

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

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 001-32157

Savara Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

6836 Bee Cave Road, Building III, Suite 200

Austin, TX

(Address of principal executive offices)

84-1318182
(I.R.S. Employer
Identification No.)

78746
(Zip Code)

(512) 614-1848

(Registrant's telephone number, including area code)

N/A

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 \$0.001 per share	SVRA	The Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of August 6, 2020, the registrant had 54,128,525 shares of common stock, \$0.001 par value per share, outstanding.

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Savara Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,117	\$ 49,804
Short-term investments	52,492	71,957
Prepaid expenses and other current assets	2,953	2,306
Total current assets	102,562	124,067
Property and equipment, net	250	352
In-process R&D	11,161	11,111
Other non-current assets	1,173	673
Total assets	\$ 115,146	\$ 136,203
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,006	\$ 3,409
Accrued expenses and other current liabilities	4,447	5,471
Debt facility	—	2,000
Total current liabilities	6,453	10,880
Long-term liabilities:		
Debt facility	24,856	23,112
Other long-term liabilities	39	513
Total liabilities	31,348	34,505
Stockholders' equity:		
Common stock, \$0.001 par value, 200,000,000 shares authorized as of June 30, 2020 and December 31, 2019; 52,823,312 and 50,790,441 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	54	52
Additional paid-in capital	316,327	309,555
Accumulated other comprehensive income (loss)	119	(17)
Accumulated deficit	(232,702)	(207,892)
Total stockholders' equity	83,798	101,698
Total liabilities and stockholders' equity	\$ 115,146	\$ 136,203

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

Savara Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating expenses:				
Research and development	\$ 6,079	\$ 10,464	\$ 19,279	\$ 20,483
General and administrative	3,117	4,211	6,099	6,974
Impairment of goodwill	—	7,420	—	7,420
Depreciation and amortization	68	59	126	197
Total operating expenses	<u>9,264</u>	<u>22,154</u>	<u>25,504</u>	<u>35,074</u>
Loss from operations	(9,264)	(22,154)	(25,504)	(35,074)
Other income (loss), net:				
Interest income (expense), net	(332)	31	(493)	11
Foreign currency exchange gain	50	110	206	51
Tax credit income	103	115	924	1,079
Change in fair value of financial instruments	54	(41)	56	(118)
Total other income (loss)	<u>(125)</u>	<u>215</u>	<u>693</u>	<u>1,023</u>
Loss before income taxes	(9,389)	(21,939)	(24,811)	(34,051)
Income tax benefit	—	—	—	—
Net loss	<u>\$ (9,389)</u>	<u>\$ (21,939)</u>	<u>\$ (24,811)</u>	<u>\$ (34,051)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.16)</u>	<u>\$ (0.57)</u>	<u>\$ (0.43)</u>	<u>\$ (0.91)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>58,858,216</u>	<u>38,440,647</u>	<u>58,111,225</u>	<u>37,235,209</u>
Other comprehensive income (loss):				
Gain (loss) on foreign currency translation	162	91	34	(134)
Unrealized gain on short-term investments	85	120	102	146
Total comprehensive loss	<u>\$ (9,142)</u>	<u>\$ (21,728)</u>	<u>\$ (24,675)</u>	<u>\$ (34,039)</u>

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

Savara Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Periods Ended June 30, 2020 and 2019
(In thousands, except share amounts)
(Unaudited)

	Stockholders' Equity					
	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount	Additional Paid-In Capital			
Balance on December 31, 2019	50,790,441	\$ 52	\$ 309,555	\$ (207,892)	\$ (17)	\$ 101,698
Issuance of common stock for settlement of RSUs	12,750	—	—	—	—	—
Issuance of common stock upon exercise of stock options	41,313	—	48	—	—	48
Closing costs for previous issuance of securities in private placement	—	—	(120)	—	—	(120)
Incremental cost due to modification of detachable warrants previously issued with debt instrument	—	—	28	—	—	28
Stock-based compensation	—	—	1,194	—	—	1,194
Foreign exchange translation adjustment	—	—	—	—	(128)	(128)
Unrealized gain on short-term investments	—	—	—	—	17	17
Net loss incurred	—	—	—	(15,421)	—	(15,421)
Balance on March 31, 2020	50,844,504	\$ 52	\$ 310,705	\$ (223,313)	\$ (128)	\$ 87,316
Issuance of common stock for licensing of assets	1,000,000	1	2,119	—	—	2,120
Issuance of common stock upon at the market offerings, net	942,825	1	2,289	—	—	2,290
Issuance of common stock for settlement of RSUs	12,750	—	—	—	—	—
Issuance of common stock upon exercise of stock options	23,233	—	39	—	—	39
Stock-based compensation	—	—	1,175	—	—	1,175
Foreign exchange translation adjustment	—	—	—	—	162	162
Unrealized gain on short-term investments	—	—	—	—	85	85
Net loss incurred	—	—	—	(9,389)	—	(9,389)
Balance on June 30, 2020	52,823,312	\$ 54	\$ 316,327	\$ (232,702)	\$ 119	\$ 83,798

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

Consolidated Statements of Changes in Stockholders' Equity
Periods Ended June 30, 2020 and 2019
(In thousands, except share amounts)
(Unaudited)

	Stockholders' Equity					
	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount	Additional Paid-In Capital			
Balance on December 31, 2018	35,146,096	\$ 36	\$ 237,702	\$ (129,719)	\$ 200	\$ 108,219
Issuance of common stock upon at the market offerings, net	647,426	—	4,890	—	—	4,890
Issuance of common stock for settlement of RSUs	13,125	—	—	—	—	—
Issuance of common stock upon exercise of stock options	23,593	—	6	—	—	6
Stock-based compensation	—	—	1,000	—	—	1,000
Foreign exchange translation adjustment	—	—	—	—	(225)	(225)
Unrealized gain on short-term investments	—	—	—	—	26	26
Net loss incurred	—	—	—	(12,112)	—	(12,112)
Balance on March 31, 2019	35,830,240	\$ 36	\$ 243,598	\$ (141,831)	\$ 1	\$ 101,804
Issuance of common stock upon at the market offerings, net	1,870,500	2	19,035	—	—	19,037
Issuance of common stock upon settlement of contingent liability	1,105,216	1	12,477	—	—	12,478
Issuance of common stock for settlement of RSUs	13,125	—	—	—	—	—
Issuance of common stock upon cashless exercise of warrants	11,119	—	—	—	—	—
Issuance of common stock upon exercise of stock options	73,630	1	60	—	—	61
Stock-based compensation	—	—	1,147	—	—	1,147
Foreign exchange translation adjustment	—	—	—	—	91	91
Unrealized gain on short-term investments	—	—	—	—	120	120
Net loss incurred	—	—	—	(21,939)	—	(21,939)
Balance on June 30, 2019	38,903,830	\$ 40	\$ 276,317	\$ (163,770)	\$ 212	\$ 112,799

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

Savara Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (24,811)	\$ (34,051)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization including right-of-use assets	455	539
Impairment of goodwill	—	7,420
Acquired in-process research and development (Note 7)	5,367	—
Changes in fair value of financial instruments	(56)	118
Change in fair value of contingent consideration	—	264
Noncash interest (income) expense	143	(69)
Foreign currency loss	(206)	(51)
Amortization of debt issuance costs	259	292
Accretion on discount to short-term investments	(113)	(688)
Stock-based compensation	2,369	2,147
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(583)	115
Non-current assets	(812)	(838)
Accounts payable and accrued expenses and other current liabilities	(2,376)	1,141
Long-term liabilities	(467)	(103)
Net cash used in operating activities	\$ (20,831)	\$ (23,764)
Cash flows from investing activities:		
Purchase of property and equipment	(24)	(132)
Purchase in-process research and development (Note 7)	(3,247)	—
Purchase of available-for-sale securities, net	(35,614)	(92,198)
Maturities of available-for-sale securities	46,400	70,600
Sale of available-for-sale securities, net	8,780	14,129
Net cash (used in) provided by investing activities	\$ 16,295	\$ (7,601)
Cash flows from financing activities:		
Issuance of common stock upon at the market offerings, net	\$ 2,290	\$ 23,927
Repayment of debt facility	(514)	—
Capital lease obligation principal payments	—	(42)
Proceeds from exercise of stock options	86	67
Net cash provided by financing activities	\$ 1,862	\$ 23,952
Effect of exchange rate changes on cash and cash equivalents	(13)	(58)
Decrease in cash and cash equivalents	\$ (2,687)	\$ (7,471)
Cash and cash equivalents beginning of period	49,804	24,301
Cash and cash equivalents end of period	\$ 47,117	\$ 16,830
Non-cash transactions		
Acquisition of in-process research and development (Note 7)	\$ (2,120)	\$ —
Settlement of contingent consideration	—	12,478
Supplemental disclosure of cash flow information:		
Cash paid for interest including end of period charge due upon debt facility amendment	\$ 1,485	\$ 1,058

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

Savara Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Savara Inc. (together with its subsidiaries “Savara,” the “Company,” “we” or “us”) is an orphan lung disease company with a pipeline that comprises three investigational compounds, all of which use an inhaled delivery route. The Company’s lead program, Molgradex, is an inhaled granulocyte-macrophage colony-stimulating factor (“GM-CSF”) in Phase 3 development for autoimmune pulmonary alveolar proteinosis (“aPAP”) and in Phase 2a development for nontuberculous mycobacterial (“NTM”) lung infection in both non-cystic fibrosis (“CF”) and CF-affected individuals. Apulmiq is an inhaled liposomal ciprofloxacin in Phase 3 development for non-CF bronchiectasis (“NCFB”). AeroVanc is an inhaled vancomycin in Phase 3 development for persistent methicillin-resistant *Staphylococcus aureus* (“MRSA”) lung infection in people living with CF. The Company and its wholly owned subsidiaries operate in one segment with its principal offices in Austin, Texas, USA.

Since inception, Savara has devoted substantially all of its efforts and resources to identifying and developing its product candidates, recruiting personnel, and raising capital. Savara has incurred operating losses and negative cash flow from operations and has no product revenue from inception to date. The Company has not yet commenced commercial operations.

Basis of Presentation

The interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”). These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2019. Certain prior period amounts have been reclassified for consistency with current period presentation.

Unaudited Interim Financial Information

The interim condensed consolidated financial statements included in this document are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect, in the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair statement of the Company’s financial position as of June 30, 2020, and its results of operations for the three and six months ended June 30, 2020 and 2019, and cash flows for the six months ended June 30, 2020 and 2019. The results of operations for interim periods shown in this report are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any other future annual or interim period. The December 31, 2019 consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2019.

2. Summary of Significant Accounting Policies

Liquidity

As of June 30, 2020, the Company had an accumulated deficit of approximately \$232.7 million. The Company also had negative cash flow from operations of approximately \$20.8 million during the six months ended June 30, 2020. The cost to further develop and obtain regulatory approval for any drug is substantial and, as noted below, the Company may have to take certain steps to maintain a positive cash position. Accordingly, the Company will need additional capital to further fund the development of, and seek regulatory approvals for, its product candidates and begin to commercialize any approved products.

