ 23,418</u>	<u>\$ 23,574</u>

Property and equipment consisted of the following:

	March 31, 2026	December 31, 2025
Manufacturing and laboratory equipment	\$ 1,821	\$ 1,778
Software	1,083	1,083
Furniture and fixtures	70	70
Computer equipment	111	111
Leasehold improvements	5,987	5,967
Construction-in-progress	1,639	1,509
Property and equipment, cost	<u>10,711</u>	<u>10,518</u>
Less: Accumulated depreciation and amortization	<u>(1,401)</u>	<u>(932)</u>
Total property and equipment, net	<u>\$ 9,310</u>	<u>\$ 9,586</u>

The Company's depreciation expense was \$469 for the three months ended March 31, 2026.

Goodwill and other identifiable intangible assets consisted of the following:

	March 31, 2026	December 31, 2025
Indefinite-lived intangible assets		
Goodwill	\$ 24,681	\$ 24,681
Definite-lived intangible assets		
Developed technology	32,200	32,200
Amended Sato license	715	715
Xepi	6,080	6,080
Xeglyze	1,817	1,817
Website development	214	214
Less: accumulated amortization	<u>(2,586)</u>	<u>(1,556)</u>
Total definite-lived intangible assets	<u>38,440</u>	<u>39,470</u>
Total goodwill and other identifiable intangible assets, net	<u>\$ 63,121</u>	<u>\$ 64,151</u>

Accrued expenses consisted of the following:

	March 31, 2026	December 31, 2025
Compensation	\$ 1,934	\$ 3,475
Drug product manufacturing subcontractor	344	292
Commercial, marketing and sales	86	818
Insurance	—	265
Accrued interest	—	234
Commercialization milestone and royalties payable	8,173	7,819
Accrued gross-to-net adjustments	1,750	1,778
Other	548	683
Total accrued expenses	<u>\$ 12,835</u>	<u>\$ 15,364</u>

Other liabilities and other long-term liabilities consisted of the following:

	March 31, 2026	December 31, 2025
Reedy Creek Purchase Agreement	\$ 1,731	\$ 1,963
ZELSUVMI Royalty Agreement	1,400	1,540
Xepi Royalty Agreement	156	226
Sato Payments	116	113
Total other liabilities	<u>\$ 3,403</u>	<u>\$ 3,842</u>
Reedy Creek Purchase Agreement	\$ 19,707	\$ 18,908
ZELSUVMI Royalty Agreement	8,801	8,233
Xepi Royalty Agreement	2,055	1,928
Sato Payments	1,005	981
Accrued interest	387	—
Total other long-term liabilities	<u>\$ 31,955</u>	<u>\$ 30,050</u>

See Note 9 — “Reedy Creek Liability” and Note 10 — “License and Other Agreements” for additional detail regarding the carrying value of certain balances reflected within the accompanying condensed consolidated financial statements.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company’s goodwill balance as of March 31, 2026 was \$24,681. The entire goodwill balance relates to the LNHC, Inc. acquisition during the year ended December 31, 2025.

None of the goodwill is expected to be deductible for income tax purposes. All of the goodwill has been allocated to the Commercial Operations reporting unit and operating segment. See Note 4 — “Acquisition of LNHC, Inc.” for detail.

Biofrontera Asset Purchase Agreement

On November 6, 2025, the Company entered into an Asset Purchase Agreement (the “Biofrontera Asset Purchase Agreement”) with Biofrontera Inc., a Delaware corporation (“Biofrontera”), pursuant to which Biofrontera sold all of its right, title and interest in (i) XEPI, (ii) all of the assets of Biofrontera pertaining to the manufacture, sale and distribution of XEPI, (iii) all intellectual property of Biofrontera relating to XEPI, including, without limitation (A) certain patent and patent applications, including all specifically associated goodwill and (B) trademarks and trademark applications, including all specifically associated goodwill (iv) all preclinical data, records and reports relating to XEPI; (v) certain contracts related to XEPI; (vi) all of the licenses and agreements to which seller is a party pertaining to the manufacture, sale and

distribution of XEPI; and (vii) to the extent transferable in accordance with applicable laws, all regulatory filing related to XEPI.

The aggregate purchase price payable by the Company to Biofrontera for the acquired assets will not exceed \$10,000 and will consist of (i) a cash payment of \$3,000; (ii) a cash payment of \$1,000 following the availability of certain commercial quantities of XEPI, subject to certain conditions; and (iii) two contingent milestone payments of \$3,000 due upon generating two separate net sales achievements of XEPI.

In connection with the acquisition of XEPI, the Company simultaneously entered into a standard third-party manufacturing services agreement in the ordinary course.

Ferrer License Agreement

On November 6, 2025, the Company entered into a License and API Supply Agreement (the “Ferrer License Agreement”) with Ferrer Internacional, S.A. (“Ferrer”) and Interquim, S.A.U. (“Interquim”). Pursuant to the Ferrer License Agreement, Ferrer will grant the Company an exclusive, sublicensable, royalty-bearing license to manufacture and commercialize XEPI in the Territory, as well as an exclusive, royalty-free sublicensable license to use Ferrer’s trademarks for the purpose of marketing, distributing, promoting and selling XEPI. Ferrer will supply analytical test methods and other testing know-how required to perform testing as required by applicable regulatory authorities.

Interquim will act as the supplier to the Company of XEPI in the Territory. Pursuant to the Ferrer License Agreement, the Company has agreed to order from Interquim certain minimum amounts of XEPI based on 24-month forecasts provided by the Company, of which the first 8 months of such forecasts are considered binding. The Company is required to purchase 100% of its requirements for XEPI from Interquim at a specified price during the term of the Ferrer License Agreement.

The initial term of the Ferrer License Agreement is for an initial twelve-year period following the commercial launch of XEPI and is automatically renewed thereafter for successive one-year periods unless the Company provides notice of termination to Ferrer at least 3 months before the end of then-current term. The Ferrer License Agreement is otherwise terminated in accordance with the termination provisions provided therein.

The Ferrer License Agreement contains certain representations, warranties, limitations of liabilities, confidentiality and indemnity obligations and other provisions customary for an agreement of its type.

The aggregate transaction price payable by the Company to Ferrer includes: (i) an upfront payment of \$1,200, payable upon the Company’s receipt of the initial quantity of API purchased pursuant to an initial purchase of API, once it is determined that the API strictly complies with all of the requirements and representations and warranties of the Ferrer License Agreement; and (ii) an on-going royalty of 7% based on net sales of the XEPI. In addition, the Company also executed a work order related to an initial supply of API in an amount of \$456. This upfront purchase will be accounted for as a separate transaction.

XEPI Transaction

The Biofrontera Asset Purchase Agreement and the Ferrer License Agreement were entered into in contemplation of each other to achieve a combined commercial effect. Additionally, the execution of the Biofrontera Asset Purchase Agreement was contingent upon the execution of the Ferrer License Agreement. As such, the Biofrontera Asset Purchase Agreement and the Ferrer License Agreement are combined and accounted for as a single transaction (the “XEPI Transaction”).

The Company determined that the acquired assets associated with the XEPI Transaction do not meet the definition of a business and should be accounted for as an asset acquisition.

The following table summarizes the consideration for the XEPI Transaction for the year ended December 31, 2025.

Consideration Type	Counterparty	Contractual Amount	Allocated Purchase Price
Upfront Payment - Asset Purchase Agreement	Biofrontera	\$ 3,000	\$ 3,000
Contingent Consideration - Achievement of Commercial Quantities	Biofrontera	1,000	1,000
Contingent Consideration - Achievement of Sales Based Milestones	Biofrontera	6,000	—
Contingent Consideration - Acceptance of Initial API Purchase	Ferrer	1,200	1,200
Xepi Transaction - Transaction Expenses	Various	880	880
		<u>\$ 12,080</u>	<u>\$ 6,080</u>
Royalty Payments on Net Sales of Xepi	Ferrer	7 %	— %

The XEPI Transaction intangible asset will be amortized over the 6-year expected useful life of the intellectual property, which is determined based on the last to expire patent underlying the XEPI intellectual property. The Company will assess the remaining useful life of the intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

As of the closing date of the XEPI Transaction, the Company determined that the contingent payments are both considered probable and reasonably estimable and will recognize the fair value of the liabilities as part of the cost of the asset acquisition. The Company determined that the full \$1,000 and \$1,200 contractual values are expected to be paid to Biofrontera and Ferrer, respectively, and therefore recorded the initial liability at \$2,200. The Company also believes \$2,200 approximates the fair value of the obligation as the Company is expected to receive the API and achieve commercial quantities within one year of the closing date. Given the initial probability of being met, any adjustments to present value are therefore deemed immaterial. As such, the Company recorded \$2,200 of contingent consideration within current liabilities on its condensed consolidated balance sheets as of December 31, 2025.

As of March 31, 2026, the initial upfront payment due to Ferrer of \$1,200 and the initial supply of API in an amount of \$456 was shown within accounts payable on the condensed consolidated balance sheets based on the determination that the API complied with all of the requirements and representations and warranties of the Ferrer License Agreement. In addition, the \$456 initial API supply was also reflected within work-in-process inventory as of March 31, 2026.

XEGLYZE Asset Purchase Agreement

On November 20, 2025, the Company entered into a Downpayment Agreement for XEGLYZE assets purchase (the “Downpayment Agreement”) with Hatchtech Pty Ltd. (“Hatchtech”) to purchase the right, title and interest in XEGLYZE, an FDA-approved Abametapir lotion treatment for head lice infestation in humans. The purchase includes all assets of the seller pertaining to the associated product intellectual property, preclinical data, associated regulatory materials, and all inventory and other tangible personal property and materials used or held for use in connection with the Product. On December 23, 2025, Pelthos and Hatchtech entered into an Asset Purchase Agreement (the “XEGLYZE Asset Purchase Agreement”) for the transferred assets.

As outlined by the Downpayment Agreement, the Company was to pay Hatchtech a total purchase price of \$1,800 of which, \$450 was made as a down payment on November 20, 2025 upon execution of the Downpayment Agreement. On December 29, 2025, the date of closing of the acquisition, the Company paid the remaining \$1,350 to Hatchtech.

Though the XEGLYZE Asset Purchase Agreement referenced tangible assets, including inventory, components, packaging, supplies, equipment, machinery, tooling, computers, hardware, furniture, and fixtures related to the Product, no tangible assets were transferred to the Company. Additionally, no liabilities were assumed by the Company as a result of the XEGLYZE Asset Purchase Agreement. The Company will be responsible for all future liabilities that arise on or after the closing date, directly or indirectly.

The Company determined that the acquired assets associated with the XEGLYZE Asset Purchase Agreement do not meet the definition of a business and should be accounted for as an asset acquisition. The Company acquired the XEGLYZE intellectual property rights including all patents, trade names, trademarks, know-how, technical data, and all other XEGLYZE proprietary and intellectual property rights, which are recognized as a single intangible asset. The total purchase price of \$1,817, will be allocated to the XEGLYZE intangible asset, including \$17 for transaction costs.

The intangible asset will be amortized over the 9-year expected useful life of the intellectual property, which is determined based on the expiration date of the patent underlying the XEGLYZE intellectual property. The Company will assess the remaining useful life of the intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Intangible Assets

The Company's definite-lived intangible assets balance as of March 31, 2026 was \$38,440.

The following table presents both definite and indefinite lived intangible assets as of March 31, 2026, comprised primarily of acquired product rights related to the LNHC, Inc. acquisition, as discussed in Note 4 — "Acquisition of LNHC, Inc." and the asset acquisitions of XEPI and XEGLYZE in the fourth quarter of 2025, described above:

	Carrying Value	Accumulated Amortization	Net Book Value	Remaining Useful Life (Years)
Definite-lived intangible assets				
Developed technology	\$ 32,200	\$ (1,979)	\$ 30,221	11.42
Amended Sato license	715	(141)	574	2.00
Xepi	6,080	(387)	5,693	5.84
Xeglyze	1,817	(54)	1,763	8.72
Website development	214	(25)	189	2.86
Total definite-lived intangible assets	\$ 41,026	\$ (2,586)	\$ 38,440	
Indefinite-lived intangible assets				
Goodwill	24,681	—	24,681	
Total goodwill and other identifiable intangible assets	\$ 65,707	\$ (2,586)	\$ 63,121	

Amortization of finite-lived intangible assets is computed using the straight-line method over the estimated useful life of the respective asset. The Company's amortization expense was \$1,031 for the three months ended March 31, 2026.

For the year ended December 31, 2025, the Company recorded an impairment of its Sato license intangible asset, that was recorded as part of the LNHC, Inc. acquisition on July 1, 2025, in an amount of \$285. This impairment was solely related to the change of the expected future cash flows due to the Company based on changes in its rights given as part of the Convertible Securities Purchase Agreement, described in Note 8 — "Notes Payable".

The Company recorded no impairment of goodwill or other intangible assets during the three months ended March 31, 2026.

The following table represents annual amortization of definite lived intangible assets for the next five fiscal years, and thereafter:

	Developed Technology	Amended Sato License	Xepi	Xeglyze	Website Development	Total
2026 (April 1 - December 31)	\$ 1,993	\$ 214	\$ 735	\$ 152	\$ 49	\$ 3,143
2027	2,645	287	975	202	66	4,175
2028	2,653	73	980	203	66	3,975
2029	2,645	—	975	202	8	3,830
2030	2,645	—	975	202	—	3,822
2031 and thereafter	17,640	—	1,053	802	—	19,495
Total amortization	<u>\$ 30,221</u>	<u>\$ 574</u>	<u>\$ 5,693</u>	<u>\$ 1,763</u>	<u>\$ 189</u>	<u>\$ 38,440</u>

NOTE 7 – SATO AGREEMENT

As described in Note 1 — “Organization and Description of Business”, the Company’s wholly owned subsidiary, LNHC, was formed in September 2023 to execute the Ligand acquisition of certain assets and liabilities from Novan in a 363 transaction. Per the 363 transaction, certain Novan agreements were assumed by LNHC and as of the Merger as of July 1, 2025, LNHC had certain rights and obligations related to agreements with Sato.

Background

On January 12, 2017, Novan entered into a license agreement, and related first amendment with Sato, relating to SB204, its drug candidate for the treatment of acne vulgaris in Japan (the “Sato Agreement”). Pursuant to the Sato Agreement, Novan granted to Sato an exclusive, royalty-bearing, non-transferable right and license under certain of Novan’s intellectual property rights, with the right to sublicense with Novan’s prior written consent, to develop, use and sell products in Japan that incorporate SB204 in certain topical dosage forms for the treatment of acne vulgaris, and to make the finished form of such products.

On October 5, 2018, Novan and Sato entered into the second amendment (the “Sato Amendment”) to the Sato Agreement (collectively, the “Amended Sato Agreement”). The Sato Amendment expanded the Sato Agreement to include SB206, Novan’s drug candidate for the treatment of viral skin infections. Pursuant to the Amended Sato Agreement, Novan granted to Sato an exclusive, royalty-bearing, non-transferable license under certain of its intellectual property rights, with the right to sublicense with Novan’s prior written consent, to develop, use and sell products in Japan that incorporate SB204 or SB206 in certain topical dosage forms for the treatment of acne vulgaris or viral skin infections, respectively, and to make the finished form of such products.

Novan or its designated contract manufacturer was to supply study materials to Sato for use in the development of SB204 and SB206 in the licensed territory. The rights granted to Sato did not include the right to manufacture the API of SB204 or SB206; rather, the parties agreed to negotiate a commercial supply agreement pursuant to which the Novan or its designated contract manufacturer would be the exclusive supplier to Sato of the API for the commercial manufacture of licensed products in the licensed territory. Under the terms of the Amended Sato Agreement, Novan also had exclusive rights to certain intellectual property that may be developed by Sato in the future, which Novan could choose to use for its own development and commercialization of SB204 or SB206 outside of Japan.

The term of the Amended Sato Agreement (and the period during which Sato must pay royalties under the amended license agreement) expires on the twentieth anniversary of the first commercial sale of a licensed product in the licensed field in the licensed territory (adjusted from the tenth anniversary of the first commercial sale in the Sato Agreement). The term of the Amended Sato Agreement may be renewed with respect to a licensed product by mutual written agreement of the parties for additional two-year periods following expiration of the initial term. All other material terms of the Sato Agreement remain unchanged by the Sato Amendment.

Sato is responsible for funding the development and commercial costs for the program that are specific to Japan. Novan was obligated to perform certain oversight, review and supporting activities for Sato, including: using commercially reasonable efforts to obtain marketing approval of SB204 and SB206 in the United States and sharing all future scientific information Novan may obtain during the term of the Amended Sato Agreement pertaining to SB204 and SB206; and participating in a joint committee that oversees, reviews and approves Sato's development and commercialization activities under the Amended Sato Agreement. Additionally, Novan has granted Sato the option to use the Novan's trademarks in connection with the commercialization of licensed products in the licensed territory for no additional consideration, subject to the Novan's approval of such use.

July 1, 2025 Merger

Prior to the Merger on July 1, 2025, on March 24, 2025, LNHC assigned the Amended Sato Agreement to Ligand, however, LNHC assumed certain contractual liabilities and obligations under the Sato Agreement and certain ancillary and supportive agreements related to the Amended Sato Agreement. In consideration of LNHC addressing these contractual obligations, Ligand was obligated to pass through all future payments received from Sato to LNHC, however, this obligation was amended as described in Note 8 — "Notes Payable" on November 6, 2025.

The Company has assessed the accounting treatment historically used by LNHC and has continued to account for the Amended Sato Agreement per ASC 606, as the Company's rights and obligations have effectively remained unchanged despite the assignment of the Amended Sato Agreement to Ligand.

The Company concluded that Sato is a customer with respect to all promises in the Amended Sato Agreement, and as such, revenue is recognized in accordance with ASC 606. The Company allocated the transaction price (including the upfront payments received and the unconstrained variable consideration), between the individual performance obligations based on their relative standalone-selling prices. In future periods, the Company would lift the variable consideration constraint from each contingent payment if there were no longer a probable likelihood of significant revenue reversal.

A portion of transaction price allocated to license performance obligation was recognized in revenues on the date of license delivery. For all other performance obligations, the Company concluded that a cost-based input method for revenue recognition is most appropriate. The Company monitors and reassesses actual and estimated costs over the expected development period to calculate a percentage of completeness for purposes of revenue recognition during each reporting period.

The Company currently estimates the end of development period in the first quarter of 2028, based upon a Sato-prepared Japanese development program timeline. The estimated percentage of completeness remains subject to prospective reassessment and adjustment based upon Sato's interaction with the Japanese regulatory authorities and other developmental and timing considerations.

All contract liabilities (deferred revenue) recognized on the balance sheets as of March 31, 2026, were related to the Amended Sato Agreement. All license and collaboration revenue recognized for the three months ended March 31, 2026 was related to the Amended Sato Agreement and was recognized out of the deferred revenue balance as of the beginning of respective period. The net amount of existing performance obligations under long-term contracts unsatisfied as of March 31, 2026 was \$2,005, out of which the Company expects to recognize approximately \$978 in revenue over the next 12 months and the remaining balance thereafter.

The Amended Sato Agreement may be terminated by (i) Sato without cause upon 120 days' advance written notice; (ii) either party in the event of the other party's uncured material breach upon 60 days' advance written notice; (iii) force majeure; (iv) either party in the event of the other party's dissolution, liquidation, bankruptcy or insolvency; and (v) immediately upon written notice if Sato challenges the validity, patentability, or enforceability of any of the patents or patent applications licensed to Sato under the Amended Sato Agreement. In the event of a termination, no portion of the upfront fees received from Sato are refundable. The payment terms contained within the Amended Sato Agreement related to upfront, developmental milestone and sales milestone payments are of a short-term nature and, therefore, do not represent a financing component requiring additional consideration.

NOTE 8 – NOTES PAYABLE (AS RESTATED)

Senior Secured Loan Facility

On January 12, 2026 (the “Venture Loan and Security Agreement Closing Date”), the Company, LNHC and CPC, as co-borrowers (together with the Company, the “Borrowers”), entered into a Venture Loan and Security Agreement (the “Venture Loan and Security Agreement”) by and among the Borrowers and Horizon Technology Finance Corporation, a Delaware corporation, as lender and collateral agent (“Horizon”). The Venture Loan and Security Agreement provides for a senior secured term loan facility in an aggregate principal amount of up to \$50,000 (collectively, the “Term Loans”). The proceeds of the Term Loans will be used to support the commercialization of the Company’s existing commercialized pharmaceutical product, to prepare for launch its two recently acquired assets, and for working capital and general corporate purposes. The Borrowers borrowed \$30,000 of Term Loans on the Venture Loan and Security Agreement Closing Date. The remaining \$20,000 of Terms Loans may be borrowed under the Venture Loan and Security Agreement upon the achievement by the Company of certain milestones set forth in the agreement.

Borrowings under the Venture Loan and Security Agreement accrue interest at a rate equal to the prime rate plus 3.75% with the prime rate having a floor of 6.75%. For the three months ended March 31, 2026, the effective interest rate on the Term Loans was 16.0%. The Term Loans are repayable in monthly interest-only payments from February 1, 2026 until February 1, 2029 (the “Interest-Only Payment Period”). After the expiration of the Interest-Only Payment Period, beginning on March 1, 2029, the Term Loans will be repayable in 24 equal monthly payments of principal and accrued interest until maturity. Alternatively, if the Borrowers achieve a trailing twelve-month consolidated net revenue of at least \$75,000, the Term Loans will be repayable in monthly interest-only payments from February 1, 2026 until February 1, 2030 (the “Extended Interest-Only Payment Period”). After the expiration of the Extended Interest-Only Payment Period, beginning on March 1, 2030, the Term Loans will be repayable in 12 equal monthly payments of principal and accrued interest until maturity. The Term Loans will mature on January 31, 2031 (the “Venture Loan and Security Agreement Maturity Date”). As of March 31, 2026, the Term Loans are classified as noncurrent liabilities, as no principal payments are due within the next twelve months.