Currently, the Company is primarily focused on the development of respiratory drugs and believes such activities will result in the Company’s continued incurrence of significant research and development and other expenses related to those programs. If the clinical trials for any of the Company’s product candidates fail or produce unsuccessful results and those product candidates do not gain regulatory approval, or if any of the Company’s product candidates, if approved, fail to achieve market acceptance, the Company may never become profitable. Even if the Company achieves profitability in the future, it may not be able to sustain profitability in subsequent periods. The Company is also continuously and critically reviewing its liquidity and anticipated capital requirements in light of the uncertainty resulting from the COVID-19 global pandemic. The Company intends to cover its future operating expenses through cash and cash equivalents on hand and through a combination of equity offerings, debt financings, government or other third-party funding, and other collaborations and strategic alliances with partner companies. The Company cannot be sure that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to the Company or its stockholders.

While the Company had cash and cash equivalents of \$47.1 million and short-term investments of \$52.5 million as of June 30, 2020, the Company intends to continue to raise additional capital as needed through the issuance of additional equity securities and potentially through borrowings, and strategic alliances with partner companies. However, if such additional financing is not available timely and at adequate levels, the Company will need to reevaluate its operating plans. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of Consolidation

The interim condensed consolidated financial statements of the Company are stated in U.S. dollars and are prepared using U.S. GAAP. These financial statements include the accounts of the Company and its wholly owned subsidiaries. The financial statements of the Company's wholly owned subsidiaries are recorded in their functional currency and translated into the reporting currency. The cumulative effect of changes in exchange rates between the foreign entity's functional currency and the reporting currency is reported in "Accumulated other comprehensive income (loss)." All intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management's estimates include those related to the accrual of research and development and general and administrative costs, certain financial instruments recorded at fair value, contingent consideration, stock-based compensation, and the valuation allowance for deferred tax assets. The Company bases its estimates on historical experience and on various other market-specific and relevant assumptions that it believes to be reasonable under the circumstances. Accordingly, actual results could be materially different from those estimates.

Risks and Uncertainties

The product candidates being developed by the Company require approvals from the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company's product candidates will receive the necessary approvals. If the Company is denied regulatory approval of its product candidates, or if approval is delayed, it may have a material adverse impact on the Company's business, results of operations, and its financial position.

The Company is subject to a number of risks similar to other life science companies, including, but not limited to, risks related to the successful discovery and development of drug candidates, raising additional capital, development of competing drugs and therapies, protection of proprietary technology, and market acceptance of the Company's products. As a result of these and other factors and the related uncertainties, there can be no assurance of the Company's future success.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and institutional bank money market accounts with original maturities of three months or less when acquired and are stated at cost, which approximates fair value.

Short-term Investments

The Company has classified its investments in debt securities with readily determinable fair value as available-for-sale securities. These securities are carried at estimated fair value with the aggregate unrealized gains and losses related to these investments reflected as a part of "Accumulated other comprehensive income (loss)" within stockholders' equity.

The fair value of the investments is based on the specific quoted market price of the securities or comparable securities at the balance sheet dates. Investments in debt securities are considered to be impaired when a decline in fair value is judged to be other than temporary because the Company either intends to sell or it is more-likely-than not that it will have to sell the impaired security before recovery. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and foreign exchange derivatives not designated as hedging. The Company places its cash and cash equivalents with a limited number of high-quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

Accrued Research and Development Costs

The Company records the costs associated with research, nonclinical studies, clinical trials, and manufacturing development as incurred. These costs are a significant component of the Company's research and development expenses, with a substantial portion of the Company's on-going research and development activities conducted by third party service providers, including contract research and manufacturing organizations.

The Company accrues for expenses resulting from obligations under agreements with contract research organizations ("CROs"), contract manufacturing organizations ("CMOs"), and other outside service providers for which payment flows do not match the periods over which materials or services are provided to the Company. Accruals are recorded based on estimates of services received and efforts expended pursuant to agreements established with CROs, CMOs, and other outside service providers. These estimates are typically based on contracted amounts applied to the proportion of work performed and determined through analysis with internal personnel and external service providers as to the progress or stage of completion of the services. The Company makes significant judgments and estimates in determining the accrual balance in each reporting period. In the event advance payments are made to a CRO, CMO, or outside service provider, the payments will be recorded as a prepaid asset which will be amortized or expensed as the contracted services are performed. As actual costs become known, the Company adjusts its prepaids and accruals. Inputs, such as the services performed, the number of patients enrolled, or the study duration, may vary from the Company's estimates, resulting in adjustments to research and development expense in future periods. Changes in these estimates that result in material changes to the Company's accruals could materially affect the Company's results of operations. To date, the Company has not experienced any material deviations between accrued and actual research and development expenses.

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are recorded at their estimated fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on available information and, in some cases, assumptions with respect to the timing and amount of future revenue and expenses associated with an asset.

License and Collaboration Agreements

The Company has entered into a license and collaboration agreement and may continue to enter into license and collaboration agreements with third parties whereby the Company purchases the rights to develop, market, sell and/or distribute the underlying pharmaceutical products or drug candidates. Pursuant to these agreements, the Company is generally required to make up-front payments, milestone payments contingent upon the achievement of certain pre-determined criteria, royalty payments based on specified sales levels of the underlying products and/or certain other payments. Up-front payments are either expensed immediately as research and development or capitalized. The determination to capitalize amounts related to licenses is based on management's judgments with respect to stage of development, the nature of the rights acquired, alternative future uses, developmental and regulatory issues and challenges, the net realizable value of such amounts based on projected sales of the underlying products, the commercial status of the underlying products, and/or various other competitive factors. Milestone payments made prior to regulatory approval are generally expensed as incurred and milestone payments made subsequent to regulatory approval are generally capitalized as an intangible asset. Royalty payments are expensed as incurred. Other payments made pursuant to license and collaboration agreements, which are generally related to research and development activities, are expensed as incurred.

Goodwill, Acquired In-Process Research and Development, and Deferred Tax Liability

Although the Company does not have any goodwill as of June 30, 2020, it has adopted the following accounting policy. Goodwill represents the excess of purchase price over the fair value of net assets acquired by the Company. Goodwill is not amortized but assessed for impairment on an annual basis or more frequently if impairment indicators exist. Current guidance issued by the FASB, as previously adopted by the Company, provides an impairment model whereby the Company has the option to implement a one-step method for determining impairment of goodwill, simplifying the subsequent measurement of goodwill by eliminating Step 2 (quantitative calculation of measuring a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill) from the goodwill impairment test. Under the amendments in this guidance, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

Acquired in-process research and development ("IPR&D") is considered an indefinite-lived intangible asset and is assessed for impairment annually or more frequently if impairment indicators exist. For instance, based upon the ultimate scope and scale of the COVID-19 global pandemic, there may be materially negative impacts to the assumptions made with respect to our IPR&D assets that could result in an impairment of such assets. For the six months ended June 30, 2020, the impact of COVID-19 did not trigger any impairment indicators.

The Company adopted accounting guidance related to its annual acquired IPR&D impairment test, a two-step method, which allows the Company to first assess qualitative factors before performing a quantitative assessment of the fair value of a reporting unit. If it is determined on the basis of qualitative factors that the fair value of the IPR&D is more likely than not less than the carrying amount, a quantitative impairment test is required.

If the associated research and development effort is abandoned, the related asset will be written-off, and the Company will record a noncash impairment loss on its consolidated statements of operations and comprehensive loss. For those products that reach commercialization, the IPR&D asset will be amortized over its estimated useful life.

The Company performs its annual goodwill impairment test and IPR&D impairment test, as described above, as of June 30th and September 30th, respectively, or whenever an event or change in circumstances occurs that would require reassessment of the recoverability of those assets. For the six months ended June 30, 2020, the Company experienced an increase of approximately \$0.1 million in the carrying value of IPR&D, which was due to foreign currency translation.

Tax Credit Receivable

The Company has recorded a Danish tax credit earned by its subsidiary, Savara ApS, as of June 30, 2020. Under Danish tax law, Denmark remits a research and development tax credit equal to 22% of qualified research and development expenditures, not to exceed established thresholds. As of June 30, 2020, credits totaling \$1.6 million had been generated but not yet received. Of this total Danish tax credit, \$0.8 million is related to research and development activities incurred during the year ended December 31, 2019 and is recorded in "Prepaid expenses and other current assets" and expected to be received in the second half of 2020. The remaining portion of the Danish tax credit of \$0.8 million, which was generated during the six months ended June 30, 2020, is recorded in "Other non-current assets" and is expected to be received in the fourth quarter of 2021.

The Company also recognized tax credit income for the six months ended June 30, 2020 as provided by the Australian Taxation Office for qualified research and development expenditures incurred through our subsidiary, Savara Australia Pty. Limited. Under Australian tax law, Australia remits a research and development tax credit equal to 43.5% of qualified research and development expenditures, not to exceed established thresholds. As of June 30, 2020, credits totaling \$0.5 million had been generated but not yet received. Of this total Australian tax credit, \$0.4 million is related to research and development activities incurred during the year ended December 31, 2019 and is recorded in "Prepaid expenses and other current assets" and expected to be received during the year ending December 31, 2020. The remaining portion of the Australian tax credit of \$0.1 million, which was generated during the six months ended June 30, 2020, is recorded in "Other non-current assets" and is expected to be received during the year ended December 31, 2021.

Leases

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02") as codified in Accounting Standards Codification ("ASC") 842 ("ASC 842"). ASU 2016-02, ASC 842, and additional issued guidance are intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 for public business entities. The Company adopted ASU 2016-02 as of January 1, 2019 using the effective date transition method of implementation offered under ASU 2018-11, "Leases (Topic 842) – Targeted Improvements" issued in July 2018 ("ASU 2018-11"), under which entities may change their date of initial application of ASU 2016-02 to the beginning of the period of adoption, or January 1, 2019, in the case of Savara. Accordingly, the Company is required to apply the prior lease guidance pursuant to ASC Topic 840 in the comparative periods, provide the disclosures required by ASC Topic 840 for all periods that continue to be presented in accordance with ASC Topic 840, recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of January 1, 2019, if any, and provide certain disclosures under ASC 842 (see Note 11). The Company has also elected the package of practical expedients, applied by class of underlying asset, permitted in ASU 2018-11. Accordingly, the Company accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC 842, (b) whether classification of the operating leases would be different in accordance with ASC 842, and (c) whether the unamortized initial direct costs before transition adjustments (as of the period of adoption) would have met the definition of initial direct costs in ASC 842 at lease commencement, and the Company did not separate lease and non-lease components.

As a result of the adoption of the new lease accounting guidance using the effective date transition method, on January 1, 2019, the Company recognized (a) a lease liability of approximately \$1.4 million, which represents the present value of the remaining lease payments, as of the date of adoption, of approximately \$1.5 million, discounted using the Company's incremental borrowing rate of 8.5%, and (b) a right-of-use asset of approximately \$1.4 million. The adoption of the new standard did not result in any adjustment to the Company's retained earnings as of January 1, 2019. The adoption of this standard did not have a material impact on the Company's condensed consolidated balance sheets, cash used/provided from operating, investing, or financing activities in the condensed consolidated statements of cash flows, or on the Company's operating results. The most significant impact was the recognition of right-of-use assets for operating leases, which are reflected in "Other non-current assets," and lease liabilities for operating leases, which are reflected in "Accrued expenses and other current liabilities," for the current portion of the lease liabilities, and in "Other long-term liabilities" for the non-current portion of the lease liabilities, respectively (See Note 11).

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. Our chief operating decision maker is the chief executive officer. We have one operating segment, specialty pharmaceuticals within the respiratory system.

Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1 – Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

Financial instruments carried at fair value include cash and cash equivalents, short-term investments, and foreign exchange derivatives not designated as hedging instruments.