The Borrowers paid a commitment fee in the amount of \$300 on the Venture Loan and Security Agreement Closing Date. The Borrowers will pay an additional commitment fee in the amount of 1.0% of the principal amount of the remaining undrawn Term Loans concurrently with the funding of those Term Loans. Upon the payment in full of the outstanding Term Loans, the Borrowers will pay Horizon a final payment in the amount of 5.0% of the aggregate original principal amount of the Term Loans made under the Venture Loan and Security Agreement.

At the Borrowers’ option, the Borrowers may prepay all of the outstanding Term Loans, subject to a prepayment premium equal to (a) 3.0% of the Term Loans being prepaid if the prepayment is made during the Interest-Only Period or Extended Interest-Only Period, as applicable; (b) 2.0% of the Term Loans being prepaid if the prepayment occurs within twelve months after the Interest-Only Period or Extended Interest-Only Period, as applicable; and (c) 1.0% of the Term Loans being prepaid if the prepayment occurs any time thereafter.

The Borrowers’ obligations under the Venture Loan and Security Agreement are secured by substantially all of the Borrowers’ assets, including intellectual property, subject to certain customary exceptions.

In connection with the Venture Loan and Security Agreement, the Company issued to Horizon warrants to purchase up to 65,488 shares of common stock, par value \$0.0001 per share, at an exercise price of \$27.49 per share (the “Initial Horizon Warrants”). The Initial Horizon Warrants are exercisable for 10 years from the Venture Loan and Security Agreement Closing Date. The Company also agreed to issue additional warrants at the time of each additional Term Loan, in an amount of shares equal to 6.0% of the Term Loan divided by the exercise price then in effect.

The Venture Loan and Security Agreement contains customary affirmative and negative covenants, including covenants limiting the ability of the Borrowers and their subsidiaries to, among other things, dispose of assets, enter into certain licensing arrangements, effect certain mergers, incur debt, grant liens, pay dividends and distributions on their capital stock, make investments and acquisitions, and enter into transactions with affiliates, in each case subject to customary exceptions for a loan facility of this size and type. The Venture Loan and Security Agreement also includes customary events of default, including, among others, payment defaults, material misrepresentations, breaches of covenants following any applicable cure period, cross defaults with certain other indebtedness, bankruptcy and insolvency events, judgment defaults and the occurrence of certain events that could reasonably be expected to have a “material adverse effect.” The occurrence of an event of default could result in the acceleration of the Borrowers’ obligations under the Venture Loan and

Security Agreement, the termination of the Horizon's commitments, a 4.0% increase in the applicable rate of interest and the exercise by Horizon of other rights and remedies provided for under the Venture Loan and Security Agreement.

Convertible Notes

On November 6, 2025, the Company entered into a securities purchase agreement (the "Convertible Securities Purchase Agreement") with certain investors, including Ligand (collectively, the "Convertible Investors"), pursuant to which, among other things, on the closing date, the Convertible Investors purchased for cash, and the Company issued and sold to the Convertible Investors, senior secured convertible notes of the Company (the "Convertible Notes") in the aggregate original principal amount of \$18,000, which are convertible into shares of the Company's common stock (such transaction, the "Convertible Note Financing"). The gross proceeds from the Convertible Note Financing were approximately \$18,000, before paying estimated expenses. The Convertible Securities Purchase Agreement generally prohibits the Company from issuing securities without the written consent of the Required Holders (as defined in the Convertible Securities Purchase Agreement), but includes exceptions for specific issuances of securities, including in connection with the independent funding and development of the Company's historical assets relating to the sodium-ion channel known as NaV1.7 for the treatment of various types of systemic chronic pain, acute and chronic eye pain and post-surgical nerve blocks. The Investors have approved Ligand to serve as collateral agent (the "Convertible Collateral Agent").

The Convertible Notes rank senior to current and future indebtedness of the Company and its subsidiaries, excluding (i) any credit facility with one or more financial institutions in form and substance reasonably satisfactory to the Required Holders and with an aggregate amount of indebtedness that does not exceed \$50,000 or (ii) an asset-based loan facility that does not exceed \$10,000, subject to certain conditions (together, the "Permitted Senior Indebtedness"). The Venture Loan and Security Agreement, described above, meets the definition of Permitted Senior Indebtedness under the Convertible Notes. The Convertible Notes accrue interest at a rate of 8.5% per annum (which increases to 18.0% in the event of a default) and mature on November 6, 2027 (the "Convertible Maturity Date").

The Convertible Notes are convertible by the holders thereof in whole or in part at any time after issuance and prior to the Convertible Maturity Date into shares of common stock based on a conversion price (the "Convertible Conversion Price") of \$34.442 per share (the "Convertible Conversion Shares"), which cannot be reduced below \$34.442 per share without obtaining the approval of the shareholders of the Company (the "Convertible Shareholder Approval"), and is subject to customary adjustments for stock splits, stock dividends, recapitalization and other similar transactions. On the later of December 1, 2025 and the date the Company obtains the Convertible Shareholder Approval, if any, if the Convertible Conversion Price then in effect was greater than \$29.73, the Convertible Conversion Price would automatically lower to \$29.73. Effective December 17, 2025, the date the Company obtained the requisite Convertible Shareholder Approval, the Convertible Conversion Price was adjusted to \$29.73. In addition, on the maturity date of the Convertible Notes, if the Company's Permitted Senior Indebtedness does not permit the Company to make the cash payment then due under the Convertible Notes, the Convertible Conversion Price will automatically adjust to a price equal to the average volume weighted average price of the common stock for the five trading days ending immediately prior to the Convertible Maturity Date.

In general, a holder of a Convertible Note may not convert any portion of a Convertible Note if the holder, together with its affiliates, would beneficially own more than 49.9% in the case of Ligand, or 4.99% or 9.99%, in the case of the other Investors (the "Convertible Maximum Percentage"), of the number of shares of the Company's common stock outstanding immediately after giving effect to such exercise; provided, however, that a holder may increase or decrease the Convertible Maximum Percentage by giving 61 days' notice to the Company, but not to any percentage in excess of 9.99% (except for Ligand, whose Convertible Maximum Percentage already exceeds 9.99%).

As partial consideration for the Convertible Notes, the Company granted to each of the Convertible Investors (i) a 5.0% royalty on net sales of XEPI (ozenoxacin) cream, for topical use, and all other derivatives and modifications thereof, to be shared pro rata among all the Convertible Investors and (ii) the Company's right to receive all royalty payments and milestone payments paid by Sato in respect of net sales of ZELSUVMI (less 50.0% of the milestone payment payable by Sato in respect of the first commercial sale of ZELSUVMI in Japan, which will be kept by the Company), to be shared pro rata among all the Convertible Investors. See Note 10 — "License and Other Agreements" for detail.

The Convertible Notes contain certain customary events of default provisions, including failure to timely issue the Convertible Conversion Shares, failure to maintain the listing of the common stock on an Eligible Market (as defined in the Convertible Notes) for a period of five consecutive trading days, failure to maintain sufficient authorized shares for the issuance of Convertible Conversion Shares, a breach of any representation or warranty by the Company under the Convertible Securities Purchase Agreement and the Convertible Notes, the failure of any Security Document to create a separate valid and perfected first priority lien in favor of the Convertible Collateral Agent (subject to certain exceptions), and the occurrence of a Material Adverse Effect (as defined in the Convertible Securities Purchase Agreement), as well as certain customary events of default set forth in the Convertible Notes, including, among others, breach of covenants, including the incurrence of subsequent indebtedness or issuance of dividends, representations or warranties, insolvency, bankruptcy, liquidation and failure by the Company to pay the principal, interest late charges and other payments due under the Convertible Notes, in each case subject to certain cure periods, as applicable.

Upon an event of default, a holder has the option to require the Company to redeem a Convertible Note at a conversion price equal to the greater of (i) the Convertible conversion amount to be redeemed multiplied by (B) 115% (the “Redemption Premium”) and (ii) the product of (X) the conversion rate with respect to the conversion amount in effect at such time as the holder delivers to the Company a notice requiring the Company to redeem the Convertible Note upon an event of default (the “Convertible Event of Default Redemption Notice”) multiplied by (Y) the greatest closing price of the common stock on any trading day during the period commencing on the date immediately preceding such event of default and ending on the date the Company makes the entire payment therefor (the “Convertible Event of Default Redemption Price”). In the event of a Bankruptcy Event of Default (as defined in the Convertible Notes), the Company will immediately pay the holder an amount in cash representing (i) all outstanding principal, accrued and unpaid interest and accrued unpaid late charges on such principal and interest, multiplied by (ii) the Redemption Premium, in addition to any and all other amounts due under the Convertible Note, without the requirement for any notice or demand or other action by any person or entity.

No sooner than twenty trading days nor later than ten trading days prior to the consummation of a Change of Control (as defined in the Convertible Notes) (the “Convertible Change of Control Date”), but not prior to the public announcement of such Convertible Change of Control, the Company must deliver written notice of such Convertible Change of Control to the Holder (a “Convertible Change of Control Notice”). At any time during the period beginning after the holder’s receipt of a Convertible Change of Control Notice or the holder becoming aware of a Convertible Change of Control (if a Convertible Change of Control Notice is not delivered) and ending twenty trading days after the later of (A) the date of consummation of such Convertible Change of Control, (B) the date of receipt of such Convertible Change of Control Notice or (C) the date of the announcement of such Convertible Change of Control, the holder may require the Company to redeem all or any portion of the Convertible Note by delivering written Notice thereof (the “Convertible Change of Control Redemption Notice”) to the Company. A Convertible Note may be redeemed by the holder in cash at a price equal to the greatest of (i) the product of (w) 125% (the “Convertible Change of Control Redemption Premium”) multiplied by (y) the conversion amount being redeemed, (ii) the product of (A) the conversion amount being redeemed multiplied by (B) the quotient determined by dividing (I) the greatest closing price of the shares of common stock during the period beginning on the date immediately preceding the earlier to occur of (1) the consummation of the applicable Convertible Change of Control and (2) the public announcement of such Convertible Change of Control and ending on the date the holder delivers the Convertible Change of Control Redemption Notice by (II) the conversion price then in effect, and (iii) the product of (A) the conversion amount being redeemed multiplied by (B) the quotient of (I) the aggregate cash consideration and the aggregate cash value of any non-cash consideration per share of common stock to be paid to the holders of the shares of common stock upon consummation of such Convertible Change of Control, divided by (II) the conversion price then in effect (the “Convertible Change of Control Redemption Price”). At any time prior to the date on which such redemption payment is paid in full as a result of such Convertible Change of Control, the Convertible Notes may be converted in accordance with their terms.

In the event that the Company does not pay the applicable redemption price to the Holder within the time period required, until such unpaid redemption price is paid, the Holder has the option to notify the Company that it promptly return all or any portion of the Convertible Note representing the conversion amount that was submitted for redemption. Upon the Company’s receipt of such notice, the Company will immediately return the Convertible Note (or issue a new convertible note), and the principal amount of the Convertible Note or such new convertible note will be increased by an amount equal to the difference between (1) the applicable redemption price minus (2) the principal portion of the conversion amount submitted for redemption.

Convertible Notes Subordination Agreement

In January 2026, the Convertible Investors entered into a subordination agreement with Horizon (“Convertible Notes Subordination Agreement”) in connection with the Venture Loan and Security Agreement. Pursuant to the Convertible Notes Subordination Agreement, all payment obligations under the Convertible Notes, including principal and accrued interest, are subordinated to the Company’s obligations under the Term Loans. Until the 90-days after the Term Loans have been repaid in full, the Company is prohibited from making payments on the Convertible Notes, except for certain limited payments related to legal expenses. Prior to the execution of the Convertible Notes Subordination Agreement, the terms of the Convertible Notes permitted the Company to satisfy accrued interest either through cash payments or by capitalizing such interest as payment-in-kind (“PIK”), at the Company's election. As the Convertible Notes Subordination Agreement prohibits cash payments of interest while the Term Loans remain outstanding, accrued interest on the Convertible Notes is treated as PIK and added to the outstanding principal balance of the Convertible Notes at each interest due date. The Company expects to continue to PIK interest in this manner until cash payments are permitted under the terms of the Convertible Notes Subordination Agreement.

Fair Value

The Company had no assets or liabilities that are remeasured on a recurring basis using level 1 or level 2 inputs for the three months ended March 31, 2026 or 2025. The Company’s Venture Loan and Security Agreement was initially measured using level 3 inputs. The Company’s Convertible Notes are measured on a recurring basis using level 3 inputs.

Senior Secured Loan Facility

The Company analyzed the terms of the Venture Loan and Security Agreement and its embedded features concluding it appropriate to account for the Initial Horizon Warrants as freestanding financial instruments with equity classification. As the Initial Horizon Warrants are equity classified, the proceeds from the Venture Loan and Security Agreement were allocated based on the relative fair values of the Term Loans and the Initial Horizon Warrants, with the amount allocated to the Initial Horizon Warrants recorded as additional paid-in-capital. The Term Loans were recorded at the proceeds received, less applicable discounts. The final payment, debt issuance costs and allocation of fair value of the Initial Horizon Warrants will be amortized to interest expense over the term of the loan.

The following table summarizes the allocation of fair value of the Venture Loan and Security Agreement, as determined by Level 3 inputs for the Initial Horizon Warrants, as of January 12, 2026:

	Fair Value	Allocation	Allocated Fair Value	Lender Fees	3rd Party Fees	Total
Term Loans	\$ 30,000	95 %	\$ 28,638	\$ 663	\$ 1,814	\$ 26,161
Initial Horizon Warrants	1,427	5 %	1,362	—	—	1,362
	<u>\$ 31,427</u>	<u>100 %</u>	<u>\$ 30,000</u>	<u>\$ 663</u>	<u>\$ 1,814</u>	<u>\$ 27,523</u>

The following table presents the significant inputs and valuation methodologies used for the Company's fair value of the Initial Horizon Warrants as of January 12, 2026:

Valuation methodology	Black-Scholes
Expected volatility	85.67 %
Risk-free interest rate	4.19 %
Expected term (in years)	10
Expected dividend yield	— %
Weighted-average fair value per option	\$ 21.79

The following table presents the carrying value of the Venture Loan and Security Agreement as of January 12, 2026 and March 31, 2026:

	March 31, 2026	January 12, 2026
Term Loan	\$ 30,000	\$ 30,000
Final Payment	1,500	1,500
Venture Loan and Security Agreement, gross	\$ 31,500	\$ 31,500
Debt Discount	(5,144)	(5,339)
Venture Loan and Security Agreement, net	<u>\$ 26,356</u>	<u>\$ 26,161</u>

The following table presents the maturity of the Term Loan, including the final payment fee, under the Venture Loan and Security Agreement as of March 31, 2026:

	Term Loan
2026 (April 1 - December 31)	\$ —
2027	—
2028	—
2029	12,500
2030	15,000
2031 and thereafter	4,000
Total	<u>\$ 31,500</u>

Convertible Notes

The Company analyzed the terms of the Convertible Notes and its embedded features concluding it appropriate to account for the Convertible Notes at fair value under the allowable fair value option. Accordingly, the Company initially recognized the Convertible Notes at fair value and will subsequently measure the Convertible Notes at fair value with changes in fair value recorded in current period earnings, or other comprehensive income if specific to Company credit risk.

Due to the significant related-party relationships with certain investors and Ligand, the Convertible Securities Purchase Agreement is not presumed to be at arms-length. The Company estimated the initial fair value of the Convertible Notes and related royalty obligations to be in excess of the transaction price. Accordingly, the Company initially recorded both instruments, which were determined to be free standing, at the issuance date relative fair value.

The following table summarizes the change in fair value, as determined by Level 3 inputs for the Convertible Notes for the three months ended March 31, 2026:

Fair value of convertible note at December 31, 2025	\$	31,441
Payment-in-kind on convertible debt		234
Change in fair value recognized in other comprehensive income		(2,188)
Change in fair value recognized in net loss		9,632
Fair value of convertible note at March 31, 2026	\$	<u>39,119</u>

For the three months ended March 31, 2026, the change in fair value of the Convertible Notes was due to (i) changes in the Company's common stock price; (ii) a change in fair value related to the Convertible Notes credit risk component, recorded in accumulated other comprehensive income on the condensed consolidated balance sheet; and (iii) a change to the principal balance related to the payment-in-kind for the quarterly interest payments due January 1, 2026. The credit risk component adjustment was driven by the subordination of the Convertible Notes resulting from the Company's entry into the Venture Loan and Security Agreement. The principal balance on the Convertible Notes as of March 31, 2026 was \$18,234.

The following tables present the significant inputs and valuation methodologies used for the Company's fair value of the Convertible Notes as of March 31, 2026 and December 31, 2025:

	March 31, 2026	December 31, 2025
Valuation model utilized	Monte-Carlo	Scenario-Based
Valuation methodology - Principal	Discounted Cash Flows	Discounted Cash Flows
Expected term (in years)	4.30	1.85
PIK period (years)	4.30	0.85
Discount rate	16.45 %	5.94 %
Valuation methodology - Convertible feature	Black-Scholes	Black-Scholes
Conversion price	\$ 29.73	\$ 29.73
Expected volatility	116.00 %	152.00 %
Risk-free interest rate	3.81 %	3.41 %
Expected term (in years)	4.30	1.85
Expected dividend yield	— %	— %

As described above, on January 12, 2026 the Company entered into the Venture Loan and Security Agreement with Horizon, which met the definition of permitted senior indebtedness per the Convertible Notes. The Venture Loan and Security Agreement secured substantially all of the borrowers' assets. In addition, the Convertible Notes Subordination Agreement, also described above, subordinated all payment obligations under the Convertible Notes, including principal and accrued interest, until 90-days after the Venture Loan and Security Agreement has been repaid in full.

The Company calculated the December 31, 2025 discount rate used in the valuation of the Convertible Notes based upon a B- yield curve to approximate the Company's estimate of a market participant's assessment of the credit risk associated with both the Company and the instrument.

The Company calculated the March 31, 2026 discount rate used in the valuation of the Convertible Notes based on the following:

Subordination premium	3.12 %
Company specific risk premium	6.24 %
Bloomberg B- yield curve	7.09 %
	<u>16.45 %</u>

The following table presents the maturity of the Convertible Notes, including expected payment-in-kind, as of March 31, 2026:

	Convertible Notes
2026 (April 1 - December 31)	\$ —
2027	—
2028	—
2029	—
2030	—
2031 and thereafter	39,119
Total	<u>\$ 39,119</u>

Pledge Agreement

On the Convertible Note Financing Closing Date, the Company, as pledgor and Ligand, as secured party, in its capacity as Collateral Agent for each holder of Convertible Notes, entered into a pledge agreement (the “Pledge Agreement”). In accordance with the terms of the Pledge Agreement, the Convertible Notes are secured by a lien on, and security interest in, (i) 10.0% of all aggregate net sales of the “End Product” as defined in the Ferrer License Agreement (as defined below), including XEPI, in the United States, including Puerto Rico and the U.S. Virgin Islands; provided, however, that the Company will only accrue 5.0% of such payments as liabilities until the occurrence of an event of default (the “Covered Product Revenue Payments”), (ii) the Sato Payments, and (iii) all accounts receivable of the Company with respect to the Covered Product Revenue Payments and the Sato Payments, pursuant to a pledge agreement by and between – in each case, subject to certain permitted indebtedness of the Company.

NOTE 9 – REEDY CREEK LIABILITY

As described in Note 1 — “Organization and Description of Business”, the Company’s wholly owned subsidiary, LNHC, was formed in September 2023 to execute Ligand’s acquisition of certain assets and liabilities from Novan in a 363 transaction. Per the 363 transaction, certain Novan agreements were assumed by LNHC and as of the Merger as of July 1, 2025, LNHC had certain obligations related to agreements with Reedy Creek Investments LLC (“Reedy Creek”).

Background

On April 29, 2019, Novan entered into a royalty and milestone payments purchase agreement (the “Reedy Creek Purchase Agreement”) with Reedy Creek, pursuant to which Reedy Creek provided funding to Novan in an amount of \$25,000 for it to pursue the development, regulatory approval and commercialization activities (including through out-license agreements and other third-party arrangements) for SB206, a topical gel with anti-viral properties being developed as a treatment for molluscum, and advancing programmatically such activities with respect to SB204, a once-daily, topical monotherapy being developed for the treatment of acne vulgaris, and SB414, a topical cream-based product candidate being developed for the treatment of atopic dermatitis. If Novan were to have successfully commercialized any such product, following regulatory approval, it was obligated to pay Reedy Creek a low single digit royalty on net sales of such products in the United States, Mexico or Canada.

Pursuant to the Reedy Creek Purchase Agreement, Novan was obligated to pay Reedy Creek ongoing quarterly payments, calculated based on an applicable percentage per product of any upfront fees, milestone payments, royalty payments or equivalent payments received by Novan pursuant to any out-license agreement for SB204, SB206 or SB414 in the United States, Mexico or Canada, net of any upfront fees, milestone payments, royalty payments or equivalent payments paid by Novan to third parties pursuant to any agreements under which Novan had in-licensed intellectual property with respect to such products in the United States, Mexico or Canada. The applicable percentage used for determining the ongoing quarterly payments, applied to amounts received directly by Novan pursuant to any out-license agreement for each product, ranges from 10% for SB206 to 20% for SB204 and SB414.