Financial instruments not carried at fair value include accounts payable and accrued liabilities. The carrying amounts of these financial instruments approximate fair value due to the highly liquid nature of these short-term instruments.

Revenue Recognition

The Company will record revenue based on a five-step model in accordance with ASC 606, "Revenue from Contracts with Customers." To date, the Company has not generated any product revenue from its drug candidates. The Company's ability to generate product revenues, which the Company does not expect will occur in the near term, if ever, will depend heavily on the successful development, regulatory approval, and eventual commercialization of the Company's product candidates.

Milestone Revenue

The Company is subject to a license agreement related to its Molgradex product candidate, which includes certain milestone payments to be remunerated by the licensee to Savara. In exchange, the Company granted the licensee an exclusive right to import, market, sell, distribute and promote Molgradex in Japan for the treatment of aPAP. Pursuant to the license agreement, the Company identifies the performance obligations, determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) the performance obligation is satisfied. The Company identifies the performance obligations included within the license agreement and evaluates which performance obligations are distinct.

The milestone payments are a form of variable consideration as the payments are contingent upon achievement of a substantive event. The milestone payments are estimated and included in the transaction price when the Company determines, under the variable consideration constraint, that it is probable that there will not be a significant reversal of cumulative revenue recognized in future periods. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraint, and if necessary, adjusts the estimate of the overall transaction price.

In October 2018, the Company achieved a milestone payment pursuant to this license agreement resulting in the receipt of \$0.2 million from the licensee. As of June 30, 2020, the Company has determined that it has not met all of the performance obligations under this license agreement and, accordingly, has recorded the milestone payment as deferred revenue in “Accrued expenses and other current liabilities” in the Company’s condensed consolidated balance sheet until such time the performance obligations are met. On February 21, 2020, the Company received notification from the licensee of its intent to terminate this license agreement. Accordingly, this license agreement shall terminate on August 21, 2020, upon which the Company shall recognize revenue related to this \$0.2 million milestone payment.

Net Loss per Share

Basic net loss attributable to common stockholders per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock and pre-funded warrants outstanding during the period without consideration of common stock equivalents. Since the Company was in a loss position for all periods presented, diluted net loss per share is the same as basic net loss per share for all periods presented as the inclusion of all potential dilutive securities would have been antidilutive.

Stock-Based Compensation

The Company recognizes the cost of stock-based awards granted to employees based on the estimated grant-date fair value of the awards. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The Company recognizes the compensation costs for awards that vest over several years on a straight-line basis over the vesting period (see Note 12). Forfeitures are recognized when they occur, which may result in the reversal of compensation costs in subsequent periods as the forfeitures arise.

Manufacturing, Development, and Other Commitments and Contingencies

The Company is subject to various royalties and manufacturing and development payments related to its product candidates, Molgradex and Apulmiq. Under a manufacture and supply agreement with the active pharmaceutical ingredients (“API”) manufacturer for Molgradex, Savara must make certain payments to the API manufacturer upon achievement of the milestones outlined in the table set forth below. Additionally, upon first receipt of marketing approval by Savara from a regulatory authority in a country for a product containing the API for therapeutic use in humans and ending the earlier of (i) ten (10) years thereafter or (ii) the date a biosimilar of such product is first sold in such country, Savara shall pay the API manufacturer a royalty equal to low-single digits of the net sales in that country.

Under a license and collaboration agreement for the rights to develop and commercialize Apulmiq, the Company is subject to certain contingent development payments and contingent sales payments due to the licensor upon the achievement of certain milestones up to amounts as set forth in the following table (see Note 7). The Company will also owe the licensor low double-digit tiered royalties based on annual global net sales of licensed products (on a product-by-product basis), which are subject to reduction if another inhaled ciprofloxacin product is introduced into the market.

Under an agreement with a medical education and research foundation entered into on October 8, 2018, the Company is subject to a milestone payment for the use of proprietary information and material in intellectual property filings related to the application of Molgradex in the treatment of NTM. The Company will owe royalties to the foundation based on net sales of Molgradex for the treatment of NTM equal to one half of one percent (0.5%) after publication of the intellectual property filings and one quarter of one percent (0.25%) prior to the publication or in the event publication does not occur, with respect to the specified intellectual property filings.

The Company is also subject to certain contingent milestone payments, disclosed in the following table, payable to the manufacturer of the nebulizer used to administer Molgradex. The change in the amount of the milestone payments from December 31, 2019 to June 30, 2020 was related to changes in foreign currency exchange rates and the accrual of a milestone equal to approximately \$0.2 million due to the completion of our Phase 2a study of the use of Molgradex for the treatment of NTM in patients not affected by CF. Furthermore, milestone payments totaling 4.3 million euros reflected in the following table relate to types of nebulizer delivery systems that are not currently being utilized in any of the studies in our development pipeline. In addition to these milestones, the Company will owe a royalty to the manufacturer of the nebulizer based on net sales. The royalty rate ranges from three-and one-half percent (3.5%) to five percent (5%) depending on the device technology used by the Company to administer the product.

Manufacturing, Development, and Other Contingent Milestone Payments (in thousands):

	June 30, 2020
Molgradex API manufacturer:	
Achievement of certain milestones related to validation of API and regulatory approval of Molgradex	\$ 2,300
Molgradex nebulizer manufacturer:	
Achievement of various development activities and regulatory approval of nebulizer utilized to administer Molgradex	7,474
Medical education and research foundation (Molgradex):	
First commercial sale in the U.S. of Molgradex in treatment of NTM	500
Apulmiq Licensor:	
Achievement of various development activities and regulatory approval of Apulmiq for the treatment of NCFB	50,000
Achievement of various sales activities of Apulmiq for treatment of NCFB	100,000
Total manufacturing and other commitments	\$ 160,274

The milestone commitments disclosed above reflect the activities that have (i) not been met or incurred; (ii) not been remunerated; and (iii) not accrued, as the activities are not deemed probable or reasonably estimable, as of June 30, 2020.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in the period that includes the enactment date. A valuation allowance is established against the deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848)" which provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued, such as, London Interbank Offered Rate (LIBOR). The Company has reviewed ASU 2020-04 and concluded that it is not applicable to our condensed consolidated financial statements.

3. Prepaid Expenses and Other Current Assets

Prepaid expenses consisted of (in thousands):

	June 30, 2020	December 31, 2019
R&D tax credit receivable	\$ 1,373	\$ 1,253
Prepaid contracted research and development costs	471	184
VAT receivable	373	364
Prepaid insurance	530	247
Foreign currency exchange derivative	17	7
Deposits and other	189	251
Total prepaid expenses and other current assets	\$ 2,953	\$ 2,306

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of (in thousands):

	June 30, 2020	December 31, 2019
Accrued contracted research and development costs	\$ 1,576	\$ 2,018
Accrued general and administrative costs	529	1,710
Accrued compensation	1,780	1,303
Deferred revenue	243	—
Lease liability	319	440
Total accrued expenses and other current liabilities	\$ 4,447	\$ 5,471

5. Short-term Investments

The Company's investment policy seeks to preserve capital and maintain sufficient liquidity to meet operational and other needs of the business. The following table summarizes, by major security type, the Company's investments (in thousands):

As of June 30, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
U.S. government securities	\$ 12,079	\$ 58	\$ —	\$ 12,137
Corporate securities	22,103	93	—	22,196
Commercial paper	18,159	—	—	18,159
Total short-term investments	\$ 52,341	\$ 151	\$ —	\$ 52,492
As of December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
U.S. government securities	\$ 15,629	\$ 11	\$ (2)	\$ 15,638
Asset backed securities	8,789	10	—	8,799
Corporate securities	30,556	30	(1)	30,585
Commercial paper	16,935	—	—	16,935
Total short-term investments	\$ 71,909	\$ 51	\$ (3)	\$ 71,957

The Company has classified its investments as available-for-sale securities. These securities are carried at estimated fair value with the aggregate unrealized gains and losses related to these investments reflected as a part of “Accumulated other comprehensive income (loss)” in the condensed consolidated balance sheets. Classification as short-term or long-term is based upon whether the maturity of the debt securities is less than or greater than twelve months.

There were no significant realized gains or losses related to investments for the six months ended June 30, 2020 and June 30, 2019.

6. Debt Facility

On April 28, 2017, the Company entered into a loan and security agreement with Silicon Valley Bank, as amended on October 31, 2017 and December 4, 2018 (the “Loan Agreement”). The Company executed a third amendment (the “Third Amendment”) to the Loan Agreement on January 31, 2020, which provides for a \$25 million term debt facility. The Third Amendment extends the interest-only period of the loan repayment through June 30, 2022, with payments thereafter in equal monthly installments of principal plus interest over 18 months. However, if by March 31, 2021, the Company does not have an ongoing Phase 3 or Phase 4 clinical trial evaluating its Molgradex product for the treatment of aPAP in which the first patient has been dosed, the interest-only period will end and principal plus interest will be due in equal monthly installments over 24 months beginning on April 1, 2021.

Following the effective date of the Third Amendment, the Company was required to pay a portion of the end of period charge equal to \$0.5 million under the Loan Agreement to Silicon Valley Bank. The loan bears interest at the greater of (i) the prime rate reported in The Wall Street Journal, plus a spread of 3.0% or (ii) 7.75%. The Loan Agreement, as amended by the Third Amendment (the “Amended Loan Agreement”), will also require a prepayment fee (2.0% of funded amounts in months 13-24, and 1.0% thereafter), and an end of term charge equal to 6.0% of the amount of principal borrowed.

Silicon Valley Bank has been granted a perfected first priority lien in all of our assets with a negative pledge on our intellectual property. The Amended Loan Agreement contains customary affirmative and negative covenants, including among others, covenants limiting our ability and our subsidiaries’ ability to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates, in each case subject to certain exceptions. In addition, the Amended Loan Agreement contains an affirmative covenant requiring Savara to deliver evidence by June 30, 2021, of the receipt of gross cash proceeds of at least \$25 million from the exercise of currently outstanding warrants or the issuance of other equity securities.

Pursuant to the execution and funding of the Loan Agreement and subsequent amendments, the Company issued Silicon Valley Bank and its affiliate warrants to purchase (i) 24,725 shares of the Company’s common stock at an exercise price of \$9.10 per share, with a ten-year life, expiring April 28, 2027 (“April 2017 Warrants”); (ii) 41,736 shares of the Company’s common stock at an exercise price of \$5.39 per share with a ten-year life, expiring June 15, 2027 (“June 2017 Warrants”); and (iii) 11,332 shares of the Company’s common stock at an exercise price of \$8.824 per share, with a ten-year life, expiring December 4, 2028 (“December 2018 Warrants”). The warrants were valued using the Black-Scholes-Merton option pricing model at the respective issue date, and the collective fair value of the warrants has been recorded as a debt discount which is being amortized through interest expense using the effective interest method through the scheduled maturity date.

In connection with the execution of the Third Amendment, the Company entered into amendments to each of the outstanding warrants previously issued to Silicon Valley Bank and its affiliate, totaling 77,793 shares, to amend the exercise price to be \$2.87 per share. That amendment results in a minimal incremental increase to the fair value of these warrants, determined in accordance with the Black-Scholes-Merton option pricing model and ASC 718-20-55, which has been recognized as interest expense.

The Company paid minimal legal costs directly attributable to the original issuance of the debt instrument underlying the Loan Agreement and subsequent amendments. Such charges were accounted for as debt issuance costs and are being amortized to interest expense using the effective interest method through the scheduled maturity date.

The Company has analyzed the Third Loan Amendment and concluded that the debt restructuring results in modification accounting under ASC 470 “Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent).”

Summary of Carrying Value

The following table summarizes the components of the debt facility carrying value, which approximates the fair value (in thousands):

	As of June 30, 2020	
	Short-term	Long-term
Principal payments to lender and end of term charge	\$ —	\$ 25,162
Debt issuance costs	—	(173)
Debt discount related to warrants	—	(133)
Carrying Value	\$ —	\$ 24,856

7. Apulmiq License Agreement

On January 7, 2020, the Company entered into a license and collaboration agreement with Grifols, S.A., a company organized under the laws of Spain (“Grifols”), which was subsequently amended on February 18, 2020 and March 31, 2020 (the “License”). On March 31, 2020, the final condition precedent to the effectiveness of the License was satisfied, and the License became effective.

The License provides Savara with an exclusive, worldwide, royalty-bearing license, with rights to sublicense, patent rights owned or controlled by Grifols (the “Grifols Patents”) and know-how owned or controlled by Grifols to make, have made, use, develop, import and export, supply, offer for sale, and sell or otherwise commercialize pharmaceutical preparations containing ciprofloxacin in a liposomal formulation and/or ciprofloxacin that is not encapsulated in liposomes (each such pharmaceutical preparation a “Licensed Product”) for all uses.

Under the License, the Company has sole responsibility for the activities and costs related to the development of (1) a Licensed Product for the treatment of either NCFB or pulmonary infections associated with NCFB (the “Initial Indication”) and (2) any Licensed Product for another indication, of which none are currently approved (an “Additional Indication”), including the conduct of a confirmatory Phase 3 clinical trial in the Initial Indication. The Company is responsible for all regulatory and commercialization activities and the associated costs for each Licensed Product and is obligated to use Diligent Efforts (as defined in the License) to obtain regulatory approval in the U.S. and E.U. of a Licensed Product in the Initial Indication and any Additional Indications.

The Company agreed to pay Grifols (i) an upfront cash payment of approximately \$3.3 million and (ii) an upfront payment of one million shares of the Company’s common stock valued at approximately \$2.1 million on the date of issuance upon effectiveness of the License, (collectively the “Upfront Payments”). The Company also agreed to pay Grifols (i) certain developmental milestone payments totaling up to \$50 million for the development of the Licensed Products for the treatment of NCFB upon approval of a Licensed Product for commercial sale by the FDA and EMA and (ii) certain sales milestone payments totaling up to \$100 million upon the first achievement of annual global net sales of (a) \$100 million, (b) \$300 million, and (c) \$500 million (collectively, the “Contingent Consideration”). Additionally, the Company agreed to pay Grifols low double-digit tiered royalties based on annual global net sales of all Licensed Products, which are subject to reduction if another inhaled ciprofloxacin product is introduced into the market. The Company is obligated to make such royalty payments on a country-by-country and Licensed Product-by-Licensed Product basis until the later of (i) ten (10) years after the first commercial sale of a Licensed Product in a country, (ii) expiration of the last Grifols Patent covering that Licensed Product in that country, or (iii) the date a generic inhaled liposomal ciprofloxacin is introduced in that country (the “Royalty Term”). At the end of the Royalty Term, the Company will have a fully paid-up license for the applicable Licensed Product.

The Company has accounted for the License as an asset acquisition in accordance with ASU 2017-01 “Business Combinations (Topic 805) - Clarifying the Definition of a Business” and ASC 805 “Business Combinations.” Since the Licensed Product has not yet achieved regulatory approval and there is deemed to be no alternative future use, the Company has recorded research and development expense of approximately \$5.4 million for the Upfront Payments.

The Company has determined that the Contingent Consideration is currently neither probable nor can the amount be reasonably estimated, and therefore, no related liability has been recorded as of June 30, 2020.

The term of the License continues until the Royalty Term expires in all countries for all Licensed Products. Grifols may terminate the License immediately if (i) the Company or one of its affiliates files a challenge to a Grifols Patent or (ii) the Company fails to develop Licensed Products or execute its Development Plan (as defined in the License) by failing to allocate material funds, full-time equivalents and resources for twelve (12) consecutive months (net of any delay due to force majeure). Either party can terminate for the other party's material breach following a cure period or upon certain insolvency events. The License also contains customary representations, warranties, mutual indemnities, limitations of liability, and confidentiality provisions.

The Company also incurred approximately \$0.5 million in legal fees in conjunction with the License of which \$0.3 million and \$0.2 million were incurred and expensed in the year ended December 31, 2019 and during the six months ended June 30, 2020, respectively.

8. Fair Value Measurements

The Company measures and reports certain financial instruments at fair value on a recurring basis and evaluates its financial instruments subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them in each reporting period.

The Company determined that certain investments in debt securities classified as available-for-sale securities were Level 1 financial instruments.

Additional investments in corporate debt securities, commercial paper, and asset-backed securities are considered Level 2 financial instruments because the Company has access to quoted prices but does not have visibility to the volume and frequency of trading for all of these investments. For the Company's investments, a market approach is used for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

Foreign exchange derivatives not designated as hedging instruments are considered Level 2 financial instruments. The Company's foreign exchange derivative instruments are typically short-term in nature.

The fair value of these instruments as of June 30, 2020 and December 31, 2019 was as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2020			
Cash equivalents:			
U.S. Treasury money market funds	\$ 44,103	\$ —	\$ —
Short-term investments:			
U.S. government securities	\$ 12,137	\$ —	\$ —
Corporate securities	—	22,196	—
Commercial paper	—	18,159	—
Other assets:			
Foreign exchange derivatives not designated as hedging instruments	\$ —	\$ 17	\$ —
As of December 31, 2019			
Cash equivalents:			
U.S. Treasury money market funds	\$ 13,530	\$ —	\$ —
Repurchase agreements	—	6,000	—
Short-term investments:			
U.S. government securities	\$ 15,638	\$ —	\$ —
Asset backed securities	—	8,799	—
Corporate securities	—	30,585	—
Commercial paper	—	16,935	—
Other assets:			
Foreign exchange derivatives not designated as hedging instruments	\$ —	\$ 7	\$ —

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments (in thousands) for the year ended December 31, 2019 as there were no Level 3 financial instruments for the six months ended June 30, 2020:

	Contingent Consideration
Balance at December 31, 2018	\$ 12,214
Change in fair value	219
Settlement of contingent liability	(12,433)
Balance at December 31, 2019	\$ —

The Company did not transfer any assets measured at fair value on a recurring basis to or from Level 1, Level 2, and Level 3 during the six months ended June 30, 2020 and year ended December 31, 2019.

9. Derivative Financial Instruments

In the normal course of business, the Company is exposed to the impact of foreign currency fluctuations. The Company seeks to limit these risks by following risk management policies and procedures, including the use of derivatives. The Company's derivative contracts, which are not designated as hedging instruments, principally address short-term foreign currency exchange. The estimated fair value of the derivative contracts was based upon the relative exchange rate as of the balance sheet date. Accordingly, any gains or losses resulting from variances between this exchange rate and the exchange rate at the contract inception date were recognized in "Other income (loss), net" in the condensed consolidated statements of operations and comprehensive loss. As of June 30, 2020, there was an asset of approximately \$3 million consisting of unsettled forward exchange contracts to purchase foreign currency and a corresponding liability of approximately \$3 million consisting of forward exchange contract obligations, resulting in a minimal net derivative financial instrument, recorded at their estimated fair value in "Prepaid expenses and other current assets."

10. Shareholders' Equity

Common Stock Sales Agreement

On April 28, 2017, the Company entered into a Common Stock Sales Agreement with H.C. Wainwright & Co., LLC ("Wainwright"), as sales agent, which was amended by Amendment No. 1 to the Common Stock Sales Agreement (the "Amendment") on June 29, 2018 (the "Sales Agreement"), pursuant to which the Company may offer and sell, from time to time, through Wainwright, shares of Savara's common stock, par value \$0.001 per share (the "Shares"), having an aggregate offering price of not more than \$60 million, in addition to the \$2.3 million in shares sold prior to the Amendment. The Amendment was effective on July 13, 2018, the date the Company's shelf registration agreement on Form S-3, as filed with the Securities and Exchange Commission on June 29, 2018, was declared effective ("New Registration Statement") by the Securities and Exchange Commission. The Shares will be offered and sold pursuant to the New Registration Statement. Subject to the terms and conditions of the Sales Agreement, Wainwright will use its commercially reasonable efforts to sell the Shares from time to time, based upon the Company's instructions. The Company has provided Wainwright with customary indemnification rights, and Wainwright will be entitled to a commission at a fixed commission rate equal to 3% of the gross proceeds per Share sold. Sales of the Shares, if any, under the Sales Agreement may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended. The Company has no obligation to sell any of the Shares and may at any time suspend sales under the Sales Agreement or terminate the Sales Agreement.

During the six months ended June 30, 2020, the Company sold 942,825 shares of common stock under the Sales Agreement, for net proceeds of approximately \$2.3 million.

Common Stock

The Company's amended and restated certificate of incorporation authorizes the Company to issue 201 million shares of common and preferred stock, consisting of 200 million shares of common stock with \$0.001 par value and one million shares of preferred stock with \$0.001 par value. The following is a summary of the Company's common stock at June 30, 2020 and December 31, 2019.

	June 30, 2020	December 31, 2019
Common stock authorized	200,000,000	200,000,000
Common stock outstanding	52,823,312	50,790,441

The Company's shares of common stock reserved for issuance as of June 30, 2020 and December 31, 2019 were as follows:

	June 30, 2020	December 31, 2019
Warrants acquired in merger	403,927	403,927
Warrants converted in connection with merger	72,869	72,869
April 2017 Warrants	24,725	24,725
June 2017 Warrants	41,736	41,736
December 2018 Warrants	11,332	11,332
2017 Pre-funded Warrants	775,000	775,000
Pre-funded PIPE Warrants	5,780,537	5,780,537
Milestone Warrants	32,577,209	32,577,209
Stock options outstanding	4,403,792	4,541,432
Issued and nonvested RSUs	290,125	315,625
Total shares reserved	44,381,252	44,544,392

Warrants

The following table summarizes the outstanding warrants for the Company's common stock as of June 30, 2020:

Shares Underlying Outstanding Warrants		Exercise Price	Expiration Date
403,927	\$	29.40	February 2021
72,869	\$	8.98	June 2021
775,000	\$	0.01	October 2024
24,725	\$	2.87	April 2027
41,736	\$	2.87	June 2027
11,332	\$	2.87	December 2028
5,780,537	\$	0.001	None
32,577,209	\$	1.48	Earlier of December 2021 or 30 days after clinical milestone
39,687,335			

11. Commitments

Operating Leases

We are obligated under operating leases and subleases for office space. On November 29, 2017, we entered into a sublease agreement for office space for our corporate headquarters in Austin, Texas. The term of the sublease commenced on January 1, 2018 and will continue until July 31, 2021, with annual rental payments of approximately \$0.2 million, paid over monthly installments, subject to increases of approximately 2% annually on the anniversary of the commencement date of the sublease term. However, monthly base rent for the first month of the sublease term was abated.

We lease office space in Copenhagen, Denmark under a lease with an effective date of November 1, 2018 and that expires on September 30, 2022. The lease in Copenhagen can be terminated by the lessee and lessor no earlier than March 31, 2022 for vacating the premises by September 30, 2022 and contains an option to extend the lease term to remain in force until it is terminated in writing by either the lessee or lessor with a six month notice period from the first day of the month following September 30, 2022. For the quarter ended June 30, 2020, it is not reasonably certain the Company will exercise the extension options inherent in the lease. Our annual rent is approximately \$0.1 million, paid over monthly installments, subject to annual increases equal to the Danish consumer price index, or approximately 2% annually.