However, the Reedy Creek Purchase Agreement provides that the applicable percentage for each product will be 25% for fees or milestone payments received by Novan (but not royalty payments received by Novan) until Reedy Creek has received payments under the Purchase Agreement equal to the total funding amount provided by Reedy Creek under the Purchase Agreement. If Novan decided to commercialize any product on its own following regulatory approval, as opposed to commercializing through an out-license agreement or other third-party arrangement, Novan will only be obligated to pay Reedy Creek a low single digit royalty on net sales of such products.

July 1, 2025 Merger

On March 24, 2025, LNHG assigned its rights to its intellectual property portfolio to Ligand. In addition, LNHG and Ligand also entered into an agreement that clarified the nature of on-going obligations related to the Reedy Creek Purchase Agreement. Based on that letter agreement dated March 24, 2025, LNHG is obligated and responsible for satisfying all obligations with respect to the Reedy Creek Purchase Agreement for SB206 (ZELSUVMI), whereas Ligand will be responsible for satisfying all obligations related to the SB204 and SB414 product candidates, if and when they are developed. Obligations under the Reedy Creek Agreement that arise from any non-SB206 (ZELSUVMI) asset will be satisfied by Ligand. As of the July 1, 2025 Merger, the Company is obligated to pay Reedy Creek amounts due, per the Reedy Creek Purchase Agreement, related to SB206 (commercially known as ZELSUVMI).

The Company determined that the Reedy Creek Purchase Agreement is within the scope of ASC 730-20, Research and Development Arrangements (“ASC 730-20”), and that there has not been a substantive and genuine transfer of risk related to the Reedy Creek Purchase Agreement. As of the LNHG Acquisition date, the Reedy Creek liability was measured at fair value in the amount of \$19,600. This long-term liability is subsequently measured at amortized cost using the prospective effective interest method described in ASC 835-30, Imputation of Interest (“ASC 835-30”).

The effective interest rate is calculated by forecasting the expected cash flows to be paid over the life of the liability relative to its fair value as of the LNHG Acquisition date. The effective interest rate is recalculated in each reporting period as the difference between expected cash flows and actual cash flows are realized and as there are changes to expected future cash flows. The carrying value of the Reedy Creek liability is made up of the opening balance, which is increased by accrued interest expense, and decreased by any accrued payments to be made to Reedy Creek to arrive at the ending balance. See Note 10 — “License and Other Agreements” for additional detail regarding this obligation.

NOTE 10 – LICENSE AND OTHER AGREEMENTS

Ligand Pharmaceuticals Inc.

On March 24, 2025, LNHG (i) assigned its rights to its intellectual property portfolio to Ligand (the “Assignment Agreement”); (ii) entered into an Exclusive License and Sublicense Agreement with Ligand (the “ZELSUVMI License”), pursuant to which Ligand licensed to LNHG the intellectual property rights necessary to make, use, sell or offer to sell ZELSUVMI for the treatment of molluscum contagiosum in humans worldwide, except for Japan; and (iii) entered into a Master Services Agreement For Product Supply (the “Ligand MSA”). In addition, on July 1, 2025, LNHG and Ligand entered into a Transition Services Agreement (the “Ligand TSA”).

Ligand Assignment Agreement

On March 24, 2025, LNHG assigned all of its intellectual property rights, including patents, to Ligand. The Assignment Agreement covered all assets within the NITRICIL patent portfolio and other nitric oxide releasing compounds previously held by LNHG. Historically, Novan and LNHG, through the 363 transaction, acquired exclusive rights to intellectual property, including those that were ultimately developed into the specific library of NITRICIL compounds, pursuant to license agreements with the University of North Carolina at Chapel Hill (“UNC”), entered into in July 2007 and October 2009, which were subsequently amended, restated and consolidated in June 2012 (the “UNC License Agreement”). Under the UNC License Agreement, Novan, and subsequently LNHG, was granted an exclusive, worldwide license, with the ability to sublicense, to develop and commercialize products utilizing the licensed intellectual property. Novan and LNHG amended the UNC License Agreement multiple times since June 2012 to both expand the scope of licensed patents to cover additional nitric oxide technologies and to modify certain regulatory and/or commercial milestones under the UNC License Agreement. The Assignment Agreement assigned all of these rights, patents and intellectual property to Ligand.

As of March 31, 2026 the last to expire patent related to ZELSUVMI originating from the UNC License Agreement, described below, is May 2026. Prior to the Assignment Agreement, LNHC had progressed the development of that in-licensed intellectual property portfolio from the UNC License Agreement and obtained 12 U.S. patents, in addition to two U.S. patents obtained with the original UNC License Agreement, resulting in a total of 14 issued U.S. patents covering ZELSUVMI. These 14 U.S. patents are expected to expire during the time period beginning in 2026 and ending in 2035. Upon the initial FDA approval of ZELSUVMI, LNHC applied for a 1280 day patent term extension (“PTE”), for the U.S. patent covering ZELSUVMI compositions. Assuming grant of the PTE application, the term of this patent may be extended from February 27, 2034, to August 30, 2037.

Ligand Assignment Agreement Amendment

As an inducement to certain investors to enter into the Convertible Securities Purchase Agreement, the Company and Ligand entered into Amendment No. 1 to the Assignment Agreement (the “Assignment Agreement Amendment”), pursuant to which Ligand agreed to pay the Company (i) 75% of the milestone payment received by Ligand from Sato in respect of the first commercial sale of the “Licensed Product” (as defined in Amended Sato Agreement) in Japan; and (ii) fifty percent (50%) of any other amounts received by Ligand from Sato under the Amended Sato Agreement solely in respect of the “Licensed Product” (and, for the avoidance of doubt, no other product covered by the Amended Sato Agreement) in the “Licensed Field” (in each case, as defined in the Amended Sato Agreement), less any out-of-pocket costs incurred by Ligand to effectuate its rights, obligations and responsibilities under the Amended Sato Agreement.

These amended rights to the Company were subsequently impacted by the terms of the Convertible Notes, in which the Company granted to each of the Convertible Investors (i) a 5.0% royalty on net sales of XEPI, and all other derivatives and modifications thereof, to be shared pro rata among all the Convertible Investors and (ii) the Company’s right to receive all royalty payments and milestone payments paid by Sato in respect of net sales of ZELSUVMI (less 50.0% of the milestone payment payable by Sato in respect of the first commercial sale of ZELSUVMI in Japan, which will be kept by the Company), to be shared pro rata among all the Convertible Investors.

Ligand Royalty Agreement

Under the terms of the ZELSUVMI License, Ligand is entitled to (i) a 13% royalty on worldwide sales, excluding, Japan, of ZELSUVMI prior to the expiration of the initial royalty term, defined as on a country-by-country basis, the period of time commencing on the effective date and continuing until the expiration or termination of the last to expire valid claim of the patent rights that are included in the specified intellectual property and that cover the licensed product; (ii) a 10.4% royalty on worldwide sales, excluding, Japan, of ZELSUVMI after the expiration of the initial royalty term; (iii) upon the first commercial sale of the ZELSUVMI, a \$5,000 milestone; (iv) upon the occurrence obtaining a threshold of \$35,000 in aggregate net sales during four consecutive calendar quarters, a \$5,000 milestone; and (vi) 30% of all non-royalty sublicense income received by the Company or its affiliates from any sublicensee. The first commercial sale milestone has been accrued within accrued expenses on the condensed consolidated balance sheets as of March 31, 2026.

Ligand may terminate the ZELSUVMI License on 30 days’ prior notice to the Company if (i) the Company fails to launch ZELSUVMI in the U.S. by December 31, 2025; (ii) the Company fails to use commercially reasonable efforts to enter into an agreement with a third-party to commercialize ZELSUVMI in France, Germany, Italy, Spain and the United Kingdom by September 30, 2026; or (iii) the Company or its affiliates or potential sublicensee fails to receive regulatory approval for ZELSUVMI in France, Germany, Italy, Spain and the United Kingdom by March 31, 2027.

Under the ZELSUVMI License agreement, the Company is also obligated to satisfy certain contractual obligations pursuant to the license agreements with UNC, entered into in July 2007 and October 2009 by Novan, which were subsequently amended, restated and consolidated in June 2012 into the UNC License Agreement, and which were assumed during the Novan 363 transaction and assigned to Ligand on March 24, 2025 by LNHC.

The UNC License Agreement is described below. The Company obligations regarding the UNC License Agreement include satisfying all payment obligations, due diligence, reporting, information, inspection and recordation obligations of Ligand under the UNC license agreement.

In addition, the Company also has development rights for a period of 1 year commencing on the effective date of the ZELSUVMI License, to negotiate a development and funding agreement to develop and commercialize the product program designated by Ligand as SB207. If the Parties are unable to enter into a mutually agreeable development and funding agreement within 1 year of the effective date of the ZELSUVMI License, the Company will have no further rights to the SB207 program under the ZELSUVMI License.

Ligand Master Services Agreement

On March 24, 2025, LNHC and Ligand entered into the Ligand MSA under which Ligand, or related parties, may contract with LNHC for LNHC to provide Ligand active pharmaceutical ingredients for clinical or commercial use related to NITRICIL technology. In addition, the agreement also allows Ligand to require LNHC to provide manufacturing technology transfer services, if requested by Ligand, for products utilizing NITRICIL technology other than ZELSUVMI for the treatment of mollusum contagiosum in humans, to a potential third-party manufacturer.

Ligand Transition Services Agreement

On July 1, 2025, LNHC and Ligand entered into the Ligand TSA under which Ligand and LNHC could provide certain services to the other party related to supportive activities for intellectual property, R&D, or regulatory services provide by the Company to Ligand, or for certain administrative functions to be provided to the Company by Ligand. The Ligand TSA governs the nature of the activities of work, their scope, and the amounts be the charged to either party based on services performed.

UNC License Agreement

The UNC License Agreement currently requires the Company to pay UNC up to \$250 in regulatory and commercial milestones on a licensed product by licensed product basis and a running royalty percentage in the low single digits on net sales of licensed products. Licensed products include any products being developed by the Company or by its sublicensees. In addition, the Company is obligated to reimburse UNC for reasonable prosecution and maintenance costs related to intellectual property. The UNC License Agreement remains in effect on a country by country and licensed product by licensed product basis until the expiration of the last to expire issued patent covering such licensed product in the applicable country.

UNC may terminate the agreement or render the license granted thereunder non-exclusive for material breach of the agreement that remains uncured after 90 days of receipt of written notice thereof from UNC and may also terminate the agreement or render the license granted thereunder non-exclusive upon providing written notice for bankruptcy or insolvency-related events within 30 days of the occurrence of such events.

July 1, 2025 Royalty Agreements

As an inducement to enter into the Securities Purchase Agreement, Note 1 — “Organization and Description of Business” for detail, on July 1, 2025 the Company entered into a Purchase and Sale Agreement with Nomis RoyaltyVest LLC (“NRV”) (the “ZELSUVMI Royalty Agreement”), pursuant to which the Company sold to NRV all of the Company’s rights, title and interest in and to a portion of the Company’s revenue payments for ZELSUVMI and all accounts with respect thereto. The purchase price was \$1.

Under the terms of the ZELSUVMI Royalty Agreement, prior to the expiration of the initial royalty term NRV will receive (i) a 1.5% royalty on net sales of ZELSUVMI worldwide, other than in Japan; and (ii) 3.46% of non-royalty sublicensing payments received by the Company for its sublicensing of rights to ZELSUVMI, and after the expiration of the initial royalty term, NRV will receive (i) a 1.2% royalty on net sales of ZELSUVMI worldwide, other than in Japan; and (ii) 3.46% of non-royalty sublicensing payments received by LNHC for its sublicensing of rights to ZELSUVMI. The initial royalty term is defined as, on a country-by-country basis, the period of time commencing on the effective date and continuing until the expiration or termination of the last to expire valid claim of the patents that cover the ZELSUVMI.

The Company concluded that the ZELSUVMI Royalty Agreement represents a sale of future revenues under ASC 470, Debt (“ASC 470”) as the agreement does not convey to the counterparty any rights to the intellectual property underlying ZELSUVMI and the Company will continue to have significant ongoing involvement in the generation of the royalties due to the counterparties. See below for additional detail.

On July 1, 2025, the Company and NRV, Ligand, and Madison Royalty LLC, a Colorado limited liability company (“Madison”, being formed on behalf of certain of the legacy Channel directors and management team with the Company’s former Chief Financial Officer, Mr. Francis Knuettel II, as the sole and managing member as of July 1, 2025 and December 31, 2025), entered into a Purchase and Sale Agreement (the “Channel Products Royalty Agreement”), pursuant to which the Company sold to each of NRV, Ligand, and Madison, and each of NRV, Ligand, and Madison purchased, all of the Company’s rights, title and interest in and to a portion of the Company’s revenue payments all accounts related to or utilizing the covered products, as defined within that agreement (the “Channel Covered Products”). The purchase price was \$1.

The Company concluded that the Channel Products Royalty Agreement represents an R&D funding arrangement under ASC 730-20 in which it is presumed probable that the Company will repay the funding due to the significant related party relationship with the counterparties. Therefore, the Company accounts for the obligation to repay as a liability consistent with ASC 470. See below for additional detail.

November 6, 2025 Royalty Agreements

On November 6, 2025, concurrent with the XEPI Royalty Agreement, discussed below, the Company and NRV, Ligand, and Madison entered into Amendment No. 1 to the Channel Products Royalty Agreement (the “Amended Channel Products Royalty Agreement”), pursuant to which the Company, NRV, Ligand and Madison amended the definition of the Channel Covered Products to exclude (i) Nitricil-based technology and (ii) XEPI. The Company evaluated the amendment concluding that the modification would be treated as a debt extinguishment as the difference in cash flows is greater than 10%. Due to significant related party relationships with certain investors to the Amended Channel Products Royalty Agreement, the Company determined it appropriate to account for the extinguishment as a contribution increasing additional paid-in capital.

Under the terms of the Amended Channel Products Royalty Agreement, (A) prior to the expiration of the Initial Royalty Term, (i) NRV will receive a 5.3% royalty, Ligand will receive a 1.7% royalty and Madison will receive a 1.5% royalty on Net Sales (as defined in the Amended Channel Products Royalty Agreement) of the Channel Covered Products worldwide, and (ii) NRV will receive 12.23%, Ligand will receive 3.92% and Madison will receive 3.46% of non-royalty sublicensing payments received by Pharmaceutical Sub for its sublicensing of rights to the Channel Covered Products worldwide; and (B) after the expiration of the Initial Royalty Term, (i) NRV will receive a 4.24% royalty, Ligand will receive a 1.36% royalty and Madison will receive a 1.2% royalty on Net Sales of the Channel Covered Products worldwide, and (ii) NRV will receive 12.23%, Ligand will receive 3.92% and Madison will receive 3.46% of non-royalty sublicensing payments received by Pharmaceutical Sub for its sublicensing of rights to the Channel Covered Products worldwide. The Initial Royalty Term is defined as, on a country-by-country basis, the period of time commencing on the effective date of the Merger and continuing until the expiration or termination of the last to expire valid claim of the patents that cover the Channel Covered Products.

On November 6, 2025, the Company entered into the Convertible Securities Purchase Agreement, such transaction, the Convertible Note Financing. See Note 8 — “Notes Payable” for additional detail regarding these Convertible Notes.

As partial consideration for the Convertible Notes, the Company granted to each of the Convertible Investors (i) a 5.0% royalty on net sales of XEPI, for topical use, and all other derivatives and modifications thereof, to be shared pro rata among all the Convertible Investors, (the “XEPI Royalty Agreement”) and (ii) the Company’s right to receive all royalty payments and milestone payments paid by Sato in respect of net sales of ZELSUVMI (less 50.0% of the milestone payment payable by Sato in respect of the first commercial sale of ZELSUVMI in Japan, which will be kept by the Company), to be shared pro rata among all the Convertible Investors (the “Sato Payments”), collective with the XEPI Royalty Agreement, the “Convertible Royalty Agreements”.

The Company concluded that the Convertible Royalty Agreements represent a sale of future royalties under ASC 470 as the agreement does not convey to the counterparties any rights to the intellectual property underlying XEPI and the Company will continue to have significant ongoing involvement in the generation of royalties due to the counterparties related to the Sato Agreement. See below for additional detail.

As detailed in Note 7 — “Notes Payable”, the Convertible Securities Purchase Agreement is presumed to not be at arms-length due to the significant related party relationships involved. Therefore, the instruments were each recorded at their initial fair value. The Company will account for royalties due as revenue and will accrete the financing using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated life of the Convertible Royalty Agreement. Further, the Company allocated issuance costs to the financing as a debt issuance cost, which reduced the initial carrying value of the financing.

Accounting for Royalty Agreements

The Company accounts for the Reedy Creek Purchase Agreement, the ZELSUVMI Royalty Agreement, the Amended Channel Products Royalty Agreement and the Convertible Royalty Agreements as liabilities and will accrete the financings using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated lives of the applicable agreements. At the effective date of the agreements, the effective annual interest rate of the specific financing was estimated and contains significant assumptions that affect both the amount recorded at the effective date and the interest expense that will be recognized over the term of the corresponding agreement. The Company periodically assesses the estimated royalty payments and to the extent the amount or timing of such payments is materially different than the original estimates, an adjustment is made to the effective interest rate, which will be recorded prospectively to increase or decrease interest expense. There are a number of factors that could materially affect the amount and timing of royalty payments and the amount of interest expense recorded by the Company over the term. Such factors include, but are not limited to, volumes of revenue generated by the underlying products, changing standards of care, the introduction of competing products, manufacturing or other delays, generic competition, intellectual property matters, adverse events that result in regulatory authorities placing restrictions on the use of the drug products, delays or discontinuation of development and commercialization applicable products, and other events or circumstances that are not currently foreseen. Changes to any of these factors could result in increases or decreases to both forecasted revenues and interest expense.

The following table provides the significant assumptions used in determining the initial fair value of the financing used in allocating the proceeds based on relative fair value for the Reedy Creek Purchase Agreement, the ZELSUVMI Royalty Agreement, the Amended Channel Products Royalty Agreement and the Convertible Royalty Agreements, in addition to managements forecasts and estimates as it relates to the future cash flow of the underlying assets (weighted average, as applicable):

	Reedy Creek Purchase Agreement	ZELSUVMI Royalty Agreement	Channel Products Royalty Agreement	Xepi Royalty Agreement	Sato Payments
Discount rate	16.0 %	16.0 %	20.3 %	25.7 %	35.7 %
Probability of success	85.0 %	85.0 %	47.2 %	95.0 %	52.4 %

During the three months ended March 31, 2026, the Company paid \$1,513 in royalties to licensing counterparties based on the payment terms within the respective license agreements. As noted within the related license agreements and definition of net sales, covered products are considered sold when paid for. As such, royalty payments are calculated based on cash payments received by the Company during the respective calendar quarter, rather than the accrual basis. The Company accrues royalty obligations based on the accrual basis, as net revenue is recorded within the condensed consolidated statements of operations.

The following table provides the activity of the financing for the three months ended March 31, 2026 for the Reedy Creek Purchase Agreement, the ZELSUVMI Royalty Agreement, the Amended Channel Products Royalty Agreement and the Convertible Royalty Agreements (weighted average, as applicable):

	Reedy Creek Purchase Agreement	ZELSUVMI Royalty Agreement	Xepi Royalty Agreement	Sato Payments	Total
Carrying value at December 31, 2025	\$ 20,871	\$ 9,773	\$ 2,220	\$ 1,127	\$ 33,991
Interest accretion	781	588	55	27	1,451
Royalty payments accrued	(214)	(160)	—	—	(374)
Carrying value at March 31, 2026	21,438	10,201	2,275	1,154	35,068
Less: current portion	1,731	1,400	156	116	3,403
Convertible fees allocated to royalty	—	—	64	33	97
Carrying value at March 31, 2026, net of current portion	\$ 19,707	\$ 8,801	\$ 2,055	\$ 1,005	\$ 31,568
March 31, 2026 Effective Annual Discount Rate	14.8 %	23.7 %	9.8 %	9.7 %	

NOTE 11 - LEASES

As described in Note 1 — “Organization and Description of Business”, the Company’s wholly owned subsidiary, LNHC, was formed in September 2023 to execute the Ligand acquisition of certain assets and liabilities from Novan in a 363 transaction. Per the 363 transaction, certain Novan agreements were assumed by LNHC and as of the Merger as of July 1, 2025, LNHC had certain rights and obligations related to its manufacturing facility and the related lease described below.

On January 18, 2021, the Company entered into a lease with an initial term expiring in 2032, as amended for 19,265 rentable square feet, located in Durham, North Carolina. This lease dated as of January 18, 2021, as amended (the “TBC Lease”), is by and between the Company and Copper II 2020, LLC (the “TBC Landlord”), pursuant to which the Company is leasing space serving as its corporate headquarters and primary API manufacturing site (the “Premises”) located within the Triangle Business Center. The lease executed on January 18, 2021, as amended, was further amended on November 23, 2021 to expand the Premises by approximately 3,642 additional rentable square feet from 15,623 rentable square feet.

The TBC Lease commenced on January 18, 2021 (the “Lease Commencement Date”). Rent under the TBC Lease commenced in October 2021 (the “Rent Commencement Date”). The term of the TBC Lease expires on the last day of the one hundred twenty-third calendar month after the Rent Commencement Date. The TBC Lease provides the Company with one option to extend the term of the TBC Lease for a period of 5 years, which would commence upon the expiration of the original term of the TBC Lease, with base rent of a market rate determined according to the TBC Lease; however, the renewal period was not included in the calculation of the lease obligation as the Company determined it was not reasonably certain to exercise the renewal option.