On March 23, 2017, we sublet office space located in San Diego, California with rentable office space of approximately 13,707 square feet, which previously served as a predecessor's corporate headquarters, to a third party as the Company no longer had an ongoing need for this facility. The term of the sub-sublease commenced on July 1, 2017 and expired on May 31, 2020, coterminous with a sublease agreement dated June 19, 2014 with the sublessor.

The following is a maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating lease liabilities as of June 30, 2020 (in thousands):

Year ending December 31,	
2020	123
2021	182
2022	67
Total future minimum lease payments	\$ 372
Less imputed interest	(15)
Total	\$ 357

	For the three months ended June 30, 2020	For the six months ended June 30, 2020
Lease cost:		
Operating lease cost	\$ 299	\$ 684
Sublease income	(90)	(226)
Total lease cost	\$ 209	\$ 458
Other information:		
Operating cash flows from operating leases	\$ 200	\$ 354
Weighted-average remaining lease term (in months) - operating leases	20.2	20.2
Weighted-average discount rate - operating leases	8.5%	8.5%

As of June 30, 2020, the carrying value of the right-of-use assets for the operating leases was \$0.5 million, which is reflected in “Other non-current assets,” and the carrying value of the lease liabilities for operating leases was \$0.4 million, of which \$0.3 million related to the current portion of the lease liabilities is recorded in “Accrued expenses and other current liabilities,” and \$0.1 million related to the non-current portion of the lease liabilities is recorded in “Other long-term liabilities.”

Risk Management

The Company maintains various forms of insurance that the Company’s management believes are adequate to reduce the exposure to certain risks associated with operating the Company’s business to an acceptable level.

Employment Agreements

Certain executive officers are entitled to payments if they are terminated without cause or resign for good reason (each as defined in the employment agreements). Upon termination without cause, and not as a result of death or disability or resignation for good reason, each of such officers is entitled to receive a payment of base salary for twelve months and a pro-rated portion of their unpaid bonus following termination of employment, and such officer will be entitled to continue to receive coverage under medical and dental benefit plans for twelve months or until such officer is covered under a separate plan from another employer. Upon a termination other than for cause or resignation for good reason within twelve months following a change in control, each of such officers is entitled to receive a payment of base salary for eighteen months and one-hundred percent of their unpaid bonus following termination of employment and such officer will be entitled to continue to receive coverage under medical and dental benefit plans for twelve months or until such officer is covered under a separate plan from another employer and will also be entitled to certain acceleration of such officer’s outstanding nonvested options at the time of such termination.

12. Stock-Based Compensation

A. Equity Incentive Plans

2008 Stock Option Plan

The Company adopted the Savara Inc. Stock Option Plan (the “2008 Plan”), pursuant to which the Company had reserved shares for issuance to employees, directors, and consultants. The 2008 Plan includes (i) the option grant program providing for both incentive and non-qualified stock options, as defined by the Internal Revenue Code, and (ii) the stock issuance program providing for the issuance of awards that are valued based upon common stock, including restricted stock, dividend equivalents, stock appreciation rights, phantom stock, and performance units. The 2008 Plan also allows eligible persons to purchase shares of common stock at an amount determined by the plan administrator. Upon a participant’s termination, the Company retains the right to repurchase nonvested shares issued in conjunction with the stock issuance program at the fair market value per share as of the date of termination.

The Company had previously issued incentive and non-qualified options and restricted stock to employees and non-employees under the 2008 Plan. The terms of the stock options, including the exercise price per share and vesting provisions, were determined by the board of directors. Stock options were granted at exercise prices not less than the estimated fair market value of the Company's common stock at the date of grant based upon objective and subjective factors including: third-party valuations, preferred stock transactions with third parties, current operating and financial performance, management estimates and future expectations. Stock option grants typically vest quarterly over three to four years and expire ten years from the grant date, and restricted stock grants vest on a quarterly basis over four years and expire ten years from the grant date.

The Company no longer issues stock-based awards under the 2008 Plan.

2015 Omnibus Incentive Option Plan

The Company operates the 2015 Omnibus Incentive Plan (the "2015 Plan"), as amended and restated with approval by our stockholders in June 2018 and May 2020. The 2015 Plan provides for the grant of incentive and non-statutory stock options, as well as share appreciation rights, restricted shares, restricted stock units, performance units, shares and other stock-based awards. Share-based awards are subject to terms and conditions established by our board of directors or the compensation committee of our board of directors. As of June 30, 2020, the number of shares of our common stock available for grant under the 2015 Plan was 3,842,008 shares.

B. Stock Option and Restricted Stock Units

The Company values stock options using the Black-Scholes-Merton option pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility, and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. The Company uses the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumes no dividend yield because dividends are not expected to be paid in the future, consistent with the Company's history of not paying dividends. The valuation of stock options is also impacted by the valuation of common stock. Stock option awards generally have ten-year contractual terms and vest over four years for issuances to employees based on continuous service; however, the 2015 Plan allows for other vesting periods.

C. Stock-Based Award Activity

The following table provides a summary of stock-based awards activity under the 2008 Plan and 2015 Plan for the six months ended June 30, 2020 and 2019:

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Stock Options	RSUs	Total	Stock Options	RSUs	Total
Outstanding as of December 31	4,541,432	315,625	4,857,057	3,077,264	156,250	3,233,514
Granted	32,000	—	32,000	339,125	—	339,125
Exercised	(64,546)	(25,500)	(90,046)	(97,223)	(26,250)	(123,473)
Forfeited	(105,094)	—	(105,094)	(23,500)	—	(23,500)
Outstanding as of June 30	4,403,792	290,125	4,693,917	3,295,666	130,000	3,425,666

D. Stock-Based Compensation

Stock-based compensation expense is included in the following line items in the accompanying statements of operations and comprehensive loss for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Research and development	\$ 358	\$ 545	\$ 951	\$ 996
General and administrative	817	602	1,418	1,151
Total stock-based compensation	\$ 1,175	\$ 1,147	\$ 2,369	\$ 2,147

13. Net Loss per Share

Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of common stock outstanding during the period. For periods in which the Company generated a net loss, the Company does not include the potential impact of dilutive securities in diluted net loss per share, as the impact of these items is anti-dilutive.

The following weighted-average equity instruments were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented:

	Six Months Ended	
	June 30, 2020	June 30, 2019
Awards under equity incentive plan	4,403,792	3,295,666
Nonvested restricted shares and restricted stock units	290,125	130,000
Warrants to purchase common stock	33,131,798	869,035
Total	37,825,715	4,294,701

The following table calculates basic earnings per share of common stock and diluted earnings per share of common stock for the three and six months ended June 30, 2020 and 2019 (in thousands, except share and per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net loss	\$ (9,389)	\$ (21,939)	\$ (24,811)	\$ (34,051)
Net loss attributable to common stockholders	(9,389)	(21,939)	(24,811)	(34,051)
Undistributed earnings and net loss attributable to common stockholders, basic and diluted	(9,389)	(21,939)	(24,811)	(34,051)
Weighted average common shares outstanding, basic and diluted	58,858,216	38,440,647	58,111,225	37,235,209
Basic and diluted EPS	\$ (0.16)	\$ (0.57)	\$ (0.43)	\$ (0.91)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained herein that involve risks and uncertainties, such as Savara's plans, objectives, expectations, intentions, and beliefs should be considered forward-looking statements. Savara's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, natural disasters and pandemics (such as the scope, scale and duration of the impact of the novel coronavirus, COVID-19), and those discussed in the section entitled "Risk Factors" in this Quarterly Report on pages 31 through 54.

Overview

We are an orphan lung disease company with a pipeline that comprises three investigational compounds, all of which use an inhaled delivery route. Our lead program, Molgradex, is an inhaled granulocyte-macrophage colony-stimulating factor ("GM-CSF") in Phase 3 development for autoimmune pulmonary alveolar proteinosis ("aPAP") and in Phase 2a development for nontuberculous mycobacterial ("NTM") lung infection in both non-cystic fibrosis ("CF") and CF-affected individuals. Apulmiq is an inhaled liposomal ciprofloxacin in Phase 3 development for non-CF bronchiectasis ("NCFB"). AeroVanc is an inhaled vancomycin in Phase 3 development for persistent methicillin-resistant *Staphylococcus aureus* ("MRSA") lung infection in people living with CF. Our strategy involves expanding our pipeline of potentially best-in-class products through indication expansion, strategic development partnerships and product acquisitions, with the goal of becoming a leading company in our field. Our management team has significant experience in orphan drug development and pulmonary medicine, in identifying unmet needs, developing and acquiring new product candidates, and effectively advancing them to approvals and commercialization.

Together with our wholly-owned subsidiaries, including Aravas Inc., Savara ApS, Drugrecure A/S, and Savara Australia Pty. Limited, we operate in one segment with our principal offices in Austin, Texas, USA. Since inception, we have devoted substantially all of our efforts and resources to identifying and developing our product candidates, recruiting personnel, and raising capital. We have incurred operating losses and negative cash flow from operations and have no product revenue from inception to date as we have not yet commenced commercial operations. From our inception to June 30, 2020, we have raised net cash proceeds of approximately \$266.3 million from public offerings of common stock, private placements of convertible preferred stock and common stock, and debt financings.

We have never been profitable and have incurred operating losses in each year since inception. Our net losses were \$24.8 million for the six months ended June 30, 2020 and \$78.2 million for the year ended December 31, 2019. As of June 30, 2020, we had an accumulated deficit of \$232.7 million. Substantially all of our operating losses resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations.

We have chosen to operate by outsourcing our manufacturing and most of our clinical operations. We expect to incur significant additional expenses and increase our cumulative operating losses for at least the next several years as we initiate and continue the clinical development of, and seek regulatory approval for, our product candidates and add necessary personnel accordingly. We expect that our operating losses will fluctuate significantly from quarter to quarter and year to year due to timing of clinical development programs and efforts to achieve regulatory approval.

As of June 30, 2020, we had cash and cash equivalents of \$47.1 million and short-term investments of \$52.5 million. We will continue to require substantial additional capital to continue our clinical development and potential commercialization activities. Although we have sufficient capital to fund many of our planned activities, we may need to continue to raise substantial additional capital to support operations, activities, and studies including an additional Phase 3 study for Apulmiq in NCFB. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our clinical development efforts. Failure to raise capital as and when needed, on favorable terms or at all, would have a negative impact on our financial condition and our ability to develop our product candidates.

Recent Events

COVID-19

The coronavirus, COVID-19, global pandemic may pose significant risks to our business. It is too early to quantify the impact this situation will have on our financial performance for the remainder of our fiscal year ended December 31, 2020 or beyond, but the public health actions being undertaken to reduce spread of the virus are and may continue to create challenges and disruptions to our operations. Accordingly, we are adhering to government restrictions and operating out of an abundance of caution for the safety of our personnel and patients, including social distancing protocols and enabling remote working for our personnel. Additionally, management, on an on-going basis, is evaluating our liquidity position, communicating with and monitoring the actions of our service providers, manufacturers, and suppliers and reviewing our near-term financial performance as we manage Savara through the uncertainty related to COVID-19.