The monthly base rent for the Premises is approximately \$39 for months 1-10 and approximately \$49 for months 11-12, per the second amendment to the primary lease. Beginning with month 13 and annually thereafter, the monthly base rent will be increased by 3%. Subject to certain terms, the TBC Lease provided that base rent was abated for three months following the Rent Commencement Date. The Company is obligated to pay its pro-rata portion of taxes and operating expenses for the building as well as maintenance and insurance for the Premises, all as provided for in the TBC Lease.

Pursuant to the terms of the TBC Lease, the Company is currently obligated to deliver to the TBC Landlord a letter of credit in the amount of \$583, as amended, as collateral for the full performance by the Company of all of its obligations under the TBC Lease and for all losses and damages the TBC Landlord may suffer as a result of any default by the Company under the TBC Lease. As of March 31, 2026, the Company is in the process of securing this letter of credit.

The Company's facility lease cost was \$203 for the three months ended March 31, 2026, comprised of \$165 and \$38, respectively, of base rent and other variable expenses, including common area maintenance. Cash paid for amounts included in the measurement of operating lease liabilities was \$165 for the three months ended March 31, 2026. The Company also recorded \$152 of storage rental costs associated with short-term leases for the three months ended March 31, 2026. The weighted average remaining lease term for the TBC Lease and weighted average discount rate for the TBC Lease are 5.8 years and 8.4%, respectively, as of March 31, 2026.

Future minimum lease payments as of March 31, 2026, were as follows:

Maturity of Lease Liabilities	Operating Leases	
2026 (April 1 - December 31)	\$	499
2027		685
2028		705
2029		726
2030		748
2031 and thereafter		836
Total future undiscounted lease payments		4,199
Less: imputed interest		(907)
Total reported lease liability	\$	3,292

NOTE 12 – STOCKHOLDERS' EQUITY

See Note 1 — “Organization and Description of Business” as it relates to the July 1, 2025 Merger and PIPE Financing.

Initial Public Offering

On February 21, 2024, the Company completed its IPO and issued 110,000 shares of Common Stock at a price of \$60.00 per share. The aggregate net proceeds from the IPO were approximately \$5,900 after deducting approximately \$900 of underwriting discounts and commissions and offering expenses.

Stock Split

On February 15, 2024, the Company effected a 9-for-1 reverse stock split. All share and per share amounts have been retrospectively adjusted for the reverse stock split.

On July 1, 2025, the Company effected a 10-for-1 reverse stock split. All share and per share amounts have been retrospectively adjusted for the reverse stock split.

2023 Plan Amendment

On June 12, 2024, the Board authorized an amendment to the Pelthos Therapeutics Inc. 2023 Equity Incentive Plan (as further amended and/or restated, the “2023 Plan”) to increase the number of shares of Common Stock authorized for issuance thereunder by 150,000 from 44,444 shares to 194,444 shares. On October 22, 2024, the 2023 Plan Amendment was approved by the affirmative vote of a majority of the outstanding shares of Common Stock present in person, by remote communication, if applicable, or represented by proxy at the Annual Meeting. On April 16, 2025, pursuant to a written consent of the majority of shareholders of the Company, the number of shares authorized for issuance under the 2023 Plan was increased to 2,400,000 shares. The Company's board of directors approved the increase to the 2023 Plan on June 26, 2025. As of March 31, 2026, there were 354,497 shares available for future stock based award issuance under the 2023 Plan.

Committed Equity Financing

On July 26, 2024, the Company entered into a Common Stock Purchase Agreement, dated as of July 26, 2024 (the “CEF Purchase Agreement”), with Tikkun Capital LLC (“Tikkun”), providing for a committed equity financing facility, pursuant to which, upon the terms and subject to the satisfaction of the conditions contained in the CEF Purchase Agreement, Tikkun has committed to purchase, at the Company’s direction in its sole discretion, up to an aggregate of \$30,000 (the “Total Commitment”) of the shares of Common Stock (the “Purchase Shares”), subject to certain limitations set forth in the CEF Purchase Agreement, from time to time during the term of the CEF Purchase Agreement. Concurrently with the execution of the CEF Purchase Agreement, the Company and Tikkun also entered into a Registration Rights Agreement, dated as of July 26, 2024, pursuant to which the Company agreed to file with the SEC one or more registration statements, to register under the Securities Act, the offer and resale by Tikkun of all of the Purchase Shares that may be issued and sold by the Company to Tikkun from time to time under the CEF Purchase Agreement. On October 2, 2024, the Company tendered 7,632 shares to Tikkun for \$46 and on October 18, 2024, the Company tendered 7,965 shares to Tikkun for \$63.

Warrants

On February 21, 2024, the Company issued warrants to purchase up to 5,500 shares of Common Stock to the representative of the underwriters of the IPO. These warrants had an exercise price of \$75.00, have a cashless exercise provision, were exercisable 180 days following the commencement of sales of the shares of Common Stock of the IPO and have an expiration date of February 21, 2029.

On September 18, 2025, these warrants were repriced to \$33.31 per share. This modification resulted in a difference in fair value of \$31 which was reflected in additional paid in capital, with no net impact, due to the equity treatment of these warrants associated with the IPO equity issuance cost.

In connection with the Venture Loan and Security Agreement, the Company issued to Horizon warrants to purchase up to 65,488 shares of common stock, par value \$0.0001 per share, at an exercise price of \$27.49 per share. The Initial Horizon Warrants are exercisable for ten years from the Venture Loan and Security Agreement Closing Date. See Note 8 — “Notes Payable” for additional detail regarding the Initial Horizon Warrants.

Stock Based Compensation

Stock Compensation Expense

The 2023 Plan provides for the grant of the following awards: (i) incentive stock options, (ii) nonstatutory stock options, (iii) SARs, (iv) restricted stock awards, (v) restricted stock unit awards and (vi) other stock awards. Eligible plan participants include employees, directors, and consultants.

Options to purchase the Company’s common stock may be granted at a price no less than the fair value of a common stock share on the date of grant. The Black-Scholes option-pricing model uses the common stock fair value based on the closing sales price for a share as quoted on any established securities exchange for such grant date or the last preceding date for which such quotation exists. Vesting terms of options issued are determined by the board of directors or compensation committee of the board. The Company’s stock options vest based on terms in the stock option agreements and have a maximum term of ten years. The Company determined the expected volatility assumption for options granted using the historical volatility of comparable public companies’ common stock. The Company will continue to monitor peer companies and other relevant factors used to measure expected volatility for future option grants, until such time that the Company’s Common Stock has enough market history to use historical volatility. The dividend yield assumption for options granted is based on the Company’s history and expectation of dividend payouts. The Company has never declared nor paid any cash dividends on its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future. The Company recognizes option forfeitures as they occur as there is insufficient historical data to accurately determine future forfeiture rates.

The Company accounts for RSUs based on their estimated fair values on the date of grant. The fair value of RSUs is estimated based on the closing price of the underlying common stock on the date of grant. Stock-based compensation expense related to the RSUs is recognized on a straight-line basis over the requisite service period.

The Company recognizes RSU forfeitures as they occur as there is insufficient historical data to accurately determine future forfeiture rates.

During the three months ended March 31, 2026 and 2025, the Company recorded stock-based compensation expense within the condensed consolidated statements of operations as follows:

	Three Months Ended March 31,	
	2026	2025
Research & development	\$ —	\$ —
Selling, general and administrative	1,908	456
Total	\$ 1,908	\$ 456

During the three months ended March 31, 2026 and 2025, the Company recorded stock-based compensation expense based on the type of award as follows:

	Three Months Ended March 31,	
	2026	2025
Stock options	\$ 1,240	\$ 404
Restricted stock units	668	52
Total	\$ 1,908	\$ 456

The following provides detail regarding future stock-based compensation as of March 31, 2026:

	As of March 31, 2026	
	Unamortized Expense	Remaining Life
Stock options	\$ 11,056	2.20 years
Restricted stock units	\$ 5,169	2.16 years

Stock Options

The activity related to stock options during the three months ended March 31, 2026 consisted of the following:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (thousands)
Outstanding December 31, 2025	1,506,551	\$ 15.96		\$ —
Granted	47,475	23.01		
Expired	(14,663)	17.08		
Exercised	—	—		
Outstanding March 31, 2026	1,539,363	\$ 16.17	9.22 years	\$ 11,001
Exercisable March 31, 2026	187,360	\$ 31.85	8.78 years	\$ 1,309
Vested and expected to vest March 31, 2026	1,539,363	\$ 16.17	9.22 years	\$ 11,001

The activity related to stock options during the three months ended March 31, 2025 consisted of the following:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (thousands)
Outstanding December 31, 2024	87,049	\$ 58.48		\$ —
Granted	—	—		
Expired	—	—		
Exercised	—	—		
Outstanding March 31, 2025	87,049	\$ 58.48	8.49 years	\$ 111
Exercisable March 31, 2025	42,524	\$ 96.51	8.69 years	\$ 43
Vested and expected to vest March 31, 2025	87,049	\$ 58.48	8.49 years	\$ 111

The following weighted-average assumptions were used to estimate the fair value of stock options granted during the three months ended March 31, 2026 as no options were granted for the three months ended March 31, 2025:

	For The Three Months Ended March 31, 2026
Expected volatility	88.37 %
Risk-free interest rate	3.86 %
Expected term (in years)	6
Expected dividend yield	— %
Weighted-average fair value per option	\$ 17.30

Restricted Stock Units

The activity related to RSUs during the three months ended March 31, 2026 consisted of the following:

Non-vested RSUs	RSUs	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2025	464,921	\$ 13.98
Granted	15,576	23.01
Vested	(15,488)	12.64
Forfeited	(4,814)	17.08
Non-vested at March 31, 2026	460,195	\$ 14.30

The activity related to RSUs during the three months ended March 31, 2025 consisted of the following:

Non-vested RSUs	RSUs	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2024	29,218	\$ 10.77
Granted	—	—
Vested	(4,635)	10.77
Forfeited	—	—
Non-vested at March 31, 2025	24,583	\$ 10.77

NOTE 13 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

The Company has entered into, and expects to continue to enter into, contracts in the normal course of business with various third parties who support its development work, commercialization activities, including drug product manufacturing, technical transfers, finished commercial product production and supportive costs. The scope of the services under these agreements can generally be modified at any time, and these agreements can generally be terminated by either party after a period of notice and receipt of written notice. There have been no material contract terminations as of March 31, 2026.

NOTE 14 - INCOME TAXES

In accordance with ASC 740, the Company will use an estimated annual effective tax rate ("EAETR") methodology for recording income tax during interim periods. For 2026, the Company's estimated annual effective tax rate is 0%. The difference between the Company's EAETR of 0% for the period and the Federal statutory rate of 21% is primarily related to the increase in the Company's valuation allowance. Other factors include permanent differences and state income taxes.

NOTE 15 - SEGMENT INFORMATION (AS RESTATED)

The Company has determined that it operates in two segments, which represent (i) the sale, promotion and commercialization of approved commercial products (the "Commercial Operations" segment), and (ii) research and development activities (the "Research and Development Operations" segment).

- The Commercial Operations segment consists of the Company's commercial product portfolio.
- The Research and Development Operations segment consists of (i) activities related to developing a novel and proprietary class of NaV blockers that target the body's peripheral nervous system; and (ii) supportive activities to expand the NITRICIL nitric oxide-based technology.

The Commercial Operations segment includes activities related to the commercialization of ZELSUVMI (berdazimer topical gel, 10.3%), the Company's FDA-approved product for the treatment of molluscum contagiosum, and associated sales, marketing, distribution, and post-marketing activities. Net revenues attributed to this segment are derived from product sales in the United States following the July 1, 2025 Merger with LNHC.

The Research and Development Operations segment is primarily responsible for the NaV1.7 pain-modulation program and other preclinical candidates. This segment may also include activities associated with the Company's license and collaboration arrangements, including the license with Sato covering development and commercialization of ZELSUVMI (SB206) in Japan.

Costs associated with product development are recorded within the Research and Development Operations segment. There are no significant inter-segment sales, and there is no inter-segment allocation of non-operating income, expenses, or income taxes. Mr. Plesha, the Company's Chief Executive Officer, is CODM.

Segment revenue, net and comprehensive loss and total assets were as follows:

	Three Months Ended March 31,	
	2026	2025
Revenue		
Commercial operations	\$ 10,665	\$ —
Research and Development operations	241	—
Total revenue	<u>\$ 10,906</u>	<u>\$ —</u>
Net loss		
Commercial operations	\$ (25,128)	\$ —
Research and Development operations	55	(1,968)
Net loss	<u>\$ (25,073)</u>	<u>\$ (1,968)</u>
	As of March 31, 2026	As of December 31, 2025
Assets		
Commercial operations	\$ 144,277	\$ 129,292
Research and Development operations	1,101	1,105
Total assets	<u>\$ 145,378</u>	<u>\$ 130,397</u>

The net revenues attributed to the Commercial Operations segment are derived from the sale of the Company's commercial product, and the net revenues attributed to the Research and Development Operations segment are derived from the arrangement with the Company's licensing partner in Japan. Total assets by reporting segment are not reviewed by the CODM when evaluating the reporting segments' performance, however, the Commercial Operations segment includes the acquired assets associated with the LNHC acquisition and changes in such assets, while the Research and Development Operations segment is comprised of the assets associated with the historical business of the Company.

Substantially all revenue was derived from product sales or from licensing agreements originating in the United States. All of the Company's long-lived assets are maintained in the United States.

NOTE 16 – SUBSEQUENT EVENTS (AS RESTATED)

CFO Transition

On April 6, 2026, the Board of Directors of the Company appointed John M. Gay to serve as Chief Financial Officer of the Company, effective April 10, 2026. Also on April 10, 2026, the Board appointed Mr. Gay to serve as the Company's treasurer and secretary, effective April 10, 2026.

On April 6, 2026, prior to the of Board of Directors appointment of Mr. Gay as Chief Financial Officer, the Board terminated Francis Knuettel II from his position as Chief Financial Officer of the Company, effective April 10, 2026. The Board transitioned Mr. Knuettel's roles as the Company's treasurer and secretary to Mr. Gay on April 10, 2026. Mr. Knuettel's termination was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Ligand Royalty Agreement

During the second quarter of 2026, the Company achieved the second commercial sales milestone of \$5,000, upon achieving greater than \$35,000 in aggregate net sales during four consecutive calendar quarters.

Senior Secured Loan Facility

Based on the Company exceeding the trailing twelve-month net product revenue thresholds as of June 30, 2026, the Company understands it has achieved access to an additional \$10,000 under the Venture Loan and Security Agreement, subject to the lender's discretion.

Performance Stock Units

On July 1, 2026, the Company granted 179,050 performance stock units to Company employees.

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

Cautionary Notice Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q (this "Report") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as "anticipate," "believe," "estimate," "intend," "could," "should," "would," "may," "seek," "plan," "might," "will," "expect," "predict," "project," "forecast," "potential," "continue," negatives thereof or similar expressions. These forward-looking statements are found at various places throughout this Report and include information concerning possible or assumed future results of Pelthos Therapeutics Inc.'s ("Pelthos", the "Company", "our", "us" or "we") operations; business strategies; future cash flows; financing plans; plans and objectives of management; any other statements regarding future operations, future cash needs, business plans and future financial results, and any other statements that are not historical facts.

From time to time, forward-looking statements also are included in our other periodic reports on Form 10-K, 10-Q and 8-K, in our press releases, in our presentations, on our website and in other materials released to the public. Any or all of the forward-looking statements included in this Report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, including risks related to market, economic and other conditions; our current liquidity position, the need to obtain additional financing to support ongoing operations, the Company's ability to continue as a going concern; the Company's ability to maintain the listing of its Common Stock on the NYSE American, the Company's ability to manage costs and execute on its operational and budget plans; and, the Company's ability to achieve its financial goals. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. All subsequent written and oral forward-looking statements concerning other matters addressed in this Report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

Restatement of Previously Issued Condensed Consolidated Financial Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations has been amended and restated to give effect to the restatement of our condensed consolidated financial statements as more fully described in the Explanatory Note and in "Note 2—Restatement of Previously Issued Financial Statements" to our accompanying condensed consolidated financial statements. For further detail regarding the restatement adjustments, see Explanatory Note and Item 4: Controls and Procedures, both contained herein.

Overview

Pelthos Therapeutics Inc. (the "Company") is a bio-pharmaceutical company committed to commercializing innovative, safe, and efficacious therapeutic products to help patients with unmet treatment burdens. The Company currently has three U.S. Food and Drug Administration ("FDA") approved products in its commercial portfolio, in various stages of commercialization, including ZELSUVMI[®], XEPI[®], and XEGLYZE[®].

The July 1, 2025 merger transaction between Channel Therapeutics Corporation (“Channel”) and LNHC, Inc. (“LNHC”), discussed below, resulted in Pelthos Therapeutics Inc. initially having (i) a commercially marketable product, ZELSUVMI for the treatment of molluscum contagiosum, which was launched in July 2025 shortly after the Merger (as defined below); (ii) a manufacturing facility, equipment and know-how to produce the active pharmaceutical ingredient (“API”) used in ZELSUVMI and the NITRICIL™ technology platform; and (iii) clinical-stage assets which selectively target the sodium ion-channel known as “NaV1.7”, which has been genetically validated as a pain receptor in human physiology. In addition, during the fourth quarter of 2025 the Company acquired two additional FDA approved products to expand its commercial product portfolio.

Background

The Company was effectively formed on July 1, 2025 with the Merger of Channel and LNHC.

Channel Background

Chromocell Therapeutics Corporation (“Chromocell”) was incorporated in Delaware on March 19, 2021. On February 21, 2024, Chromocell completed the initial public offering of its Common Stock (the “IPO”) on the NYSE American.

On November 18, 2024, Chromocell merged with and into its wholly-owned subsidiary, Channel, a Nevada corporation, pursuant to an agreement and plan of merger, dated as of November 18, 2024, for the purposes of reincorporating Chromocell in Nevada. Concurrently with the closing of the reincorporation merger, the Company changed its name from “Chromocell Therapeutics Corporation” to “Channel Therapeutics Corporation”.

LNHC Background

LNHC was incorporated in the state of Delaware in September 2023 by Ligand Pharmaceuticals, Inc. (“Ligand”) and was initially formed to facilitate a transaction between Ligand and Novan, Inc. (“Novan”). On September 27, 2023, Ligand acquired certain assets of Novan, after providing debtor in possession financing and acquiring specific assets from Novan, under Section 363 of the U.S. Bankruptcy Code (a “363 transaction”). Novan was a medical dermatology company focused on developing and commercializing innovative therapeutic products for skin diseases. Through its NITRICIL technology platform, Novan developed ZELSUVMI (berdazimer gel, 10.3%), formerly named SB206, as a topical prescription gel for the treatment of viral skin infections, with a focus on molluscum contagiosum. As of the acquisition date in September 2023 by Ligand, all assets and liabilities acquired in the Novan acquisition were held by LNHC, which was a wholly owned subsidiary of Ligand, including the NITRICIL technology platform.

On March 24, 2025, LNHC assigned its intellectual property portfolio related to the Novan acquisition, including the NITRICIL technology, to Ligand and entered into an exclusive license and sublicense agreement with Ligand, pursuant to which Ligand licensed to the Company the intellectual property rights necessary to make, use, sell or offer to sell ZELSUVMI for the treatment of molluscum contagiosum in humans worldwide, except for Japan.

On March 24, 2025, LNHC and Ligand also entered into a master services agreement under which Ligand, or related parties, may contract with LNHC to provide API for clinical or commercial use related to the NITRICIL technology. In addition, the agreement also allows Ligand to require LNHC to provide manufacturing technology transfer services, if requested, for products other than ZELSUVMI, to a potential third-party manufacturer.

Recent Business Updates

Venture Loan and Security Agreement

On January 12, 2026, the Company entered into a Venture Loan and Security Agreement with Horizon Technology Finance Corporation, a Delaware corporation, as lender and collateral agent (the “Venture Loan and Security Agreement”). The Venture Loan and Security Agreement provides for a senior secured term loan facility in an aggregate principal amount of up to \$50.0 million. The proceeds of the facility will be used to support the commercialization of the Company’s existing commercialized pharmaceutical product, to prepare for the launch of two recently acquired products, working capital and general corporate purposes. The Company borrowed \$30.0 million of the facility on January 12, 2026. The remaining \$20.0 million of the facility may be borrowed upon the achievement by the Company of certain milestones set forth in the Venture Loan and Security Agreement.

Product Portfolio

ZELSUVMI® (berdazimer) topical gel, 10.3% for the Treatment of Molluscum Contagiosum

ZELSUVMI (berdazimer) topical gel, 10.3% is a nitric oxide (NO) releasing agent indicated for the topical treatment of molluscum contagiosum in adults and pediatric patients one year of age and older. ZELSUVMI is the first FDA approved topically applied nitric oxide releasing agent indicated for the treatment of molluscum contagiosum in people ages one year and older and the first and only prescription medication FDA approved for use in non-medical settings that can be safely applied by patients, parents and caregivers. Molluscum contagiosum is a highly contagious viral skin infection that primarily affects children, immunocompromised adults and sexually active persons. The Company estimates that molluscum contagiosum infections afflict approximately 16 million people of all ages in the United States.

ZELSUVMI was developed using the proprietary nitric oxide-based technology platform, NITRICIL. ZELSUVMI's mechanism of action against molluscum contagiosum is unknown. In vitro studies of ZELSUVMI's active ingredient, berdazimer sodium, have demonstrated (i) anti-pox virus activity on vaccinia virus, which is often used as a surrogate for molluscum contagiosum virus; and (ii) reduced early gene expression of molluscum contagiosum virus proteins. ZELSUVMI's final Phase 3 clinical study included 891 enrolled patients treated with ZELSUVMI and demonstrated statistically significant and clinically meaningful efficacy results on both primary and secondary endpoints, a greater reduction in lesions at every measurement point, and favorable safety results during the 12-week duration.

The Company's market research and feedback to date indicate physicians have highly favorable opinions about ZELSUVMI's clinical efficacy, safety, and practicality as the first and only topical medication indicated for molluscum contagiosum that does not require in-office administration by a healthcare provider. The Company believes that ZELSUVMI is likely to complement or represent a differing treatment regimen of current procedural treatments administered in medical settings such as cryosurgery, cantharidin application and curettage.

The Company has an exclusive license to use the NITRICIL Technology Platform as necessary to manufacture ZELSUVMI, as set forth in the license agreement between the Company and Ligand. The Company believes that the NITRICIL platform's ability to deploy nitric oxide in a solid form, on demand and in localized formulations allows the potential to improve patient outcomes in a variety of diseases. The Company believes that the FDA approval of ZELSUVMI has validated the NITRICIL technology platform's ability to achieve stable, tunable and druggable delivery of nitric oxide on therapeutically and commercially important targets such as molluscum contagiosum.

Molluscum Contagiosum

Molluscum contagiosum is caused by a pox virus and is a common skin infection seen by dermatologists, pediatric dermatologists, and pediatricians, with a prevalence estimated by management to be 16 million people in the United States and an annual incidence estimated by management to be 3-6 million. According to the Centers for Disease Control and Prevention ("CDC"), molluscum contagiosum infections are contagious and spread to others through contact with infected persons or contaminated objects such as towels, toys, furniture, swimming pools, and other surfaces. Children are the most vulnerable to molluscum contagiosum infections as are adults with weakened immune systems. In addition, molluscum contagiosum can be sexually transmitted.

Molluscum contagiosum infections present with raised, skin-colored or red bumps that can appear anywhere on the body, including the face, hands, trunk, genitals, back of the knees, armpits, and other sensitive areas. People with molluscum contagiosum may suffer discomfort from itching, secondary bacterial infections, as well as immense social stigma from having visible molluscum contagiosum lesions which typically last for months or for years. Left untreated, molluscum contagiosum lesions may persist an average of 13 months, with reports of cases remaining unresolved for up to five years. The symptoms of molluscum contagiosum can cause anxiety, and parents frequently seek treatment due to its highly contagious nature and its impact on physical appearance.

XEPI® (ozenoxacin) Cream, 1% for the Treatment of Impetigo

In November 2025, the Company acquired XEPI (ozenoxacin) cream, 1% for the treatment of impetigo. The acquisition of this asset provided a complementary dermatology product to the Company's portfolio anchored by ZELSUVMI.

XEPI is a novel FDA-approved non-fluorinated quinolone antimicrobial indicated for the topical treatment of impetigo due to *Staphylococcus aureus* or *Streptococcus pyogenes* in adult and pediatric patients two months of age and older. The Company believes XEPI addresses a critical unmet need in antibiotic-resistant skin infections caused by staph and strep infections, most commonly affecting children. Impetigo affects approximately 3 million people in the U.S. every year and is among the most common bacterial skin infections seen in pediatric offices.

The Company acquired the U.S. commercialization rights to XEPI, from Biofrontera, Inc. (“Biofrontera”) and an exclusive license agreement with Ferrer Internacional S.A. (“Ferrer”) and Interquim, S.A.U. (“Interquim”). XEPI was developed by Ferrer and Medimetriks Pharmaceuticals, Inc., and approved by the FDA in 2017. At the time of approval, XEPI was the first new novel treatment for impetigo in more than 10 years. Biofrontera had owned the U.S. rights to XEPI since 2019 but, has not been actively promoting the product.

XEPI, a new chemical entity, belongs to a new generation of non-fluorinated quinolones. In two Phase 3 pivotal studies, XEPI showed positive efficacy and appeared to be safe and well tolerated in both adult and pediatric populations aged 2 months and older. In addition, XEPI has demonstrated excellent in vitro antibacterial activity against pathologically relevant bacteria and clinical isolates of organisms with emerging antibiotic resistance, such as methicillin-resistant *s. aureus* (“MRSA”). The Company believes XEPI represents a novel and important therapy for the topical treatment of impetigo.

The Company expects to commercially relaunch XEPI once certain manufacturing, supply chain, and regulatory activities are validated, implemented and completed, respectively. In addition, the Company will also need to implement its commercial marketing, trade and access strategy prior to the relaunch of XEPI, currently expected in early 2027.

Impetigo

Impetigo is a highly contagious bacterial skin infection most often caused by *Staphylococcus aureus* and/or Group A *Streptococcus* (*Streptococcus pyogenes*). It affects approximately 3 million people in the U.S. every year and is most common in children ages 2 to 5. Impetigo is among the most common bacterial skin infections seen in pediatric offices and spreads easily within families, in crowded settings, such as schools and childcare facilities.

Impetigo, a highly contagious bacterial skin infection commonly treated by Dermatologists and Pediatricians, most often affects infants, young children and those involved in close contact sports or living in enclosed environments. Impetigo is estimated to account for approximately 10% of the skin problems observed in pediatric clinics in the United States and is considered the most common bacterial skin infection.

XEGLYZE® (abametapir) for the Topical Treatment of Head Lice

In December 2025, the Company acquired XEGLYZE (abametapir) for the topical treatment of head lice. XEGLYZE is a pediculicide indicated for the topical treatment of head lice infestation in patients 6 months of age and older. The prescription medication was approved by the FDA in July 2020. The acquisition of this asset from Hatchtech Pty Ltd., an Australian biotech company, provided an additional complementary product to the Company’s portfolio. This acquisition will provide the Company the ability to commercialize XEGLYZE worldwide.

XEGLYZE is a novel, patent protected FDA-approved prescription medication indicated for the topical treatment of head lice infestation in patients 6 months of age and older. Abametapir, the active ingredient in XEGLYZE, inhibits metalloproteinases that have a role in physiological processes critical to egg development and survival of lice. The single, 10 minute application does not require nit combing and has sufficient volume in each bottle to treat either short or long hair.

The Company expects to commercially launch XEGLYZE once certain manufacturing, supply chain, and regulatory activities are validated, implemented and completed, respectively. In addition, the Company will also need to implement its commercial marketing, trade and access strategy prior to the launch of XEGLYZE, currently expected in 2027.

Head Lice

In the U.S., infestation with head lice is most common among preschool- and elementary-school age children and their household members and caretakers. An estimated 6 to 12 million infestations occur each year in the U.S. among children 3 to 11 years of age.

Merger Transaction

July 1, 2025 Merger

On July 1, 2025 (the “Merger Closing Date”), the Company consummated the previously announced merger transaction (the “Merger”) pursuant to that certain Agreement and Plan of Merger (the “Merger Agreement”) by and among the Company, CHRO Merger Sub, Inc. a Delaware Corporation and a wholly owned subsidiary of the Company (“Merger Sub”), LNHC, and solely for the purposes of Article III of the Merger Agreement, Ligand. Pursuant to the Merger Agreement, (i) Merger Sub merged with and into LNHC, with LNHC as the surviving company in the Merger and, after giving effect to such Merger, continuing as a wholly-owned subsidiary of the Company and (ii) the Company’s name was changed from Channel Therapeutics Corporation to Pelthos Therapeutics Inc.

At the effective time of the Merger, the Company issued an aggregate of 31,278 shares of the Company’s Series A Preferred Stock to Ligand as consideration for the LNHC shares.

The shares of Series A Preferred Stock issued to Ligand in the Merger were not registered under the Securities Act and were issued and sold in reliance on the exemption from registration requirements thereof provided by Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering.

The shares of the Company’s Common Stock listed on the NYSE American previously trading through the close of business on July 1, 2025 under the ticker symbol “CHRO,” commenced trading on the NYSE American under the ticker symbol “PTHS,” on July 2, 2025. The Company’s Common Stock is represented by a new CUSIP number, 171126 204.

Securities Purchase Agreement

Concurrently with the execution of the Merger Agreement, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with LNHC and certain investors, which included Ligand (collectively, the “PIPE Investors”), pursuant to which, among other things, on the Merger Closing Date and immediately prior to the consummation of the Merger, the PIPE Investors purchased (either for cash or in exchange for the conversion of principal and interest payable under an outstanding convertible note issued by the Company), and the Company issued and sold to the PIPE Investors, an aggregate of 50,100 shares of the Company’s Series A Convertible Preferred Stock, par value \$0.0001 per share (the “Series A Preferred Stock”) at a price per share equal to \$1,000 (such transaction, the “PIPE Financing”). The gross proceeds from the PIPE Financing were approximately \$50.1 million, consisting of approximately \$50.0 million in consideration and the conversion of approximately \$0.1 million of principal and interest payable under an outstanding convertible note with a related party issued by the Company, before paying estimated expenses and before the settlement of certain outstanding bridge notes with the PIPE Investors, described below.

On July 1, 2025, the Company, LNHC and the PIPE Investors entered into Amendment No. 1 to Securities Purchase Agreement, pursuant to which, the Company, LNHC and the PIPE Investors consented to the inclusion of two additional PIPE Investors in the PIPE Financing and a corresponding decrease in the amount of certain PIPE Investors’ investments in the PIPE Financing such that the aggregate amount of the PIPE Financing would remain unchanged (the “Securities Purchase Agreement Amendment”).

Each share of Series A Preferred Stock is convertible at any time at the holder’s option into a number of shares of Common Stock, par value \$0.0001 per share equal to (i) \$1,000, subject to adjustment, plus any all declared and unpaid dividends thereon as of such date of determination, plus any other amounts owed to such holder pursuant to the Certificate of Designations of Rights and Preferences of Series A Convertible Preferred Stock (the “Certificate of Designations”), divided by (ii) \$1 (adjusted to \$10 as a result of the ten-for-one Reverse Stock Split), subject to adjustments.

In general, a holder of shares of Series A Preferred Stock may not convert any portion of Series A Preferred Stock if the holder, together with its affiliates, would beneficially own more than 49.9% in the case of Ligand or 4.99% or 9.99%, in the case of the other PIPE Investors (the “Maximum Percentage”), of the number of shares of the Company’s Common Stock outstanding immediately after giving effect to such exercise, provided, however, that a holder may increase or decrease the Maximum Percentage by giving 61 days’ notice to the Company, but not to any percentage in excess of 9.99%.

The shares of Series A Preferred Stock issued and sold to the PIPE Investors were not registered under the Securities Act and were issued and sold in reliance on the exemption from registration requirements thereof provided by Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering.

The closing of the PIPE Financing occurred on July 1, 2025, immediately prior to the consummation of the Merger.

On July 1, 2025, certain PIPE Investors entered into Series A Convertible Preferred Stockholder Side Letters (each, a “Side Letter”) with the Company, pursuant to which, immediately after the closing of the PIPE Financing on July 1, 2025, the PIPE Investors converted 23,810 shares of Series A Preferred Stock not exceeding such PIPE Investors’ Maximum Percentage into an aggregate of 2,381,000 shares of the Company’s Common Stock (after giving effect to the Reverse Stock Split), by providing the Company with a completed and signed Conversion Notice under the Certificate of Designation. Approximately 57,568 shares of the Company’s Series A Preferred Stock were issued and outstanding immediately following the Effective Time. Immediately following the Merger and the PIPE Financing, the Company’s security holders as of immediately prior to the Merger owned approximately 7.4% of the outstanding shares of the Company and LNHC security holders owned approximately 56.1% of the outstanding shares of the Company, in each case on a fully diluted basis, calculated using the treasury stock method.

Net Proceeds from PIPE Financing

Certain PIPE Investors were a party to the ZELSUVMI Royalty Agreement while other PIPE Investors were a party to the Channel Products Royalty Agreement, (collectively, the “Royalty Agreements”) as described in Note 10 — “License and Other Agreements” in the notes to our condensed consolidated financial statements. Further, certain PIPE Investors were not a party to the Royalty Agreements. As the PIPE Financing and Royalty Agreements were negotiated together, aggregate proceeds were allocated based on their relative fair value basis. The Company will account for future royalties due as liabilities and will accrete the financing using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated life of the royalty agreements.

Effective January 1, 2025, LNHC entered into a bridge loan agreement with Ligand under which any amounts of cash transferred from Ligand to LNHC, or settlement of LNHC’s expenses directly by Ligand, starting from January 1, 2025, were considered a loan from Ligand to LNHC. The maximum borrowing under the bridge loan agreement was \$18.0 million (the “Ligand Bridge Note”). The repayment of the Ligand Bridge Note loan at the closing of the Merger was offset against Ligand’s funding commitment in the PIPE Financing. The balance of the Ligand Bridge Note was \$12.7 million, resulting in \$5.3 million of funding provided to the Company as of the Merger Closing Date as part of the PIPE Financing. In addition, on April 16, 2025, LNHC entered into a bridge loan agreement with two third-party lenders, part of the group of strategic investors who participated in the PIPE Financing, for an aggregate amount, including interest, of \$6.1 million (the “April Bridge Note”). The repayment of the April Bridge Note at the closing of the Merger was offset against the strategic investors funding commitment in the PIPE Financing. In addition, as part of the Merger closing, a settlement of a related party note of \$0.1 million and settlement of a third-party note with a professional services firm of approximately \$1.5 million also occurred.

The following are details of the Merger and PIPE Financing as it relates to Series A Preferred Stock and proceeds from the PIPE Financing (in thousands, except share and per share amounts):

	Series A Preferred Shares Issued	Allocated Gross Proceeds	Notes Settlement	Payables Settlement and Expenses	Net Proceeds
Beginning Balance as of July 1, 2025	—	\$ —	\$ —	\$ —	\$ —
Preferred Stock (Series A) Issued - Merger	31,278	—	—	—	—
Preferred Stock (Series A) Issued - PIPE Financing	50,100	50,100	(20,340)	(2,376)	27,384
Preferred Stock (Series A) Converted to Common Stock	(23,810)	—	—	—	—
Ending Balance as of July 1, 2025	57,568	\$ 50,100	\$ (20,340)	\$ (2,376)	\$ 27,384

The Merger resulted in the Company having (i) a commercial product, ZELSUVMI; (ii) the facility, equipment and know-how to manufacture the API used in ZELSUVMI and the NITRICIL technology platform; and (iii) clinical-stage Nav1.7 assets.

Manufacturing Facility and NITRICIL Platform

The Company currently leases its primary operating facility, including 19,265 square feet of laboratory, current good manufacturing practices (“cGMP”) manufacturing, warehouse, storage and office space in Durham, North Carolina. The lease, dated January 18, 2021, as amended, has an initial term expiring in 2032, with an option to extend the term of the lease for a period of 5 years. This purpose-built facility was constructed to serve as the primary berdazimer sodium API manufacturing site. Berdazimer sodium is the API that is the backbone of the NITRICIL platform technology. Different concentrations of berdazimer sodium and different formulations of the finished drug product are what differentiates potential treatment options for various indications.

While the intellectual property rights for the NITRICIL technology platform were assigned by LNHC to Ligand prior to the Merger, the Company currently has the rights to the manufacturing facility, equipment and know-how to produce the API used in ZELSUVMI and any other products that may be developed by Ligand, Ligand affiliated parties or third-party licensees related to the NITRICIL technology platform. The MSA between Ligand and the Company provides Ligand, Ligand affiliated parties or third-party licensees with an ability to source commercial or developmental supply of API, while also providing the Company with the associated economics of the supply of such material.

The NITRICIL proprietary technology platform leverages nitric oxide’s naturally occurring anti-viral, anti-bacterial, anti-fungal, and immunomodulatory potential mechanisms of action in an effort to treat a range of diseases. Nitric oxide plays a vital role in the natural immune system response against microbial pathogens and is a critical regulator of inflammation. The technology’s ability to harness nitric oxide and its multiple potential mechanisms of action has enabled the creation of a platform with the potential to generate differentiated product candidates. The two key components of the nitric oxide platform are the proprietary NITRICIL technology, which drives the creation of macromolecular New Chemical Entities, and formulation science, both of which are used to tune product candidates for specific targeted indications.

The Company believes the NITRICIL technology platform has many other potential product candidates that could be further developed. Prior to the Merger, clinical work was performed in various indications, including, but not limited to, acne (SB204), atopic dermatitis and psoriasis (SB414), tinea pedis and onychomycosis (SB208) and external genital warts (SB207). Other than SB207, to which the Company has existing rights, the rights are owned by Ligand. Any further development of these assets will require the Company to produce and manufacture the API for use by Ligand, Ligand affiliated parties, third-party licensees or for our own account if we pursue SB207 or license any of the other programs.

NaV1.7 Pain Programs

Prior to the Merger, the Company had been developing new non-opioid therapeutics to alleviate pain. These programs selectively target the sodium ion-channel known as “NaV1.7”, which has been genetically validated as a pain receptor in human physiology. A NaV1.7 blocker is a chemical entity that modulates the structure of the sodium-channel in a way to prevent or reduce the transmission of pain perception to the central nervous system (“CNS”). The goal of these programs is to develop a novel and proprietary class of NaV blockers that target the body’s peripheral nervous system.

There are currently three pain programs developing therapeutics, all of which are based on the same proprietary molecule, as follows:

Eye Pain (Clinical): Based on a novel formulation of CC8464, our Eye Pain program, titled CT2000, is for the potential treatment of both acute and chronic eye pain. NaV1.7 channels are present on the cornea, making it a viable biological target for treating eye pain. Eye pain may occur with various conditions, including severe dry eye disease, trauma and surgery. Existing therapies for eye pain (such as steroids, topical non-steroidal anti-inflammatory agents, lubricants, local anesthetics) are limited in their effectiveness and/or limited in the duration that they may be prescribed because of safety issues. The Company intends to explore the viability of developing CT2000 as a topical agent for the relief of eye pain. A potential advantage of this approach is that topical administration of CT2000 is unlikely to lead to any hypersensitivity or skin reactions, like what was noted with systemic administration of CC8464, because the systemic absorption from a topical administration would be extremely limited. The Company has completed two animal efficacy studies and has successfully completed Investigational New Drug Application (“IND”) enabling ophthalmic toxicology studies as a precursor to launching a Phase 1a/2b human proof of concept study. On March 31, 2026, the Company announced that the first patient had been dosed in its Phase 1b/2a clinical trial evaluating CT2000 as a potential treatment for eye pain. The Company’s wholly-owned subsidiary, Channel Pharmaceutical Corporation, owns the rights to CT2000 and its NaV1.7 inhibitor pipeline and is conducting the clinical work through its Australian subsidiary.

Depot Program (Pre-Clinical): Based on several novel formulations of CC8464, the Company's most recently launched program, titled CT3000, is for the potential treatment of post operative pain with the use of nerve blocks. Examples would include knee surgery or shoulder surgery. Existing therapies for nerve blocks lead to neuromuscular blockade which prevents movement following surgery. Doctors often want patients to move soon after surgery to avoid complications such as blood clots. A NaV1.7 inhibitor used for nerve blocks may provide good analgesia but will not lead to neuromuscular blockade that prevents movement like other local anesthetics. The Company will periodically review the timing and budget related to the commencement of toxicology and chemistry, manufacturing, and controls ("CMC") work and a subsequent human proof-of-concept ("POC") trial, but has no immediate plans to do so.

Neuropathic Pain (Clinical): CC8464 is being developed to address certain types of neuropathic pain. The chemical characteristics of CC8464 restrict its entry into the CNS and limit its effect to the NaV1.7 channels in the peripheral nervous system, which consists of the nerves outside the brain and spinal cord. Activation of other channels in the CNS can result in side effects, including addiction and other centrally mediated adverse effects. Since CC8464 is designed to not penetrate the CNS it is highly unlikely to produce CNS mediated side effects including euphoria or addiction. Based on its characteristics, preclinical studies, and the Phase 1 studies completed to date, the Company believes that CC8464, if approved, could become an attractive option for both patients and physicians as a treatment for moderate-to-severe pain in Erythromelalgia and idiopathic small fiber neuropathy. The Company will periodically review the timing and budget related to the commencement of toxicology and CMC work and a subsequent human POC trial, but has no immediate plans to do so.

ZELSUVMI Commercial Strategy

The Company has launched and is focused on the commercialization of ZELSUVMI and is continuing to support its sales, marketing and commercial team to detail ZELSUVMI.

Commercial Background

ZELSUVMI is the first FDA-approved at-home prescription medication indicated for the treatment of molluscum contagiosum in patients one year of age and older that can be administered by patients, parents and caregivers. As a prescription, ZELSUVMI will generally be covered under patients' pharmacy benefit, differentiating it from procedural reimbursement for cantharidin and cryotherapy. Pediatricians, pediatric dermatologists, dermatologists and infectious disease specialists are the target prescribers.

Pediatricians diagnose the majority of molluscum contagiosum infections, and the Company believes many patients have not been treated due, in part, to a lack of FDA approved prescription treatment options that can be administered outside of medical settings. The Company believes that pediatricians will be key to expanding the market, increasing peak sales, and sales and marketing efficiency. The Company will seek to position ZELSUVMI as the preferred first line therapy among pediatricians. The Company believes ZELSUVMI will enhance and complement current non-prescription treatment options and referral patterns. Based on the Company's interactions with healthcare professionals ("HCPs") to date, the Company believes HCPs would welcome this positioning of ZELSUVMI.

The Company believes that ZELSUVMI fills a medical need in the market as the first safe and efficacious prescription medication for molluscum contagiosum that can be administered outside of medical settings. Based on 2023 data from Veeva Compass, on an annual basis, greater than 390,000 unique patients are affected by molluscum contagiosum and greater than 100,000 unique HCPs are treating the disease in the United States. However, the Company believes this number underestimates the true number of cases due to a previous lack of treatment options.