As of the date of this report:

- Our personnel have restrictions on traveling, both in the interests of their health as well as federal, state, local, and international travel restrictions;
- Due to government guidance, social restrictions, and out of abundance of caution for our employees' health, a significant number of our office-based employees are working remotely;
- Our third-party service providers, manufacturers, and suppliers are experiencing similar restrictions which could negatively impact our supply chain and progress of our development pipeline; and
- Government restrictions enacted as a result of COVID-19 and related safety concerns have and could delay recruitment of our clinical studies.

The COVID-19 pandemic remains extremely fluid and we are continuing to re-assess the effect on our operations, making necessary operational and strategic decisions where possible, in an attempt to mitigate the negative impact of the virus on our operations, by monitoring the spread of COVID-19 and the actions implemented to combat the virus in various regions throughout the world.

Apulmiq License Agreement

Effective March 31, 2020, we obtained an exclusive, worldwide, royalty-bearing license (the "License"), with rights to sublicense, certain patent rights and know-how owned or controlled by Grifols, S.A. ("Grifols") to make, have made, use, develop, import and export, supply, offer for sale, and sell or otherwise commercialize pharmaceutical preparations containing ciprofloxacin in a liposomal formulation and/or ciprofloxacin that is not encapsulated in liposomes (each such pharmaceutical preparation a "Licensed Product") for all uses. Under the License, we have sole responsibility for the activities and costs related to the development of (1) a Licensed Product for the treatment of either NCFB or pulmonary infections associated with NCFB (the "Initial Indication") and (2) any Licensed Product for another indication (each, an "Additional Indication"), including the conduct of a Phase 3 clinical trial in the Initial Indication. We are responsible for all regulatory and commercialization activities and the associated costs for each Licensed Product and are obligated to use Diligent Efforts (as defined in the License) to obtain regulatory approval in the U.S. and E.U. of a Licensed Product in the Initial Indication and any Additional Indications. In exchange for such License, we agreed to pay Grifols (1) an upfront cash payment of approximately \$3.2 million, (2) an upfront payment of one million shares of our common stock, (3) developmental milestone payments upon (i) approval of a Licensed Product for commercial sale by the U.S. Food and Drug Administration ("FDA") and (ii) approval of a Licensed Product for commercial sale by the European Medicines Agency, (4) sales milestone payments upon the first achievement of annual global net sales in excess of certain thresholds, and (5) certain royalties based on annual global net sales of all Licensed Products.

Income Taxes and the CARES Act

In response to the COVID-19 pandemic, many governments are taking measures to provide aid and economic stimulus. These measures include deferring the due dates of tax payments or other changes to their income and non-income-based tax laws. The CARES Act, which was enacted on March 27, 2020 in the U.S., includes many measures to assist companies, including temporary changes to income and non-income-based tax laws. Some of the key tax-related provisions of the bill include:

- Eliminating the 80% of taxable income limitations by allowing corporate entities to fully utilize net operating loss ("NOL") carryforwards to offset taxable income in 2018, 2019 or 2020. The 80% limitation is reinstated for tax years after 2020;
- Allowing NOLs originating in 2018, 2019 or 2020 to be carried back five years;
- Increasing the net interest expense deduction limit to 50% of adjusted taxable income from 30% for tax years beginning January 1, 2019 and 2020;
- Allowing taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credit instead of recovering the credit through refunds over a period of years, as originally enacted by the Tax Cut and Jobs Act in 2017; and
- Allowing companies to deduct more of their cash charitable contributions paid during calendar year 2020 by increasing the taxable income limitation from 10% to 25%.

In addition to the income tax provisions noted above, the CARES Act provides non-income tax provisions, such as allowing payments of the employer share of Social Security payroll taxes that would otherwise be due from the date of enactment through December 31, 2020 to be paid over the following two years. Other provisions will allow eligible employers subject to closure due to the COVID-19 pandemic to receive a 50% credit on qualified wages against their employment taxes each quarter with any excess credits eligible for refunds.

Although we are assessing the provisions of the CARES Act, we do not believe the measures mentioned above materially impact us or are relevant to our tax reporting. However, we are carefully assessing these and other provisions of the CARES Act and any potential additional federal stimulus packages with regards to their impact on our tax reporting as well as any provisions which may benefit us.

Financial Operations Overview

Research and Development Expenses

We recognize all research and development costs as they are incurred. Research and development expenses consist primarily of the following:

- expenses incurred under agreements with consultants and clinical trial sites that conduct research and development activities on our behalf;
- laboratory and vendor expenses related to the execution of clinical trials;
- contract manufacturing expenses, primarily for the production of clinical supplies; and
- internal costs that are associated with activities performed by our research and development organization and generally benefit multiple programs.

Where appropriate, these costs are allocated by product candidate. Any unallocated internal research and development costs consist primarily of:

- personnel costs, which include salaries, benefits, and stock-based compensation expense;
- allocated facilities and other expenses, which include expenses for rent and maintenance of facilities and depreciation expense; and
- regulatory expenses and technology license fees related to development activities.

The largest component of our operating expenses has historically been our investment in research and development activities. The following table shows our research and development expenses for the three months ended June 30, 2020 and 2019 and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Product candidates:				
AeroVanc	\$ 2,554	\$ 5,349	\$ 5,398	\$ 8,653
Molgradex	3,514	5,115	\$ 8,503	11,800
Apulmiq	11	—	\$ 5,378	—
Other	—	—	—	30
Total research and development expenses	\$ 6,079	\$ 10,464	\$ 19,279	\$ 20,483

We expect to continue to incur significant research and development expenses in the future as we advance our product candidates into and through clinical trials and pursue regulatory approvals, which will require a significant investment in regulatory support and contract manufacturing and inventory build-up related costs. In addition, we continue to evaluate opportunities to acquire or in-license other product candidates and technologies, which may result in higher research and development expenses due to license fee and/or milestone payments.

The process of conducting clinical trials necessary to obtain regulatory approval is costly and time consuming. We may never succeed in timely developing and achieving regulatory approval for our product candidates. The probability of success of our product candidates may be affected by numerous factors, including clinical data, competition, intellectual property rights, manufacturing capability, and commercial viability. As a result, we are unable to accurately determine the duration and completion costs of our development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries, benefits, and related costs for personnel in executive, finance and accounting, legal and investor relations, and professional and consulting fees for accounting, legal, investor relations, business development, commercial strategy and research, human resources, and information technology services. Other general and administrative expenses include facility lease and insurance costs.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Actual results may differ materially from these estimates. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Accrued Research and Development Expenses

We record accrued expenses for estimated costs of our research and development activities conducted by external service providers, which include the conduct of clinical trials and contract formulation and manufacturing activities. We record the estimated costs of development activities based upon the estimated amount of services provided but not yet invoiced and include these costs in accrued liabilities in the consolidated balance sheet and within research and development expense in the consolidated statement of operations and comprehensive loss. These costs are a significant component of our research and development expenses. We record accrued expenses for these costs based on the estimated amount of work completed and in accordance with agreements established with these external service providers.

We estimate the amount of work completed through discussions with internal personnel and external service providers as to the progress or stage of completion of the services and the agreed-upon fee to be paid for such services. We make significant judgments and estimates in determining the accrued balance in each reporting period. As actual costs become known, we adjust our accrued estimates.

Goodwill and Acquired IPR&D

Although we did not have any goodwill as of June 30, 2020, we adopted the following accounting policy. In accordance with Accounting Standards Codification ("ASC") Topic 350, "Intangibles – Goodwill and Other," our goodwill and acquired IPR&D are determined to have indefinite lives and, therefore, are not amortized. Instead, they are tested for impairment annually and between annual tests if we become aware of an event or a change in circumstances that would indicate the carrying value may be impaired. For instance, based upon the ultimate scope and scale of the COVID-19 global pandemic, there may be materially negative impacts to the assumptions made with respect to our IPR&D assets that could result in an impairment of such assets.

Accounting Standards Update ("ASU") 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," outlines an impairment model providing us the option to implement a one-step method for determining impairment of goodwill, thereby simplifying the subsequent measurement of goodwill by eliminating Step 2 (quantitative calculation of measuring a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill) from the goodwill impairment test. Under the amendments in this guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

With respect to the impairment testing of acquired IPR&D, ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment,” and ASU 2012-02, “Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment,” provide us a two-step impairment process with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads us to determine that it is more-likely-than not (that is, a likelihood of more than 50%) that our acquired IPR&D is impaired. If we choose to first assess qualitative factors and we determine that it is more-likely-than not acquired IPR&D is not impaired, we are not required to take further action to test for impairment.

If we perform a quantitative assessment of acquired IPR&D, we compare its carrying value to its estimated fair value to determine whether an impairment exists. In previous years, due to a lack of Level 1 or Level 2 inputs, the Multi-Period Excess Earnings Method (“MPEEM”), which is a form of the income approach, was used to estimate the fair value of acquired IPR&D when performing a quantitative assessment. Under the MPEEM, the fair value of an intangible asset is equal to the present value of the asset’s projected incremental after-tax cash flows (excess earnings) remaining after deducting the market rates of return on the estimated value of contributory assets (contributory charge) over its remaining useful life. We evaluate potential impairment of our acquired IPR&D annually on September 30, utilizing a qualitative approach and determining if it was more-likely-than not that the fair value was impaired. We evaluate potential impairment of our acquired goodwill, if any, annually on June 30, performing the quantitative analysis based upon market capitalization. While we continue to evaluate opportunities to monetize our acquired assets, we can provide no assurances that we will be able to do so. However, we believe that our approach is a more appropriate method for assessing fair value in the context of our current business.

Our determinations as to whether, and if so, the extent to which, goodwill and acquired IPR&D become impaired are highly judgmental and, in the case of applying the MPEEM approach to estimate fair value, are based on significant assumptions regarding our projected future financial condition and operating results, changes in the manner of our use of the acquired assets, development of our acquired assets or our overall business strategy, and regulatory, market, and economic environment and trends.

Stock-based Compensation Expenses

We recognize the cost of stock-based awards granted to employees based on the estimated grant-date fair value of the awards. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. We recognize the compensation costs for awards that vest over several years on a straight-line basis over the vesting period. Forfeitures are recognized when they occur, which may result in the reversal of compensation costs in subsequent periods as the forfeitures arise.

We estimate the grant-date fair value of a stock option award using the Black-Scholes-Merton option pricing model (“Black-Scholes model”). In determining the grant-date fair value of a stock option award under the Black-Scholes model, we must make a number of assumptions, including the term of the award, the volatility of the price of our common stock over the term of the award, and the risk-free interest rate. Changes in these or other assumptions could have a material impact on the compensation expense we recognize.

Revenue

We record revenue based on a five-step model in accordance with ASC 606, “Revenue from Contracts with Customers.” To date, we have not generated any product revenue from our product candidates.

Milestone Revenue

With respect to the license agreement related to our Molgradex product (see Note 2 of the condensed financial statements in this report), which includes certain milestone payments to be remunerated to us by the licensee, we identify the performance obligations, determine the transaction price, allocate the contract transaction price to the performance obligations, and recognize the revenue when (or as) the performance obligation is satisfied. We identify the performance obligations included within the license agreement and evaluate which performance obligations are distinct.

The milestone payments are a form of variable consideration as the payments are contingent upon achievement of a substantive event. The milestone payments are estimated and included in the transaction price when we determine, under the variable consideration constraint, that it is probable that there will not be a significant reversal of cumulative revenue recognized in future periods. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which we recognize revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, we re-evaluate the probability of achievement of such milestones and any related constraint, and if necessary, adjust the estimate of the overall transaction price.