Sales and Distribution Strategy

The Company is marketing ZELSUVMI primarily to physicians with various types of electronic and physical promotion and direct sales efforts with a dedicated sales force supported by a product management team and support staff. The sales and marketing effort focuses on increasing awareness, adoption and usage of ZELSUVMI to targeted pediatricians, pediatric dermatologists and dermatologists. The Company distributes ZELSUVMI via standard retail pharmacy chains, mail order pharmacies and Amazon pharmacy utilizing a third-party logistics provider. Based on the Company's conversations with HCPs, the Company believes these distribution channels are the most preferred by patients and HCPs. Critical to the launch and commercialization efforts of ZELSUVMI will be co-pay assistance and managing co-pay and patient out-of-pocket costs as well as prescription "pull-through" strategies and tactics to ensure patient access and utilization of ZELSUVMI.

Marketing Strategy

The Company is focusing sales and marketing efforts on expanding product awareness and trial of ZELSUVMI initially by means of personal outreach by sales representatives to pediatric, pediatric dermatologist and dermatologist HCPs who have regularly included diagnosis codes for molluscum contagiosum infection as part of their claims for reimbursement by health insurers. The Company intends to expand its marketing strategies to include more non-personal promotion strategies and tactics focused on patients and eventually to consumer segments. HCP marketing initiatives focus on driving adoption through targeted initiatives like peer-to-peer education, data-driven digital advertising, and customized sales representative programs tailored to practice needs such as understanding insurance coverage and product acquisition. Consumer marketing initiatives focus on expanding both diagnosed and treated patient populations through strategic social media advertising, sharing impactful patient testimonials, and leveraging trusted influence partnerships. For example, in early October 2025, the Company launched “Moms Against Molluscum” movement, a movement to unite mothers, parents, and other caregivers navigating molluscum contagiosum. The Moms Against Molluscum movement encourages people managing this highly contagious skin infection to visit MomsAgainstMolluscum.com to share their stories and access information about new treatment options, including ZELSUVMI.

Market Access Strategy

The Company’s cross functional, payer and reimbursement account team is actively prioritizing and ensuring that the process of accessing ZELSUVMI is seamless, affordable, and easy with everything our patient customers will need, from step-by-step instructions to co-pay cards for eligible patients, to maximize the probability of having a positive outcome from using the Company’s product regardless of whatever distributor they prefer to access ZELSUVMI. The Company is focused on certain payer channels, including commercial, Medicaid and Managed Medicaid and provides co-pay cards and coupons for eligible patients that are commercially insured.

In December 2025, the Company announced that it had signed its first commercial agreement with a major Pharmacy Benefit Manager (“PBM”) to expand patient access for ZELSUVMI. This agreement is with a Group Purchasing Organization that collaborates with manufacturers on behalf of one of the largest PBMs in the U.S. The PBM with which we contracted manages prescription drug benefits for more than 20 million covered lives, and the formulary inclusion updates for ZELSUVMI started on December 1, 2025.

Manufacturing and Supply Chain

Background

Berdazimer sodium is the API that is the critical component of the NITRICIL platform technology. The Company believes different concentrations of berdazimer sodium and different formulations of the finished drug product may be used to develop additional product candidates for other diseases or conditions. For example, ZELSUVMI (berdazimer) topical gel, 10.3%, which has been approved by the FDA, is one product and indication that has met the regulatory requirements for commercialization. The Company believes the NITRICIL technology platform could generate other potential product candidates that could be further developed, and, pursuant to the MSA with Ligand, the Company may produce API for such other uses.

The supply chain includes the procurement of raw materials, the conversion of raw materials into API, and the conversion of API to finished product. The Company’s process, as described in more detail below, is effectively as follows:

- Procurement of underlying raw materials, such as nitric oxide gas;
- Conversion of raw materials into API, including allocated overhead, fixed and variable costs;
- Shipment of API to a third-party CMO;
- Conversion of API into finished product, ZELSUVMI, at the third party CMO; and
- Shipment of finished product from CMO to a third-party logistics provider for distribution.

The Company uses various qualified vendors to source raw materials. The conversion of the API and manufacture occurs at its primary operating facility in North Carolina. The API is then shipped to a third-party fill/finish CMO who converts the API into the finished product, including ancillary/supportive manufacturing, filling and packaging. The finished product is then shipped back to the U.S. domiciled third-party logistics provider for distribution.

The ZELSUVMI manufacturing process is effectively comprised of four key components: raw materials, supply chain, drug substance (API), and drug product (finished product).

Raw Materials

The Company currently relies on third-party suppliers to provide the raw materials that are used by it and its third-party manufacturers in the manufacture of ZELSUVMI. There are a limited number of suppliers for raw materials, including nitric oxide, that are used to manufacture the product candidates and commercial products.

Supply Chain

The Company also relies on third-party logistics vendors to transport raw materials, API, and drug products through our supply chain. Certain materials, including the API, have designated hazard classifications that limit available transportation modes or quantities. Third-party logistics vendors may choose to delay or defer transportation of materials from time to time, which could adversely impact the timing or cost of our manufacturing supply chain activities.

Drug Substance (Active Pharmaceutical Ingredient)

Due to the complexity of the proprietary manufacturing technology related to the NITRICIL platform, including intellectual property, know-how, trade secrets, production techniques, and the related physical manufacturing requirements and characteristics, the Company previously determined that constructing its custom manufacturing facility was the most effective way to mitigate risk associated with API production. The facility and production process has been fully validated and qualified and the facility has an operational and integrated QMS (Quality Management System) and Enterprise Resource Planning (“ERP”) platform governing the operations of the facility.

The Company has manufactured more than one metric ton of API in its facility since becoming operative, including site registration batches, process validation batches, and commercial batches. In preparing for the commercial launch of ZELSUVMI, the Company stockpiled numerous batches of commercial API. The operational API manufacturing strategy incorporates redundancy planning, including maintaining a minimum API inventory on hand to mitigate potential risk, both “upside” and “downside”, related to potential future commercial demand of ZELSUVMI. Manufacturing API at its own, U.S.-based facility provides the Company with critical control over the longest lead time and the most complex component of ZELSUVMI’s supply chain. The API has a shelf life of 36 months following its manufacture.

The Company currently has sufficient API manufacturing capacity within its facility, as it is configured, to comfortably meet its current sales forecasts to supply API for ZELSUVMI. In its current configuration, the Company has excess capacity to increase utilization for additional API demand. Furthermore, the Company also has the ability to add additional manufacturing shifts and team members to manufacture even greater quantities of API, if needed, for our own account and current and potential future partners or customers of the NITRICIL technology. Effectively, the Company believes the current API theoretical manufacturing capacity could be roughly doubled, if needed, due to one or more of the following: a higher than expected sales demand for ZELSUVMI, demand from current partners, such as Ligand, and potential future partnerships for ZELSUVMI and/or the NITRICIL platform. The Company does not expect to need to invest in material or significant capital expenditures and other fixed costs to bring more manufacturing capacity on-line in the foreseeable future. The Company does expect to incur certain levels of capital expenditures for on-going operations, maintenance and improvements.

Drug Product (ZELSUVMI)

The Company has a long-standing relationship with Orion Corporation (“Orion”), a Finnish full-scale pharmaceutical company with broad experience in cGMP drug manufacturing. Orion manufactures the Company’s commercial supply of its ZELSUVMI finished product. The drug product manufacturing and fill/finish process at Orion has been fully validated and qualified including site registration batches, process validation batches, and commercial batches. Through its contractual relationship with Orion, the Company has manufactured initial commercial launch quantities of ZELSUVMI. In addition, the Company has entered into a multi-year supply agreement and provides monthly estimates and forecasts for on-going production of finished products. The Company’s supply forecast is informed by the expected sales forecast with adjustments made for safety stock inventory levels and product dating.

Intellectual Property

Under the Exclusive License and Sublicense Agreement with Ligand, dated March 24, 2025, the Company acquired exclusive rights to a robust IP portfolio that provides material coverage for ZELSUVMI, which includes patents and patent applications covering the ZELSUVMI product and its use for treating molluscum contagiosum; trademarks; and know-how and trade secrets covering various aspects of the nitric oxide NITRICIL Technology Platform in addition to manufacturing, research, development, formulation, analytical chemistry and scientific know-how.

There are 14 issued U.S. patents covering ZELSUVMI which are listed in the Approved Drug Products with Therapeutic Equivalence Evaluations (“Orange Book”) and which are expected to expire during the time period beginning in 2026 and ending in 2035. Upon the initial approval of ZELSUVMI, the Company applied for 1,280 days of patent term extension (“PTE”) for the U.S. patent covering ZELSUVMI composition of matter. Assuming the approval of the PTE application, the term of this patent may be extended from February 27, 2034, to August 30, 2037.

In addition, as part of the XEPI transaction and the XEGLYZE acquisition, the Company licensed or purchased the rights to the related patents, trademarks, and intellectual property necessary to commercialize those respective assets, in their field of use and geographic market, respectively. There are two XEPI related patent / applications, with the latest expiration date on January 29, 2032. There are 11 issued patents related to XEGLYZE, with the latest expiration date on December 17, 2034.

Our Customers

The Company primarily sells its ZELSUVMI product to national and regional wholesaler channels. Our wholesalers purchase products from us and, in turn, supply products to retail drug store chains, independent pharmacies and mail order pharmacies. As of March 31, 2026, three of the Company’s wholesaler customers accounted for 92% of its total gross accounts receivable balance at 39%, 28% and 25%, respectively. In addition, for the three months ended March 31, 2026, these three wholesalers accounted for 92% of gross revenue at 36%, 28% and 28%, respectively.

Seasonality of Business

Sales of ZELSUVMI may be affected by a number of factors, including but not limited to annual insurance deductible resets, weather, HCP office openings, holidays and school and summer activities.

Competition

The pharmaceutical industry is subject to rapidly advancing technologies, intense competition, and a strong emphasis on proprietary products. The Company faces potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical and biotechnology companies, compounding facilities, academic institutions, governmental agencies, and public and private research institutions.

ZELSUVMI is the first and only FDA-approved prescription pharmaceutical therapy for the treatment of molluscum contagiosum that can be administered by patients or caregivers outside of a medical setting. The Company believes the key competitive factors affecting the success of ZELSUVMI are likely to be its efficacy, safety, convenience, and pricing. With respect to ZELSUVMI for the treatment of molluscum contagiosum, the Company will be primarily competing with therapies such as other topical products, natural oils, off-label drugs, natural remedies, cantharidin or medical procedures such as curettage, cryotherapy, and laser surgery.

International Opportunities

The Company, through its exclusive license of ZELSUVMI from Ligand, has the ability to seek approval for and commercialize ZELSUVMI through the rest of the world, except for Japan. The Company estimates molluscum contagiosum incidence and prevalence rates in the European Union and Asia to be comparable to the United States. The Company has previously engaged in several international discussions with distributors seeking supply or license agreements for ZELSUVMI in multiple ex-U.S. territories.

On May 12, 2025, the Trump Administration issued an executive order titled Delivering Most-Favored-Nation Prescription Drug Pricing to American Patients (the “2025 EO”). The 2025 EO outlines a plan to reduce prescription drug prices for Americans. The 2025 EO directs multiple federal agencies, including the U.S. Department of Health and Human Services (“HHS”), to take specific actions aimed at compelling drug manufacturers to lower drug prices in the United States in a manner comparable with other developed nations.

On May 20, 2025, HHS issued a press release stating that the Department “expects each drug manufacturer to commit to aligning United States pricing for all brand products across all markets that do not currently have generic or biosimilar competition with the lowest price of a set of economic peer countries.” From this statement, it appears that HHS intends to apply the most-favored-nation (“MFN”) pricing only to single-source drugs (i.e., “brand-name” drugs without any approved generic or biosimilar versions). In its May press release, HHS also advised that it will calculate the MFN price as the lowest price in a country that is part of the Organisation for Economic Co-operation and Development and that has a per capita gross domestic product (“GDP”) of at least 60% of the U.S. per capita GDP.

The Company will continue to evaluate the 2025 EO and its potential impact to international opportunities for ZELSUVMI.

Key Factors Affecting Our Results of Operations and Future Performance

The Company believes that its financial performance has been, and in the foreseeable future will continue to be, primarily driven by multiple factors as described below, each of which presents growth opportunities for our business. These factors also pose important challenges that the Company must successfully address in order to sustain our growth and improve our results of operations. Our ability to successfully address these challenges is subject to various risks and uncertainties.

- The Company must effectively implement and maintain sales, marketing and distribution capabilities for our products to successfully commercialize and generate revenues from our products.
- Our products must achieve a broad degree of physician and patient adoption and use necessary for commercial success. The commercial success of our approved products depends significantly on the broad adoption and use of such products by physicians and patients for approved indications.
- Our product revenues will be dependent on sales to a few significant wholesale customers and the loss of, or substantial decline in, sales to one of these wholesale customers could have a material adverse effect on our expected future revenues and profitability.
- Delays or disruptions in our supply chain and the manufacturing of our product could adversely affect our sales and marketing efforts.
- Unexpected results in the analysis of raw materials, the API or drug product or problems with the execution of or quality systems supporting the analytical testing work, whether conducted internally or by third-party service providers, could adversely affect our commercialization activities.

Results of Operations

On July 1, 2025, Channel, Merger Sub (a wholly owned subsidiary of Channel), LNHC, and solely for the purposes of Article III within the Merger Agreement, Ligand consummated the Merger, pursuant to which, (i) Merger Sub merged with and into LNHC, with LNHC as the surviving company in the Merger and, after giving effect to such Merger, continuing as a wholly-owned subsidiary of Channel and (ii) Channel changed its name to Pelthos Therapeutics Inc.

Comparison of the Three Months Ended March 31, 2026 and 2025

The following table sets forth our results of operations for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	\$
	(As Restated)		
Revenue			
Net product revenues	\$ 10,665	\$ —	\$ 10,665
License and collaboration revenues	241	—	241
Total revenue	10,906	—	10,906
Operating expenses			
Cost of goods sold	1,673	—	1,673
Selling, general and administrative	21,104	1,640	19,464
Research and development	186	194	(8)
Amortization of intangible assets	1,031	—	1,031
Total operating expenses	23,994	1,834	22,160
Operating loss	(13,088)	(1,834)	(11,254)
Other (expense) income			
Interest expense	(2,353)	(134)	(2,219)
Change in fair value of convertible debt	(9,632)	—	(9,632)
Total other expense	(11,985)	(134)	(11,851)
Net loss before provision for income taxes	(25,073)	(1,968)	(23,105)
Provision for income taxes	—	—	—
Net loss	\$ (25,073)	\$ (1,968)	\$ (23,105)

Net Product Revenues

The Company currently sells ZELSUVMI to national and regional wholesalers in the United States. Revenue from product sales is recognized when the customer obtains control of the Company's product, which typically occurs on delivery. Revenue from product sales is recorded at the transaction price, net of estimates for variable consideration consisting of prompt-pay discounts, distribution service fees, government rebates, co-payment assistance and payor rebates and administration fees for which reserves are established. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a liability (if the amount is payable to a party other than the customer).

For the three months ended March 31, 2026, net product revenues were \$10.7 million. Net product revenues relate solely to the commercial launch of ZELSUVMI, which was announced on July 10, 2025.

License and Collaboration Revenues

The Company has one agreement related to a license of intellectual property to a third party. Per Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, the Company determines if there are distinct performance obligations identified in the arrangement. The Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license.

License and collaboration revenues for the three months ended March 31, 2026, were \$0.2 million. This revenue is related to recognition of deferred revenue from a collaboration agreement with Sato Pharmaceutical Co., Ltd. ("Sato Agreement").

For information about the Sato Agreement, see Note 7 — "Sato Agreement" in the accompanying notes to our condensed consolidated financial statements.

Cost of Goods Sold

Cost of goods sold includes direct and indirect costs related to the manufacture, production, packaging, and distribution of the Company's commercial products. These costs primarily consist of manufacturing costs, including allocated overhead, supply costs, third-party logistics and distribution expenses, quality control and assurance costs, and freight and shipping charges incurred in fulfilling customer orders.

Additionally, the Company's product is subject to strict quality control and monitoring that is performed throughout the manufacturing process, including release of work-in-process to finished goods. In the event that certain batches or units of product do not meet quality specifications, the Company records a write-down of any potential unmarketable inventory to its estimated net realizable value.

For the three months ended March 31, 2026, cost of goods sold was \$1.7 million. Cost of goods sold relate solely to ZELSUVMI, which was launched in mid-2025, and includes certain fair value adjustments related to finished goods inventory on hand at the time of the Merger.

The following table sets forth our cost of goods sold for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	\$
Cost of goods sold:			
Products sold (including ASC 805 fair value adjustments)	\$ 1,673	\$ —	\$ 1,673
Total cost of goods sold	\$ 1,673	\$ —	\$ 1,673

As part of the Merger, certain inventoried items were revalued subject to ASC 805, Business Combinations ("ASC 805"), as of July 1, 2025. For more information, see Note 4 — "Acquisition of LNHC, Inc." in the accompanying notes to our condensed consolidated financial statements.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense consists of personnel and non-personnel expenses to support growing sales of ZELSUVMI. Personnel-related expense includes salaries, incentive pay, benefits and share-based compensation for personnel engaged in sales, marketing, regulatory, quality, medical, non-capitalizable manufacturing, finance, information technology and administrative functions.

Non-personnel-related expense includes: (i) selling, patient services, pharmacovigilance, marketing, advertising, travel, sponsorships and trade shows; and (ii) other general and administrative costs, including consulting, legal, patent, insurance, accounting, information technology and facilities.

The Company uses a third-party logistics provider ("3PL") to perform a full order-to-cash service, which includes warehousing and shipping directly to its customers on its behalf. Activities performed by the 3PL as recorded in SG&A. SG&A expenses are recognized as they are incurred.

Royalty and/or milestone payments due to third parties under license arrangements or license agreements for commercial products, the associated payment obligations are expensed within SG&A and recorded as a current liability in the periods in which the obligation is incurred.

The following table summarizes our SG&A expense for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	\$
Personnel expense:			
Salaries, incentive pay and benefits	\$ 7,466	\$ 430	\$ 7,036
Stock-based compensation	1,908	456	1,452
Total personnel expense	9,374	886	8,488
Non-personnel expense:			
Marketing, sales and commercial	4,205	—	4,205
Facilities, manufacturing and depreciation	1,773	—	1,773
Corporate and professional services	1,881	754	1,127
Travel	678	—	678
Royalty and milestones	1,866	—	1,866
Regulatory and other	1,327	—	1,327
Total non-personnel expense	11,730	754	10,976
Total SG&A expense	\$ 21,104	\$ 1,640	\$ 19,464

The increase in SG&A for the three months ended March 31, 2026 as compared to the three months ended March 31, 2025 is primarily due to increased headcount and other costs associated with the commercial launch of ZELSUVMI, which commenced on July 10, 2025. The additional expenses include selling, patient services, pharmacovigilance, marketing, advertising, travel, sponsorships and trade shows related to the commercial detailing of ZELSUVMI. As of March 31, 2026 the Company had approximately 64 territory managers actively engaged in commercialization efforts related to ZELSUVMI.

In addition, certain corporate, administrative, consulting, legal, patent, insurance, accounting, public company, information technology and facilities expenses have increased from the three months ended March 31, 2026 as compared to the three months ended March 31, 2025, following the launch of ZELSUVMI and the Merger.

Research and Development Expense

Research and development (“R&D”) expenses are recognized as they are incurred based on actual work completed through monitoring invoices received and discussions with internal personnel and external service providers as to the progress or stage of completion of preclinical activities, clinical studies and related supporting services for non-commercial assets.

R&D expenses related to the level of activities related to our NaV1.7 pain programs for the three months ended March 31, 2026 and 2025 are noted below (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	\$
R&D expense:			
Clinical, CMC, consultants and other	\$ 186	\$ 194	\$ (8)
Total R&D expense	\$ 186	\$ 194	\$ (8)

On March 31, 2026, the Company announced that the first patient had been dosed in its Phase 1b/2a clinical trial evaluating CT2000 as a potential treatment for eye pain. The Company’s wholly-owned subsidiary, Channel Pharmaceutical Corporation, owns the rights to CT2000 and its NaV1.7 inhibitor pipeline and is conducting the clinical work through its Australian subsidiary.

Amortization of Intangible Assets Expense

The amortization of intangibles is primarily related to (a) the Company's purchase accounting of LNHC associated with the Merger upon which the Company recognized intangible assets for (i) the rights it has to make, use and sell ZELSUVMI, and (ii) the Sato Agreement; and (b) the asset acquisition accounting for both the XEPI and XEGLYZE assets acquired during the fourth quarter of 2025.

These assets are being amortized on a straight-line basis over the lesser of the term of the agreement and the useful life of the license or asset. For the three months ended March 31, 2026, amortization of intangible assets was \$1.0 million. For more information, see Note 6 — “Goodwill and Intangible Assets” in the accompanying notes to our condensed consolidated financial statements.

Interest Expense

Interest expense is primarily attributable to (a) interest on outstanding debt; and (b) the accounting treatment of certain royalty and purchases agreements entered into by the Company. Outstanding debt relates to the Venture Loan and Security Agreement and the Convertible Notes, whereas the (i) Reedy Creek Purchase Agreement, (ii) ZELSUVMI Royalty Agreement, (iii) Channel Products Royalty Agreement, (iv) XEPI Royalty Agreement and (v) the Sato Payments related to amendments to prior royalty agreements or new royalty agreements associated with the closing of the convertible note.