Results of Operations — Comparison of Three Months Ended June 30, 2020 and 2019

	Three Months Ended June 30,		Dollar Change
	2020	2019	
	(in thousands)		
Operating expenses:			
Research and development	\$ 6,079	\$ 10,464	\$ (4,385)
General and administrative	3,117	4,211	(1,094)
Impairment of acquired IPR&D	—	—	—
Impairment of goodwill	—	7,420	(7,420)
Depreciation	68	59	9
Total operating expenses	<u>9,264</u>	<u>22,154</u>	<u>(12,890)</u>
Loss from operations	(9,264)	(22,154)	12,890
Other income (loss), net	(125)	215	(340)
Net loss	<u>\$ (9,389)</u>	<u>\$ (21,939)</u>	<u>\$ 12,550</u>

Research and Development

Research and development expenses decreased by \$4.4 million, or 41.9%, to \$6.1 million for the three months ended June 30, 2020 from \$10.5 million for the three months ended June 30, 2019. The decrease was primarily related to approximately \$2.8 million in decreased study costs due to the cessation of enrollment, transition of our focus to processing the last patient out and database management and lock, and a reduction in CMC and clinical operations activities in our AeroVanc Phase 3 trial as well as approximately \$1.6 million in decreased development costs associated with Molgradex for the treatment of aPAP as our IMPALA Phase 3 study activities have concluded and we are preparing for an additional Molgradex Phase 3 study.

General and Administrative

General and administrative expenses decreased by \$1.1 million, or 26.0%, to \$3.1 million for the three months ended June 30, 2020 from \$4.2 million for the three months ended June 30, 2019. The decrease was primarily due to reduced commercial activities for the three months ended June 30, 2020.

Impairment of Goodwill

During the quarter ended June 30, 2019, we recognized a \$7.4 million impairment charge to the carrying value of our goodwill following the results of our IMPALA Phase 3 study of Molgradex for the treatment of aPAP.

Results of Operations — Comparison of Six Months Ended June 30, 2020 and 2019

	Six Months Ended June 30,		Dollar Change
	2020	2019	
	(in thousands)		
Operating expenses:			
Research and development	\$ 19,279	\$ 20,483	\$ (1,204)
General and administrative	6,099	6,974	(875)
Impairment of goodwill	—	7,420	(7,420)
Depreciation	126	197	(71)
Total operating expenses	<u>25,504</u>	<u>35,074</u>	<u>(9,570)</u>
Loss from operations	(25,504)	(35,074)	9,570
Other income	\$ 693	\$ 1,023	\$ (330)
Net loss	<u>\$ (24,811)</u>	<u>\$ (34,051)</u>	<u>\$ 9,240</u>

Research and Development

Research and development expenses decreased by \$1.2 million, or 5.9%, to \$19.3 million for the six months ended June 30, 2020 from \$20.5 million for the six months ended June 30, 2019. The decrease was primarily related to approximately \$3.2 million in decreased study costs due to the cessation of enrollment, transition of our focus to processing the last patient out and database management and lock, and a reduction in CMC and clinical operations activities in our AeroVanc Phase 3 trial as well as approximately \$3.3 million in decreased development costs associated with Molgradex for the treatment of aPAP as our IMPALA phase 3 study activities have concluded and we are preparing for an additional Molgradex Phase 3 study. This cumulative decrease in development costs of \$6.5 million was partially offset by approximately \$5.4 million in costs incurred to acquire rights to Apulmiq, which was recognized as research and development expense during the first quarter of 2020.

General and Administrative

General and administrative expenses decreased by approximately \$0.9 million, or 12.5%, to \$6.1 million for the six months ended June 30, 2020 from \$7.0 million for the six months ended June 30, 2019. The decrease was primarily due to reduced commercial activities for the six months ended June 30, 2020.

Impairment of Goodwill

During the six months ended June 30, 2019, we recognized a \$7.4 million impairment charge to the carrying value of our goodwill following the results of our IMPALA Phase 3 study of Molgradex for the treatment of aPAP.

Liquidity and Capital Resources

As of June 30, 2020, we had \$47.1 million in cash and cash equivalents, \$52.5 million in short-term investments and an accumulated deficit of \$232.7 million. We entered into a loan and security agreement with Silicon Valley Bank during the year ended December 31, 2017, which was amended a third time in January 2020, under which we have drawn a total of \$25 million. We continue to sell our common stock through “at the market offerings” under the Sales Agreement and have raised net proceeds of \$34.2 million under the Sales Agreement since April 2017, the date of our reverse merger resulting in our public company listing. Since our reverse merger, we have completed three public offerings with combined net proceeds, after deducting the underwriting discounts and commissions and offering expenses, of approximately \$135.4 million.

On December 24, 2019, we completed a private placement of our common stock for net proceeds of \$25.2 million and issued accompanying warrants, which have a two year expiry date, to purchase additional shares of our common stock which may result in approximately \$45.7 million in additional net proceeds to us before customary closing fees.

We have used and intend to use the net proceeds from these offerings for working capital and general corporate purposes, which include, but are not limited to, the funding of clinical development of and pursuing regulatory approval for our product candidates, the initiation of pre-commercialization activities, and general and administrative expenses. We are also continuously and critically reviewing our liquidity and anticipated capital requirements in light of the uncertainty created by the COVID-19 global pandemic.

Cash Flows

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

	<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>	
Cash used in operating activities	\$ (20,831)	\$ (23,764)
Cash (used in) provided by investing activities	16,295	(7,601)
Cash provided by financing activities	1,862	23,952
Effect of exchange rate changes	(13)	(58)
Net decrease in cash	\$ (2,687)	\$ (7,471)

Cash flows from operating activities

Cash used in operating activities for the six months ended June 30, 2020 was \$20.8 million, consisting of a net loss of \$24.8 million, which was partially offset by approximately \$2.9 million of noncash charges, comprised of depreciation and amortization including right-of-use assets, fair value changes, accretion on discount to short-term investments, amortization of debt issuance costs, and stock-based compensation, and \$5.4 million of charges related to the upfront payment of the License, of which \$2.1 million was noncash. The cash used in operating activities was further increased by a change in assets and liabilities of approximately \$4.2 million.

Cash flows from investing activities

Cash provided by investing activities for the six months ended June 30, 2020 was primarily the result of proceeds from the net sales and maturities of short-term investments in excess of cash used for purchases of short-term investments in the amount of approximately \$19.5 million as offset by the \$3.2 million upfront cash payment for the License.

Cash flows from financing activities

Cash provided by financing activities for the six months ended June 30, 2020 was primarily related to \$2.3 million in net proceeds from sales of our common stock through “at the market offerings” under the Sales Agreement as offset by the payment of a portion of the end of period charge equal to \$0.5 million following the amendment of our loan agreement with Silicon Valley Bank in January 2020.

Future Funding Requirements

We have not generated any revenue from product sales. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate any revenue from product sales unless and until we obtain regulatory approval for and commercialize any of our product candidates. At the same time, we expect our expenses to increase in connection with our ongoing development and manufacturing activities, particularly as we continue the research, development, manufacture, and clinical trials of, and seeking of regulatory approval for, our product candidates. In addition, subject to obtaining regulatory approval of any of our product candidates, we anticipate that we will need substantial additional funding in connection with our continuing operations.

As of June 30, 2020, we had cash, cash equivalents, and short-term investments of approximately \$99.6 million. We will continue to require substantial additional capital to continue our clinical development and potential commercialization activities. Accordingly, we will need to raise substantial additional capital to continue to fund our operations. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our clinical development efforts. Failure to raise capital as and when needed, on favorable terms or at all, would have a negative impact on our financial condition and our ability to develop our product candidates.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, we expect to finance our future cash needs primarily through the issuance of additional equity securities and potentially through borrowings, grants, and strategic alliances with partner companies. To the extent that we raise additional capital through the issuance of additional equity or convertible debt securities, the ownership interest of our stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of existing stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs, or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce, or terminate our product development or commercialization efforts or grant rights to develop and market product candidates to third parties that we would otherwise prefer to develop and market ourselves.

Contractual Obligations

Other than the developmental milestone payments, sales milestone payments, and royalties under the License with Grifols for rights to develop and commercialize Apulmiq, effective March 31, 2020, as well as the third amendment to our loan agreement with SVB executed on January 31, 2020, there were no material changes outside of the ordinary course of business in our contractual obligations during the six months ended June 30, 2020 from those disclosed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations and Other Commitments” of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 12, 2020.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Recent Accounting Pronouncements

See Note 2, “Summary of Significant Accounting Policies – Recent Accounting Pronouncements,” of the condensed consolidated financial statements in this report for a discussion of recent accounting pronouncements and their effect, if any, on us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have market risk exposure related to our cash, cash equivalents, and short-term investment securities. Such interest-earning instruments carry a degree of interest rate risk; however, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 1% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements. Additionally, our investment securities are fixed income instruments denominated and payable in U.S. dollars and have short-term maturities, typically less than twelve months, and typically carry credit ratings of “A” at a minimum by two of three Nationally Recognized Statistical Rating Organizations, specifically Moody’s, Standard & Poor’s, or Fitch. As such, we do not believe that our cash, cash equivalents and short-term investment securities have significant risk of default or illiquidity.

We also have interest rate exposure as a result of our loan and security agreement with Silicon Valley Bank. As of June 30, 2020, the outstanding gross principal amount of the secured term loan was \$25 million. The loan agreement bears interest at the greater of (i) prime rate reported in The Wall Street Journal, plus a spread of 3.0% or (ii) 7.75%. Changes in the prime rate may therefore affect our interest expense associated with our secured term loan. If a 10% change in interest rates from the interest rates on June 30, 2020 were to have occurred, this change would not have had a material effect on our interest expense obligations with respect to outstanding borrowed amounts.

We have ongoing operations in Denmark and pay those vendors in local currency (Danish krone) or euros. We seek to limit the impact of foreign currency fluctuations through the use of derivative instruments, and short-term foreign currency forward exchange contracts not designated as hedging instruments. We also have ongoing operations in Australia as a result of the expansion of Molgradex for the treatment of NTM lung infection and pay our respective vendors in Australian dollars. We did not recognize any significant exchange rate losses during the six months ended June 30, 2020 and 2019. A 10% change in the krone-to-U.S. dollar, euro-to-U.S. dollar, Australian dollar-to-U.S. dollar, or krone-to-Australian dollar exchange rate on June 30, 2020 would not have had a material effect on our results of operations or financial condition.

Although we do not believe that we are currently exposed to material changes in the risks related to our cash, cash equivalents, and short-term investment securities, interest rates of our loan and security agreement with Silicon Valley Bank, or foreign currency exchange rates, we are cautiously and actively monitoring the effects of the COVID-19 pandemic on these instruments.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2020. Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of June 30, 2020 these disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In March 2020, the SEC amended the definitions of accelerated filer and large accelerated filer to exclude smaller reporting companies that have not yet begun to generate significant revenue. Accordingly, we will be changing our status from a smaller reporting company, accelerated filer, to a smaller reporting company, non-accelerated filer, effective for our December 31, 2020 annual report. In accordance with the SEC amendments, we no longer require an integrated independent audit of our internal controls under Sarbanes-Oxley 404(b) but will remain subject to Sarbanes-Oxley 404(a) and (c).

Item 1. Legal Proceedings.

From time to time, we may become involved in various claims and legal proceedings. Regardless of outcome, litigation and other legal and administrative proceedings can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. We are not currently a party to any material pending litigation or other material legal proceeding.