The Company accounts for the royalty and purchase agreements as liabilities and will accrete the financings using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated lives of the applicable agreements. At the effective date of the agreements, the effective annual interest rate of the specific financing was estimated and contains significant assumptions that affect both the amount recorded at the effective date and the interest expense that will be recognized over the term of the corresponding agreement.

The Company periodically assesses the estimated royalty payments and to the extent the amount or timing of such payments is materially different than the original estimates, an adjustment is made to the effective interest rate, which will be recorded prospectively to increase or decrease interest expense. There are a number of factors that could materially affect the amount and timing of royalty payments and the amount of interest expense recorded by the Company over the term. Such factors include, but are not limited to, volumes of revenue generated by the underlying products, changing standards of care, the introduction of competing products, manufacturing or other delays, generic competition, intellectual property matters, adverse events that result in regulatory authorities placing restrictions on the use of the drug products, delays or discontinuation of development and commercialization applicable products, and other events or circumstances that are not currently foreseen. Changes to any of these factors could result in increases or decreases to both forecasted revenues and interest expense.

For more information, see Note 9 — “Reedy Creek Liability” and Note 10 — “License and Other Agreements” in the accompanying notes to our condensed consolidated financial statements.

The following table summarizes our interest expense for the three months ended March 31, 2026 and 2025 (in thousands):

	Three Months Ended March 31,		Change
	2026	2025	\$
Interest expense:			
Reedy Creek Purchase Agreement	\$ (567)	\$ —	\$ (567)
ZELSUVMI Royalty Agreement	(428)	—	(428)
Xepi Royalty Agreement - Convertible Notes	(55)	—	(55)
Sato Payments - Convertible Notes	(27)	—	(27)
Convertible Notes	(387)	—	(387)
Venture Loan & Security Agreement	(885)	—	(885)
Other	(4)	(134)	130
Total interest expense	<u>\$ (2,353)</u>	<u>\$ (134)</u>	<u>\$ (2,219)</u>

Change in Fair Value of Convertible Debt

On November 6, 2025, the Company entered into a securities purchase agreement with certain investors, including Ligand, pursuant to which, among other things, on the closing date, the convertible investors purchased for cash, and the Company issued and sold to the convertible investors, senior secured Convertible Notes of the Company in the aggregate original principal amount of \$18.0 million, which are convertible into shares of the Company's Common Stock at a conversion rate of \$29.73. The Convertible Notes accrue interest at a rate of 8.5% per annum and mature on November 6, 2027.

The Company analyzed the terms of the Convertible Notes and its embedded features concluding it appropriate to account for the Convertible Notes at fair value under the allowable fair value option. Accordingly, the Company initially recognized the Convertible Notes at fair value and subsequently measures the Convertible Notes at fair value with changes in fair value recorded in current period earnings, or other comprehensive income if specific to Company credit risk.

For the three months ended March 31, 2026, the change in fair value of the Convertible Notes was \$9.6 million, due primarily to (i) changes in the Company's common stock price; (ii) a change in fair value related to the Convertible Notes; and (iii) a change to the principal balance related to the payment-in-kind for the quarterly interest payments due January 1, 2026.

See Note 8 — "Notes Payable" in the accompanying notes to our condensed consolidated financial statements for additional detail.

Liquidity and Capital Resources

During the three months ended March 31, 2026, the Company had a net loss of approximately \$25.1 million. As of March 31, 2026, the Company had cash of approximately \$32.0 million and working capital of \$44.8 million. For the three months ended March 31, 2026, the Company recorded net revenue in the amount of \$10.7 million, which represented nine months of commercial activity for its lead commercial product, ZELSUVMI. For the three months ended March 31, 2026, the Company recorded total operating expenses of \$24.0 million.

On January 12, 2026, the Company entered into a Venture Loan and Security Agreement with Horizon Technology Finance Corporation, a Delaware corporation, as lender and collateral agent. The Venture Loan and Security Agreement provides for a senior secured term loan facility in an aggregate principal amount of up to \$50.0 million. The proceeds of the facility will be used to support the commercialization of the Company's existing commercialized pharmaceutical product, to prepare for the launch of two recently acquired products, working capital and general corporate purposes. The Company borrowed \$30.0 million of the facility on January 12, 2026. The remaining \$20.0 million of the facility may be borrowed upon the achievement by the Company of certain milestones set forth in the Venture Loan and Security Agreement.

As further discussed in Note 3 — "Basis of Presentation and Summary of Significant Accounting Policies" in the accompanying notes to our condensed consolidated financial statements, in prior periods, management disclosed substantial doubt about the Company's ability to continue as a going concern. The conditions and events that previously raised substantial doubt have been alleviated by management's plans and actions. Based on current projections, including forecasted cash flows related to net product sales of ZELSUVMI, proceeds from the convertible note agreement in November 2025, proceeds from the initial draw of the January 2026 Venture Loan and Security Agreement, and the potential additional availability under the January 2026 Venture Loan and Security Agreement, management believes it has sufficient capital, or access to capital, to fund its operations through at least the next twelve months following the issuance of the accompanying condensed consolidated financial statements and management has concluded there are no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern under ASC 205-40, Presentation of Financial Statements - Going Concern. While risks remain, management believes available liquidity and cash generation from operations are sufficient for near-term needs.

Cash Flows

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

	Three Months Ended March 31,	
	2026	2025
Net cash (used in) provided by:		
Operating activities	\$ (13,126)	\$ (632)
Investing activities	(194)	—
Financing activities	27,523	250
Net increase in cash, cash equivalents and restricted cash	<u>\$ 14,203</u>	<u>\$ (382)</u>

Net Cash Used in Operating Activities

For the three months ended March 31, 2026, net cash used in operating activities was \$13.1 million and consisted primarily of a net loss of \$25.1 million, with adjustments for non-cash amounts related primarily to (i) stock-based compensation expense of \$1.9 million, (ii) amortization of definite lived intangible assets of \$1.0 million, (iii) \$0.5 million of depreciation expense, (iv) \$1.1 million of accretion of interest expense for royalty obligations, (v) \$0.1 million of lease amortization, (vi) amortization of debt discount of \$0.2 million, (vii) change in fair value of Convertible Notes of \$9.6 million, and (viii) a \$2.4 million decrease in cash related to changes in operating assets and liabilities.

The favorable impacts to cash related to changes in operating assets and liabilities was primarily due to (i) a \$0.2 million change in inventory, (ii) a change in accounts payable of \$3.2 million, (iii) a change in operating lease assets of \$0.1 million, and (iv) a change in prepaid expenses of \$0.5 million. The unfavorable impacts to cash related to changes in (i) accounts receivable of \$2.8 million, (ii) accrued expenses of \$1.9 million, (iii) contingent consideration of \$1.2 million, and (iv) deferred revenue of \$0.2 million.

For the three months ended March 31, 2025, the Company incurred a net loss of \$2.0 million and net cash flows used in operating activities was \$0.6 million. The cash flow used in operating activities was primarily due to net loss, offset by stock-based compensation expense of \$0.5 million, amortization of debt discount of \$0.1 million, and a change in accounts payable of \$0.7 million.

Net Cash Provided By Investing Activities

For the three months ended March 31, 2026, net cash flows used in investing activities was \$0.2 million, related primarily to purchases of property and equipment of \$0.2 million.

The Company neither received nor used cash in investing activities during the three months ended March 31, 2025.

Net Cash Provided by Financing Activities

For the three months ended March 31, 2026, net cash flows provided by financing activities were \$27.5 million, primarily from the January 12, 2026 Venture Loan and Security Agreement net proceeds.

For the three months ended March 31, 2025, net cash flows provided by financing activities were \$0.3 million resulting from net proceeds from loans of \$0.3 million.

Capital Requirements

The Company may utilize its available financial resources sooner than it currently expects. The Company will need to raise additional capital in the future if it decides to expand its business, to develop other product candidates, or to pursue strategic investments or acquisitions, and it may consider raising additional capital to take advantage of favorable market conditions or financing opportunities or for other reasons.

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

- The level of sales achieved from the commercialization of ZELSUVMI for the treatment of molluscum contagiosum;
- the costs of commercializing ZELSUVMI, XEPI and XEGLYZE, including our business development and marketing efforts;
- the effect of competing products and other market developments;
- the extent to which the Company acquires or seeks to develop other product candidates;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patents and other intellectual property and proprietary rights, and
- our efforts to enhance operational systems and hire additional personnel to satisfy our obligations as a public company.

The Company anticipates that its principal uses of cash in the future will be primarily to fund our operations, working capital needs, capital expenditures and other general corporate purposes. However, any potential future additional issuances of equity, or debt that could be convertible into equity, would result in further dilution to our existing stockholders.

Off -Balance Sheet Arrangements

During the three months ended March 31, 2026 and 2025, the Company did not have, and it does not currently have, any off-balance sheet arrangements, as defined under applicable U.S. Securities and Exchange Commission (the “SEC”) rules.

Contractual Obligations and Commitments

The Company has entered into arrangements that contractually obligate it to make payments that will affect its liquidity and cash flows in future periods. Such arrangements include those related to the Company’s lease commitments, third-party license agreements, including licenses, lending and/or debt agreements and long-term manufacturing agreements.

There have been no material changes outside the ordinary course of business to our contractual obligations and commitments as described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2025 filed with the SEC on March 19, 2026, other than the Venture Loan and Security Agreement, described below.

See our Annual Report on Form 10-K for a complete listing of all contractual obligations and commitments of the Company as of December 31, 2025, in addition to the following material change during the three months ended March 31, 2026.

Senior Secured Loan Facility

On January 12, 2026 (the “Venture Loan and Security Agreement Closing Date”), the Company, LNHC and CPC, as co-borrowers (together with the Company, the “Borrowers”), entered into a Venture Loan and Security Agreement by and among the Borrowers and Horizon Technology Finance Corporation, a Delaware corporation, as lender and collateral agent (“Horizon”). The Venture Loan and Security Agreement provides for a senior secured term loan facility in an aggregate principal amount of up to \$50.0 million (collectively, the “Term Loans”). The proceeds of the Term Loans will be used to support the commercialization of the Company’s existing commercialized pharmaceutical product, to prepare for launch its two recently acquired assets, and for working capital and general corporate purposes. The Borrowers borrowed \$30.0 million of Term Loans on the Venture Loan and Security Agreement Closing Date. The remaining \$20.0 million of Terms Loans may be borrowed under the Venture Loan and Security Agreement upon the achievement by the Company of certain milestones set forth in the agreement.

Borrowings under the Venture Loan and Security Agreement accrue interest at a rate equal to the prime rate plus 3.75% with the prime rate having a floor of 6.75%. The Term Loans are repayable in monthly interest-only payments from February 1, 2026 until February 1, 2029 (the “Interest-Only Payment Period”). After the expiration of the Interest-Only Payment Period, beginning on March 1, 2029, the Term Loans will be repayable in 24 equal monthly payments of principal and accrued interest until maturity. Alternatively, if the Borrowers achieve a trailing twelve-month consolidated net revenue of at least \$75.0 million, the Term Loans will be repayable in monthly interest-only payments from February 1, 2026 until February 1, 2030 (the “Extended Interest-Only Payment Period”). After the expiration of the Extended Interest-Only Payment Period, beginning on March 1, 2030, the Term Loans will be repayable in 12 equal monthly payments of

principal and accrued interest until maturity. The Term Loans will mature on January 31, 2031 (the “Venture Loan and Security Agreement Maturity Date”).

The Borrowers paid a commitment fee in the amount of \$0.3 million on the Venture Loan and Security Agreement Closing Date. The Borrowers will pay an additional commitment fee in the amount of 1.0% of the principal amount of the remaining undrawn Term Loans concurrently with the funding of those Term Loans. Upon the payment in full of the outstanding Term Loans, the Borrowers will pay Horizon a final payment in the amount of 5.0% of the aggregate original principal amount of the Term Loans made under the Venture Loan and Security Agreement.

At the Borrowers’ option, the Borrowers may prepay all of the outstanding Term Loans, subject to a prepayment premium equal to (a) 3.0% of the Term Loans being prepaid if the prepayment is made during the Interest-Only Period or Extended Interest-Only Period, as applicable; (b) 2.0% of the Term Loans being prepaid if the prepayment occurs within twelve months after the Interest-Only Period or Extended Interest-Only Period, as applicable; and (c) 1.0% of the Term Loans being prepaid if the prepayment occurs any time thereafter.

The Borrowers’ obligations under the Venture Loan and Security Agreement are secured by substantially all of the Borrowers’ assets, including intellectual property, subject to certain customary exceptions.

In connection with the Venture Loan and Security Agreement, the Company issued to Horizon warrants to purchase up to 65,488 shares of common stock, par value \$0.0001 per share, at an exercise price of \$27.49 per share (the “Initial Horizon Warrants”). The Initial Horizon Warrants are exercisable for 10 years from the Venture Loan and Security Agreement Closing Date.

The Venture Loan and Security Agreement contains customary affirmative and negative covenants, including covenants limiting the ability of the Borrowers and their subsidiaries to, among other things, dispose of assets, enter into certain licensing arrangements, effect certain mergers, incur debt, grant liens, pay dividends and distributions on their capital stock, make investments and acquisitions, and enter into transactions with affiliates, in each case subject to customary exceptions for a loan facility of this size and type. The Venture Loan and Security Agreement also includes customary events of default, including, among others, payment defaults, material misrepresentations, breaches of covenants following any applicable cure period, cross defaults with certain other indebtedness, bankruptcy and insolvency events, judgment defaults and the occurrence of certain events that could reasonably be expected to have a “material adverse effect.” The occurrence of an event of default could result in the acceleration of the Borrowers’ obligations under the Venture Loan and Security Agreement, the termination of the Horizon’s commitments, a 4.0% increase in the applicable rate of interest and the exercise by Horizon of other rights and remedies provided for under the Venture Loan and Security Agreement.

See Note 8 — “Notes Payable” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the financial statements and accompanying notes. The SEC has defined a company’s critical accounting policies as the ones that are most important to the portrayal of the company’s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company has identified the critical accounting policies and judgments addressed below. The Company also has other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions. To the extent there are material differences between the estimates and actual results, our future results of operations will be affected.

For additional information, see Note 3 — “Basis of Presentation and Summary of Significant Accounting Policies” in the accompanying notes to our condensed consolidated financial statements. Although the Company believes that its estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

While our significant accounting policies are more fully described in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, the Company believes that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of its consolidated financial statements and understanding and evaluating our reported financial results. There have been no material changes to our critical accounting policies and significant judgments and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2025 filed with the SEC on March 19, 2026, other than the Venture Loan and Security Agreement, described below.

Business Acquisitions

The Company accounts for business acquisitions using the acquisition method of accounting in accordance with ASC 805. ASC 805 requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values, as determined in accordance with ASC 820, Fair Value Measurements (“ASC 820”), as of the acquisition date. For certain assets and liabilities, book value approximates fair value. In addition, ASC 805 establishes that consideration transferred be measured at the closing date of the acquisition at the then-current market price. Under ASC 805, acquisition-related costs (i.e., advisory, legal, valuation and other professional fees) are expensed in the period in which the costs are incurred. The application of the acquisition method of accounting requires the Company to make estimates and assumptions related to the estimated fair values of net assets acquired, which require significant management judgment.

- The goodwill arising from the Merger is primarily attributable to expected synergies. The goodwill will not be deductible for federal tax purposes. The fair value measurements were primarily based on significant inputs that are not observable in the market, and thus represent Level 3 fair value measurements.
- The fair value of developed technology was estimated using the “multi-period excess earnings” method, an income approach that considers the net cash flows expected to be generated by the intangible asset by excluding any cash flows related to contributory assets. Significant assumptions include the expected useful life of the patent, contributory asset charges and the concluded discount rate. The developed technology will be amortized on a straight-line basis over an estimated useful of 12.2 years.
- The fair value of the Sato licensing agreement was estimated using the “relief from royalty” method, an income approach that considers the market-based royalty a company would pay to enjoy the benefits of the trade name or technology in lieu of actual ownership of the technology. Significant assumptions include the royalty rate, forecasted cash flows of the license agreement and concluded discount rate. The Sato licensing agreement was initially amortized on a straight-line basis over an estimated useful of 13.0 years. Based on changes described in Note 6 — “Goodwill and Intangible Assets” in the accompanying notes to our condensed consolidated financial statements the useful life was shortened to 2.25 years as of December 31, 2025.
- The fair value of the inventory was estimated using the top/down method that considers the estimated selling price, costs to complete, disposal costs, profit margin on disposal effort, and holding costs. Significant assumptions include management's estimates for the selling price and the costs to be incurred related to the disposal effort of the inventory.
- The fair value of the Reedy Creek liability was estimated using the income approach that considers the royalties based on sales of ZELSUVMI. Significant assumptions include the management's revenue forecast, royalty rate, and concluded discount rate.
- Deferred taxes were adjusted to record the deferred tax impact of acquisition accounting adjustments primarily related to amounts allocated to intangible assets and inventory.

See Note 4 — “Acquisition of LNHC, Inc.” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Revenue Recognition

Pursuant to ASC 606, the Company recognizes revenue when a customer obtains control of promised goods or services. Revenue is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. To determine revenue recognition for contracts with customers within the scope of ASC 606, the Company performs the following 5 steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied.

Net Product Revenues

The Company sells ZELSUVMI to national and regional wholesalers in the United States. The wholesalers are considered the Company's customers for accounting purposes.

Revenue from product sales is recognized when the customer obtains control of the Company's product, which typically occurs on delivery. Revenue from product sales is recorded at the transaction price, net of estimates for variable consideration consisting of prompt-pay discounts, distribution service fees, government rebates, co-payment assistance and payor rebates and administration fees for which reserves are established. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a liability (if the amount is payable to a party other than the customer).

Variable consideration is estimated using the expected-value amount method, which is the sum of probability-weighted amounts in a range of possible consideration amounts. In making these estimates, the Company considers historical data, including patient mix and inventory sold to customers that has not yet been dispensed. Actual amounts of consideration ultimately received may differ from the Company's estimates. If actual results vary materially from the Company's estimates, the Company will adjust these estimates, which will affect net product sales and earnings in the period such estimates are adjusted. These items, as applicable based on current contractual agreements and obligations on behalf of the Company, include prompt pay discounts, distribution service fees, co-pay assistance, government rebates, payor rebates and administration fees.

License and Collaboration Revenues

The Company has one agreement related to a license of intellectual property to a third party. Per ASC 606 the Company determines if there are distinct performance obligations identified in the arrangement. The Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, the Company's management utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the estimated performance period and the appropriate method of measuring progress during the performance period for purposes of recognizing revenue.

The Company re-evaluates the estimated performance period and measure of progress for each reporting period and, if necessary, adjusts related revenue recognition accordingly. These arrangements often include milestone as well as royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements from our payments to the collaboration partner. Because of the risk that products in development will not receive regulatory approval, the Company does not recognize any contingent payments until regulatory approval becomes probable. Future sales-based royalties are not recorded until the subsequent sale occurs.

Inventory

The Company measures inventory using the first-in, first-out method and values inventory at the lower of cost or net realizable value. Inventory value includes costs related to materials, manufacturing, labor, conversion and overhead expenses. The Company adjusts its inventory for potentially obsolete inventory. The adjustment for obsolescence is generally an estimate of the value of inventory that is expected to expire in the future based on projected sales volume and product expiration or expected sell-by dates. These assumptions require the Company to analyze the aging of and forecasted demand for its inventory and make estimates regarding future product sales.

Prior to obtaining initial regulatory approval for ZELSUVMI in January 2024, inventory costs related to the production of pre-launch inventory were expensed as research and development costs. Subsequent to January 5, 2024, the date of the FDA's approval of ZELSUVMI, inventory costs were capitalized by LNHC. As part of the Merger, certain inventoried items were revalued subject to ASC 805.

See Note 4 — "Acquisition of LNHC, Inc." in the accompanying notes to our condensed consolidated financial statements for additional detail.

Intangible Assets, Net and Goodwill

Intangible assets represent certain identifiable intangible assets, including product rights consisting of pharmaceutical product licenses and patents. Amortization for pharmaceutical products licenses is computed using the straight-line method based on the lesser of the term of the agreement and the useful life of the license. Amortization for pharmaceutical patents is computed using the straight-line method based on the useful life of the patent.

Definite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. In the event impairment indicators are present or if other circumstances indicate that an impairment might exist, then management compares the future undiscounted cash flows directly associated with the asset or asset group to the carrying amount of the asset group being determined for impairment. If those estimated cash flows are less than the carrying amount of the asset group, an impairment loss is recognized. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Considerable judgment is necessary to estimate the fair value of these assets; accordingly, actual results may vary significantly from such estimates.

Indefinite-lived intangible assets, including goodwill, are not amortized. The Company tests the carrying amounts of goodwill for recoverability on an annual basis on July 1 or when events or changes in circumstances indicate evidence that a potential impairment exists, using a fair value-based test.

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. Goodwill is reviewed for impairment at the reporting unit level at least annually, or more frequently if an event occurs indicating the potential for impairment. During a goodwill impairment review, management performs an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance. If, after assessing the totality of these qualitative factors, management determines that it is not more likely than not that the fair value of reporting unit is less than the carrying amount, then no additional assessment is deemed necessary. The Company did not identify indicators of impairment for goodwill during the three-month period ended March 31, 2026.

See Note 6 — “Goodwill and Intangible Assets” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Fair Value Measurements and Fair Value of Financial Instruments

The Company determines fair value, per ASC 820, based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2 Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3 Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

Reedy Creek Purchase Agreement

The Company has determined that the Reedy Creek Purchase Agreement is within the scope of ASC 730-20, Research and Development Arrangements (“ASC 730-20”), and that there has not been a substantive and genuine transfer of risk related to the Reedy Creek Purchase Agreement. As of the Merger date, the Reedy Creek liability was measured at fair value. This long-term liability is subsequently measured at amortized cost using the prospective effective interest method described in ASC 835-30, Imputation of Interest (“ASC 835-30”). The effective interest rate is calculated by forecasting the expected cash flows to be paid over the life of the liability relative to its fair value as of the Merger date. The effective interest rate is recalculated in each reporting period as the difference between expected cash flows and actual cash flows are realized and as there are changes to expected future cash flows. The carrying value of the Reedy Creek liability is made up of the

opening balance, which is increased by accrued interest expense, and decreased by any cash payments made to Reedy Creek during the period to arrive at the ending balance.

See Note 9 — “Reedy Creek Liability” in the accompanying notes to our condensed consolidated financial statements for additional detail.

July 1, 2025 and November 6, 2025 Royalty Agreements

The Company accounts for the Reedy Creek Purchase Agreement, the ZELSUVMI Royalty Agreement, the Amended Channel Products Royalty Agreement and the Convertible Royalty Agreements as liabilities and will accrete the financing using the effective interest method based on estimated and actual cash flows payable to the counterparties over the estimated lives of the applicable agreements. At the effective date of the agreements, the effective annual interest rate of the specific financing was estimated and contains significant assumptions that affect both the amount recorded at the effective date and the interest expense that will be recognized over the term of the corresponding agreement.

The Company periodically assesses the estimated royalty payments and to the extent the amount or timing of such payments is materially different than the original estimates, an adjustment is made to the effective interest rate, which will be recorded prospectively to increase or decrease interest expense. There are a number of factors that could materially affect the amount and timing of royalty payments and the amount of interest expense recorded by the Company over the term. Such factors include, but are not limited to, volumes of revenue generated by the underlying products, changing standards of care, the introduction of competing products, manufacturing or other delays, generic competition, intellectual property matters, adverse events that result in regulatory authorities placing restrictions on the use of the drug products, delays or discontinuation of development and commercialization applicable products, and other events or circumstances that are not currently foreseen. Changes to any of these factors could result in increases or decreases to both forecasted revenues and interest expense.

See Note 10 — “License and Other Agreements” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Senior Secured Loan Facility

The Company analyzed the terms of the Venture Loan and Security Agreement and its embedded features concluding it appropriate to account for the Initial Horizon Warrants as freestanding financial instruments with equity classification. As the Initial Horizon Warrants are equity classified, the proceeds from the Venture Loan and Security Agreement were allocated based on the relative fair values of the Term Loans and the Initial Horizon Warrants, with the amount allocated to the Initial Horizon Warrants recorded as additional paid-in-capital. The Term Loans were recorded at the proceeds received, less applicable discounts. The final payment, debt issuance costs and allocation of fair value of the Initial Horizon Warrants will be amortized to interest expense over the term of the loan.

See Note 8 — “Notes Payable” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Convertible Notes

The Company analyzed the terms of the Convertible Notes and its embedded features concluding it appropriate to account for the Convertible Notes at fair value under the allowable fair value option. Accordingly, the Company initially recognized the Convertible Notes at fair value and will subsequently measure the Convertible Notes at fair value with changes in fair value recorded in current period earnings, or other comprehensive income if specific to Company credit risk. When estimating instrument specific credit risk, the Company will isolate the effect of using the historical instrument credit rating at the current period end, effectively holding all other inputs constant.

Due to the significant related-party relationships with certain investors and Ligand, the Convertible Securities Purchase Agreement is not presumed to be at arms-length. The Company estimated the initial fair value of the Convertible Notes and royalty obligations to be in excess of the transaction price. Accordingly, the Company initially recorded both instruments, which were determined to be free standing, at the issuance date fair value. Further, the Company allocated issuance costs between the two instruments based on their relative fair values.

See Note 8 — “Notes Payable” in the accompanying notes to our condensed consolidated financial statements for additional detail.

XEPI Transaction

The Biofrontera Asset Purchase Agreement and the Ferrer License Agreement were entered into in contemplation of each other to achieve a combined commercial effect. Additionally, the execution of the Biofrontera Asset Purchase Agreement was contingent upon the execution of the Ferrer License Agreement. As such, the Biofrontera Asset Purchase Agreement and the Ferrer License Agreement are combined and accounted for as a single transaction (the “XEPI Transaction”).

The Company determined that the acquired assets associated with the XEPI Transaction do not meet the definition of a business and should be accounted for as an asset acquisition. The XEPI Transaction intangible asset will be amortized over the 6-year expected useful life of the intellectual property, which is determined based on the last to expire patent underlying the XEPI intellectual property. The Company will assess the remaining useful life of the intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

As of the closing date of the XEPI Transaction, the Company determined that the contingent payments are both considered probable and reasonably estimable and will recognize the fair value of the liabilities as part of the cost of the asset acquisition. The Company determined that the full \$1.0 million and \$1.2 million contractual values are expected to be paid to Biofrontera and Ferrer, respectively, and therefore recorded the initial liability at \$2.2 million. The Company also believes \$2.2 million approximates the fair value of the obligation as the Company is expected to receive the API and achieve Commercial Quantities within one year of the closing date. Given the initial probability of being met, any adjustments to present value are therefore deemed immaterial.

See Note 6 — “Goodwill and Intangible Assets” in the accompanying notes to our condensed consolidated financial statements for additional detail.

XEGLYZE Asset Purchase Agreement

On November 20, 2025, the Company entered into a Downpayment Agreement for XEGLYZE Assets Purchase (the “Downpayment Agreement”) with Hatchtech Pty Ltd. (“Hatchtech”) to purchase the right, title and interest in XEGLYZE (the “Product”), an FDA-approved Abametapir lotion treatment for head lice infestation in humans. The purchase includes all assets of the seller pertaining to the associated product intellectual property, preclinical data, associated regulatory materials, and all inventory and other tangible personal property and materials used or held for use in connection with the Product. On December 23, 2025, Pelthos and Hatchtech entered into an Asset Purchase Agreement (the “XEGLYZE Asset Purchase Agreement”) for the transferred assets.

As outlined by the Downpayment Agreement, the Company was to pay Hatchtech a total purchase price of \$1.8 million of which, \$0.4 million was made as a downpayment on November 20, 2025 upon execution of the Downpayment Agreement. On December 29, 2025, the date of closing of the acquisition, the Company paid the remaining \$1.4 million to Hatchtech.

Though the XEGLYZE Asset Purchase Agreement referenced tangible assets, including inventory, components, packaging, supplies, equipment, machinery, tooling, computers, hardware, furniture, and fixtures related to the Product, no tangible assets were transferred to the Company. Additionally, no liabilities were assumed by the Company as a result of the XEGLYZE Asset Purchase Agreement. The Company will be responsible for all future liabilities that arise on or after the closing date, directly or indirectly.

The Company determined that the acquired assets associated with the XEGLYZE Asset Purchase Agreement do not meet the definition of a business and should be accounted for as an asset acquisition. The Company acquired the XEGLYZE intellectual property rights including all patents, tradenames, trademarks, know-how, technical data, and all other XEGLYZE proprietary and intellectual property rights, which are recognized as a single intangible asset. The total purchase price of \$1.8 million, will be allocated to the XEGLYZE intangible asset.

The intangible asset will be amortized over the 9-year expected useful life of the intellectual property, which is determined based on the expiration date of the patent underlying the XEGLYZE intellectual property. The Company will assess the remaining useful life of the intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

See Note 6 — “Goodwill and Intangible Assets” in the accompanying notes to our condensed consolidated financial statements for additional detail.

Income Taxes

We are subject to income taxes in the U.S. and Australia. Significant judgment is required in determining income tax expense, deferred taxes and uncertain tax positions. The underlying assumptions are also highly susceptible to change from period to period. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all the deferred tax assets will be realized. The ultimate realization of deferred taxes assets is dependent upon generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and taxable income in carryback years and tax-planning strategies when making this assessment. There is currently significant negative evidence which contributes to our recording a valuation allowance against our deferred tax assets due to cumulative losses since inception. Although we believe our assumptions, judgments, and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our condensed consolidated financial statements. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. Adjustments to income tax expense, to the extent we adjust the valuation allowance in a future period, could have a material impact on our financial condition and results of operations.

Recently Issued and Adopted Accounting Pronouncements

We describe the impact of recently issued accounting pronouncements that apply to us in Note 3 of Item 1 of this Quarterly Report on Form 10-Q.

Emerging Growth Company

The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, as amended (the “Securities Act”), as modified by the Jumpstart Our Business Startups Act of 2012, as amended (the “JOBS Act”), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the independent registered public accounting firm attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company’s condensed consolidated financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, cannot provide absolute assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. The design of any system of controls also 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 control system, misstatements due to error or fraud may occur and not be detected.

As of March 31, 2026, our management, with the participation of our principal executive and financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based upon such evaluation, our principal executive and financial officers concluded in the Original Filing that, as of March 31, 2026, our disclosure controls and procedures were effective at the reasonable assurance level. Subsequent to the evaluation made in connection with the Original Filing and in connection with the restatement of our condensed consolidated financial statements included in this Quarterly Report, our management has re-evaluated, under the supervision and with the participation of our principal executive and financial officers, the effectiveness of our disclosure controls and procedures. Based upon that re-evaluation, our principal executive and financial officers concluded that because of the material weakness in our internal control over financial reporting discussed below, our disclosure controls and procedures were not effective as of March 31, 2026.

Material Weakness

Management conducted an evaluation of our internal control over financial reporting and concluded that we did not maintain effective internal control over financial reporting as of March 31, 2026 because of a material weakness in our internal control over financial reporting related to the accounting for a significant and unusual transaction related to the convertible debt we entered into on November 6, 2025. The restatement resulted from a misapplication of ASC 820, Fair Value Measurements, related to certain Level 3 fair value measurement of the Company’s convertible debt, including valuation methodologies, specific valuation assumptions, and inputs, in the Company’s previously issued condensed consolidated financial statements for such periods. Specifically, our controls did not operate effectively to identify and evaluate the valuation impact of certain provisions in the Convertible Notes Subordination Agreement entered into in January 2026, including the effect of the subordination on the extended payoff terms and the conversion rate reset feature.

To respond to this material weakness, we have devoted, and plan to continue to devote, significant effort and resources to the remediation and improvement of our internal control over financial reporting. While we have processes to identify and appropriately apply applicable accounting requirements, we plan to enhance these processes to better evaluate our understanding of the nuances of the complex accounting standards that apply to our consolidated financial statements specifically related to fair valuation techniques in accordance with ASC 820, Fair Value Measurements. Our plans at this time include, but are not limited to, (i) discontinuing our current relationship with the external third party valuation firm that was previously used to assist management in the fair value calculation process for the convertible debt; (ii) engaging a more specialized and experienced external third party valuation firm to assist management in determining the fair value of convertible debt and other complex financial instruments; and (iii) increasing the number of finance and accounting

personnel within the Company's accounting department with the expertise to review and identify complex matters and discrepancies in utilized valuation assumptions. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects.

Changes in Internal Control over Financial Reporting

Except as disclosed above, there have been no other changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the first quarter ended March 31, 2026 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, in the opinion of our management, would have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputation harm, and other factors.

Kopfli Matter

On February 14, 2024, Chromocell's board of directors received a demand letter from an attorney representing Chromocell Holdings and its former Chief Executive Officer and former Chief Strategy Officer, Mr. Christian Kopfli, who was released for "cause." Mr. Kopfli alleged an improper termination for "cause" and claimed to seek monetary damages in the amount of \$479,169. Of the \$479,169 asserted by Mr. Kopfli, as of September 30, 2024, Chromocell had accrued \$363,091 in compensation expenses associated with Mr. Kopfli's prior employment with Chromocell. However, Chromocell believed the assertions made by Mr. Kopfli were without merit and commenced a lawsuit against Mr. Kopfli and Chromocell Holdings in the Supreme Court for the State of New York, County of New York on June 7, 2024 (Index No. 652917/2024, the "New York Action"), asserting causes of action against Mr. Kopfli for breach of the Employment Agreement entered into on January 10, 2023 between Chromocell and Mr. Kopfli, breach of fiduciary duty by Mr. Kopfli, as well as breach of contract against Chromocell Holdings. Chromocell also asserted a "faithless servant" claim against Mr. Kopfli, seeking a ruling that Mr. Kopfli was not entitled to compensation from Chromocell. Chromocell sought monetary damages against Mr. Kopfli and Chromocell Holdings in the New York Action, plus disgorgement of all compensation previously paid or accrued to Mr. Kopfli by Chromocell.

By Order dated October 3, 2024, the court in the New York Action awarded Chromocell a default judgment against Mr. Kopfli and Chromocell Holdings on all claims. On October 7, 2025, following an inquest held before the Court regarding Chromocell's damages, a judgment was entered in favor of Chromocell and against Mr. Kopfli and Chromocell Holdings, jointly and severally, in the amount of \$17,950,810, as well as additional damages against Mr. Kopfli in the amount of \$348,461 (the "Judgment"). As of June 30, 2025, the Company has removed the accrual of \$348,461 in compensation expenses. By a subsequent Order dated February 27, 2026, the Court in the New York Action ordered the assignment of Chromocell Holdings' rights, title and interest in and to U.S. Patent No. 10,179,781 and its foreign counterparts to Chromocell in partial satisfaction of the Judgment.

Lang Demand Letter

On July 24, 2025, the Company received a demand letter (the "Lang Demand Letter") from an attorney representing Dr. Eric Lang, the former Chief Medical Officer of the Company. The Lang Demand Letter asserted that the Company breached Dr. Lang's employment contract with the Company and violated Dr. Lang's rights under New Jersey wage and hour laws and the federal Consolidated Omnibus Budget Reconciliation Act. The Lang Demand Letter asserted potential liability of as much as \$1,008,095, an amount that included liquidated damages of \$640,000 that the Company believed was unavailable under applicable law. The Company settled the matter without payment of any liquidated damages. The final payment under the employment contract was made on March 13, 2026. The Company believes that this matter has been fully resolved.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report, except as follows:

We have restated our condensed consolidated financial statements for the interim period ended March 31, 2026, which may lead to additional risks and uncertainties, including loss of investor confidence and negative impacts on our stock price.

As discussed in the explanatory note and "Note 2—Restatement of Previously Issued Financial Statements" to the accompanying condensed consolidated financial statements included in this quarterly report, on August 12, 2026, we concluded that, because of a misapplication of ASC 820, Fair Value Measurements, related to certain Level 3 fair value measurements of the Company's convertible debt we entered into on November 6, 2025, our previously issued condensed consolidated financial statements for the interim period ended March 31, 2026 should no longer be relied upon. As such, we determined that we would restate our condensed consolidated financial statements for this interim period. As a result of

this event, we have become subject to a number of additional costs and risks, including unanticipated costs for accounting and legal fees in connection with the restatement and the remediation of our ineffective disclosure controls and procedures and material weakness in internal control over financial reporting. In addition, the attention of our management team has been diverted by these efforts. We could be subject to additional stockholder, regulatory or other actions in connection with the restatement or other matters. If any such actions occur, they will, regardless of the outcome, consume a significant amount of management's time and attention and may result in additional legal, accounting, insurance and other costs. If we do not prevail in any such proceedings, we could be required to pay substantial damages or settlement costs. In addition, the restatement and related matters could impair our reputation or could cause our counterparties to lose confidence in us. Each of these occurrences could have a material adverse effect on our business, results of operations, financial condition and stock price.

We have identified a material weakness in our internal control over financial reporting. This material weakness could continue to adversely affect our ability to report our results of operations and financial condition accurately and in a timely manner.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our management is likewise required, on a quarterly basis, to evaluate the effectiveness of our internal controls and to disclose any changes and material weaknesses identified through such evaluation in those internal controls. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As described elsewhere in this Quarterly Report, we identified a material weakness in our internal control over financial reporting related to the accounting for a significant and unusual transaction related to the convertible debt we entered into on November 6, 2025. As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective as of March 31, 2026. This material weakness resulted in a material misstatement of our convertible debt, change in fair value of convertible debt, other comprehensive income, accumulated deficit and related financial disclosures for the interim period ended March 31, 2026.

To respond to this material weakness, we have devoted, and plan to continue to devote, significant effort and resources to the remediation and improvement of our internal control over financial reporting. While we have processes to identify and appropriately apply applicable accounting requirements, we plan to enhance these processes to better evaluate our understanding of the nuances of the complex accounting standards that apply to our condensed consolidated financial statements specifically related to fair valuation techniques in accordance with ASC 820, Fair Value Measurements. Our plans at this time include, but are not limited to, (i) discontinuing our current relationship with the external third party valuation firm that was previously used to assist management in the fair value calculation process for the convertible debt; (ii) engaging a more specialized and experienced external third party valuation firm to assist management in determining the fair value of convertible debt and other complex financial instruments; and (iii) increasing the number of finance and accounting personnel within the Company's accounting department with the expertise to review and identify complex matters and discrepancies in utilized valuation assumptions. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects. For a discussion of management's consideration of the material weakness identified related to our accounting for a significant and unusual transaction related to the convertible debt we entered into on November 6, 2025, see "Note 2—Restatement of Previously Issued Financial Statements" to the accompanying condensed consolidated financial statements, as well as Part I, Item 4: Controls and Procedures included in this Quarterly Report.

Any failure to maintain such internal control could adversely impact our ability to report our financial position and results from operations on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations. Likewise, if our financial statements are not filed on a timely basis, we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC or other regulatory authorities. In either case, there could result a material adverse effect on our business. Failure to timely file will cause us to be ineligible to utilize short form registration statements on Form S-3 or Form S-4, which may impair our ability to obtain capital in a timely fashion to execute our business strategies or issue shares to effect an acquisition. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

We can give no assurance that the measures we have taken and plan to take in the future will remediate the material weakness identified or that any additional material weaknesses or restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or circumvention of these controls. In addition, even if we are successful in strengthening our controls and procedures, in the future those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our consolidated financial statements.

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

Recent Sales of Unregistered Securities

On January 12, 2026, the Company, LNHC and Channel, as co-borrowers (together with the Company, the “Borrowers”), entered into the Venture Loan and Security Agreement by and among the Borrowers and Horizon, as lender and collateral agent. The Venture Loan and Security Agreement provides for a senior secured term loan facility in an aggregate principal amount of up to \$50.0 million.

In connection with the Venture Loan and Security Agreement, the Company issued to Horizon warrants to purchase up to 65,488 shares of common stock, par value \$0.0001 per share, of the Company at an exercise price of \$27.49 per share. These warrants are exercisable for ten years from January 12, 2026.

The offer and sale of the above securities were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the above securities represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
4.1	Form of Warrant issued pursuant to Venture Loan and Security Agreement dated as of January 12, 2026, by and among Pelthos Therapeutics Inc., LNHC, Inc., Channel Therapeutics Corporation and Horizon Technology Finance Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 13, 2026)
4.2	Form of Senior Debt Indenture (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-3, filed with the SEC on February 2, 2026)
4.3	Form of Subordinated Debt Indenture (incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form S-3, filed with the SEC on February 2, 2026)
10.1	Asset Purchase Agreement, dated as of December 23, 2025, by and between Pelthos Therapeutics Inc., as Purchaser, and Hatchtech Pty Ltd ACN 098 559 409, as Seller (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 2, 2026)
10.2	Down Payment Agreement for Xeglyze Assets Purchase, dated as of November 20, 2025, by and between Hatchtech Pty Ltd, as Seller and Pelthos Therapeutics Inc. as Buyer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 2, 2026)
10.3	Venture Loan and Security Agreement, dated as of January 12, 2026, by and among Pelthos Therapeutics Inc., LNHC, Inc., Channel Therapeutics Corporation and Horizon Technology Finance Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on January 13, 2026)
10.4	Employment Agreement between Pelthos Therapeutics Inc. and John M. Gay, dated April 10, 2026 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on April 10, 2026)
10.5 ⁽¹⁾	First Amendment to Executive Employment Agreement between Pelthos Therapeutics Inc. and Scott Plesha, dated April 9, 2026
10.6 ⁽¹⁾	First Amendment to Executive Employment Agreement between Pelthos Therapeutics Inc. and Sai Rangarao, dated April 6, 2026
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	Interactive Data Files (embedded within the Inline XBRL document)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

¹Previously filed with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2026, originally filed with the Securities and Exchange Commission on May 14, 2026.

*Filed herewith.

**Furnished herewith.

+ Indicates management contract or compensatory plan.

In accordance with SEC Release 33-8238, Exhibits 31s and 32s are being furnished and not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Pelthos Therapeutics Inc.

Date: August 13, 2026

By: /s/ Scott Plesha

Name: Scott Plesha

Title: Chief Executive Officer and President (Principal Executive Officer)

Date: August 13, 2026

By: /s/ John M. Gay

Name: John M. Gay

Title: Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer, Principal Accounting Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Scott Plesha, certify that:

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

Date: August 13, 2026

/s/ Scott Plesha

Scott Plesha

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, John M. Gay, certify that:

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

Date: August 13, 2026

/s/ John M. Gay

John M. Gay

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q/A of Pelthos Therapeutics Inc. (the “Company”) for the quarter ended March 31, 2026 (the “Report”), I, Scott Plesha, Chief Executive Officer of 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 Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 13, 2026

/s/ Scott Plesha

Scott Plesha

Chief Executive Officer

(Principal Executive Officer)

This certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q/A of Pelthos Therapeutics Inc. (the “Company”) for the quarter ended March 31, 2026 (the “Report”), I, John M. Gay, Chief Financial Officer of 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 Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 13, 2026

/s/ John M. Gay

John M. Gay

Chief Financial Officer

(Principal Financial Officer)

This certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.