Item 1A. Risk Factors.

Investment in our common stock involves a high degree of risk and uncertainty. Our business, operating results, growth prospects, and financial condition are subject to various risks, many of which are not exclusively within our control, that may cause actual performance to differ materially from historical or projected future performance. We urge investors to consider carefully the risks described below, together with all of the information in this report and our other public filings, before making investment decisions regarding our securities. Each of these risk factors, as well as additional risks not presently known to us or that we currently deem immaterial, could adversely affect our business, operating results, growth prospects, or financial condition, as well as the trading price of our common stock, in which case you may lose all or part of your investment.

Risks Related to Our Capital Requirements and Financial Condition

We have incurred significant losses since inception and expect that we will continue to incur losses for the foreseeable future, which makes it difficult to assess our future viability.

We are a clinical development-stage biopharmaceutical company and we have not been profitable since we commenced operations and may not ever achieve profitability. In addition, we have limited history as an organization and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical industry. Drug development is a highly speculative undertaking and involves a substantial degree of risk. To date, we have not obtained any regulatory approvals for any of our product candidates, commercialized any of our product candidates, or generated any product revenue. We have devoted significant resources to research and development and other expenses related to our ongoing clinical trials and operations, in addition to acquiring product candidates.

For the six months ended June 30, 2020, we incurred a net loss of \$24.8 million, and net cash used in operating activities was \$20.8 million. At June 30, 2020, our cash, cash equivalents and short-term investment securities were approximately \$99.6 million, and working capital was approximately \$96 million. At June 30, 2020, we had an accumulated deficit of \$232.7 million. We expect to continue to incur substantial operating losses for the next several years as we seek to advance our product candidates through clinical development, global regulatory approvals, and commercialization. No revenue from operations will likely be available until, and unless, one of our product candidates is approved by the FDA or another regulatory agency and successfully marketed, or we enter into an arrangement that provides for licensing revenue or other partnering-related funding, outcomes which we may not achieve. We are also continuously and critically reviewing our liquidity and anticipated capital requirements in light of the significant uncertainty created by the COVID-19 global pandemic.

We will require additional financing to obtain regulatory approval for Molgradex, Apulmiq, and AeroVanc, and a failure to obtain this necessary capital when needed on acceptable terms, or at all, could force us to delay, limit, reduce, or terminate our product development efforts or other operations.

Since our Aravas subsidiary was formed in 2007, most of our resources have been dedicated to the development and acquisition of our product candidates, Molgradex, Apulmiq, and AeroVanc. Our priority remains the continued development of Molgradex for the treatment of aPAP and preparation for an additional Phase 3 study. Under our current operating plan, we believe that our existing capital resources will be sufficient to fund many of our planned activities. However, we may raise additional capital, including through our “at the market offering” program to fund new studies, including a Phase 3 study for Apulmiq in NCFB, new programs, acquisitions, or to address changes in our existing development programs. We cannot estimate with reasonable certainty the actual amounts necessary to successfully complete the development and commercialization of our product candidates and there is no certainty that we will be able to raise the necessary capital on reasonable terms or at all.

Our capital requirements for the foreseeable future will depend in large part on, and could increase significantly as a result of, our expenditures on our development programs. Future expenditures on our development programs are subject to many uncertainties, and will depend on, and could increase significantly as a result of, many factors, including:

- the number, size, complexity, results, and timing of our drug development programs;
- the timing and terms of any collaborative or other strategic arrangement that we may establish;
- the number of clinical and nonclinical studies necessary to demonstrate acceptable evidence of the safety and efficacy of our product candidates;

- changes in standards of care which could increase the size and complexity of our clinical studies;
- the number of patients who participate, the rate of enrollment, and the ratio of randomized to evaluable patients in each clinical study;
- the ability to locate patients to participate in a study given the limited number of patients available for orphan or ultra-orphan indications;
- the number and location of sites and the rate of site initiation in each study;
- the duration of patient treatment and follow-up;
- the potential for additional safety monitoring or other post-marketing studies that may be requested by regulatory agencies;
- the time and cost to manufacture clinical trial material and commercial product, including process development and scale-up activities, and to conduct stability studies, which can last several years;
- the degree of difficulty and cost involved in securing alternate manufacturers or suppliers of drug product, components, or delivery devices, as necessary to meet FDA requirements and/or commercial demand;
- the costs, requirements, timing of, and the ability to, secure regulatory approvals;
- the extent to which we increase our workforce and the costs involved in recruiting, training, and incentivizing new employees;
- the costs related to developing, acquiring, and/or contracting for sales, marketing, and distribution capabilities, supply chain management capabilities, and regulatory compliance capabilities, if we obtain regulatory approval for a product candidate and commercialize it without a partner;
- the costs involved in evaluating competing technologies and market developments or the loss in sales in case of such competition;
- the costs involved in establishing, enforcing, or defending patent claims and other proprietary rights; and
- negative impacts from the scope and spread of COVID-19.

Additional capital may not be available when we need it, on terms that are acceptable to us or at all. If adequate funds are not available to us on a timely basis, we will be required to delay, limit, reduce, or terminate our establishment of sales and marketing, manufacturing or distribution capabilities, development activities, other activities that may be necessary to commercialize our product candidates, or conduct preclinical or clinical studies.

If we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish certain valuable rights to our product candidates, technologies, future revenue streams, or research programs or grant licenses on terms that may not be favorable to us. If we raise additional capital through public or private equity offerings, the ownership interest of our stockholders will be diluted, and the terms of any new equity securities may have preferential rights over our common stock. In particular, due to the price per share of our common stock, any sale of our equity securities to raise significant capital would result in substantial ownership dilution to our stockholders. If we raise additional capital through debt financing, it may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt or making capital expenditures, or subject to specified financial ratios, any of which could restrict our ability to develop and commercialize our product candidates or operate as a business.

Our loan agreement contains covenants which may adversely impact our business; the failure to comply with such covenants could cause our outstanding debt to become immediately payable or accelerate principal payments.

On April 28, 2017, we entered into a Loan and Security Agreement, as subsequently amended on October 31, 2017, December 4, 2018, and January 31, 2020 between us and Aravas, as co-borrowers, and Silicon Valley Bank (the “Amended Loan Agreement”). The Amended Loan Agreement includes a number of restrictive covenants, including restrictions on incurring additional debt, making investments, granting liens, disposing of assets, paying dividends, and redeeming or repurchasing capital stock, subject to certain exceptions. Collectively, these covenants could constrain our ability to grow our business through acquisitions or engage in other transactions. In addition, the Amended Loan Agreement includes covenants requiring, among other things, that we provide financial statements, comply with all laws, pay all taxes, maintain insurance, and satisfy an equity-based milestone. If we are not able to comply with these covenants, the outstanding loans under the Amended Loan Agreement could become immediately due and payable and would have a material adverse effect on our liquidity, financial condition, operating results, business, and prospects and cause the price of our common stock to decline. Additionally, if by March 31, 2021, we do not have an ongoing Phase 3 or Phase 4 clinical trial evaluating our Molgradex product for the treatment of aPAP in which the first patient has been dosed, the interest-only period will end and principal plus interest will be due in equal monthly installments over 24 months beginning on April 1, 2021.

Any future acquisitions that we make could disrupt our business and harm our financial condition.

We expect to evaluate, from time to time, potential strategic acquisitions of complementary businesses, products, or technologies. In addition, we expect to evaluate joint ventures, licensing opportunities, and other collaborative projects. We may not be able to identify appropriate acquisition candidates or strategic partners, or successfully negotiate, finance, or integrate acquisitions of any businesses, products, or technologies. Furthermore, the integration of any acquisition and management of any collaborative project may divert our management's time and resources from our core business and disrupt our operations. Any cash acquisition we pursue would diminish the funds otherwise available to us for other uses. Any acquisition using our stock would dilute our stockholders' ownership interests.

If we engage in acquisitions of companies, products or technologies in order to execute our business strategy, we may need to raise additional capital. We may raise additional capital in the future through one or more financing vehicles that may be available to us including (i) new collaborative agreements; (ii) expansions or revisions to existing collaborative relationships; (iii) private financings; (iv) other equity or debt financings; (v) monetizing assets; and/or (vi) the public offering of securities.

For example, our recent acquisition of the rights to develop Apulmiq will require us to increase our workforce to manage the required development activities. If we are required to raise additional capital in the future, it may not be available on favorable financing terms within the time required, or at all. If additional capital is not available on favorable terms when needed, we will be required to raise capital on adverse terms or significantly reduce operating expenses through the restructuring of our operations or deferral of strategic business initiatives. If we raise additional capital through a public offering of securities or equity, a substantial number of additional shares may be issued, which may negatively affect our stock price and these additional shares will dilute the ownership interest of our current investors.

We have significant IPR&D and future impairment of IPR&D may have a significant adverse impact on our future financial condition and results of operations. Our goodwill was fully impaired during the year ended December 31, 2019.

As of June 30, 2020, we had IPR&D of approximately \$11.2 million. These intangible assets have been previously impaired and remain subject to additional impairment analyses whenever an event or change in circumstances indicates the carrying amount of such an asset may not be recoverable. We test our goodwill, if any, and IPR&D for impairment annually, or more frequently if an event or change in circumstances indicates that the asset may be impaired. If an impairment is identified, we would be required to record an impairment charge with respect to the impaired asset to our condensed consolidated statements of operations and comprehensive loss. A significant impairment charge could have a material negative impact on our financial condition and results of operations. We will continue to evaluate our intangible assets for potential impairment in accordance with our accounting policies.

Events giving rise to impairment are difficult to predict and are an inherent risk in the pharmaceutical industry. Some of the potential risks that could result in impairment of our goodwill and IPR&D include negative clinical study results, adverse regulatory developments, delay or failure to obtain regulatory approval, additional development costs, changes in the manner of our use or development of our product candidates, competition, earlier than expected loss of exclusivity, pricing pressures, higher operating costs, changes in tax laws, prices that third parties are willing to pay for our IPR&D or similar assets in an arm's-length transaction being less than the carrying value of our IPR&D, and other market and economic environment changes or trends, such as the ultimate scope and scale of the COVID-19 global pandemic. Events or changes in circumstances may lead to significant impairment charges on our IPR&D in the future, which could materially adversely affect our financial condition and results of operations.

Risks Related to Our Business Strategy and Operations

We are substantially dependent upon the clinical, regulatory, and commercial success of our product candidates, Molgradex, Apulmiq, and AeroVanc. Clinical drug development involves a lengthy and expensive process with an uncertain outcome, results of earlier studies and trials may not be predictive of future trial results, and our clinical trials may fail to adequately demonstrate to the satisfaction of regulatory authorities the safety and efficacy of our product candidates.

The success of our business is dependent on our ability to advance the clinical development of Molgradex for the treatment of patients with aPAP and treatment of patients with NTM lung infection in both non-CF and CF-affected individuals, Apulmiq for the treatment of NCFB, and AeroVanc for the treatment of MRSA infection in the lungs of CF patients.

The topline results of the Molgradex Phase 3 clinical study for the treatment of aPAP, designated as IMPALA, were announced on June 12, 2019. The study did not meet its primary endpoint of change in alveolar-arterial oxygen gradient ("A-aDO₂") compared to placebo. The continuous treatment arm (Molgradex 300 µg administered once daily continuously over 24 weeks) did show a 12.1 mmHG improvement which is similar to what has been observed in previously published studies, but a larger-than-expected placebo effect was also seen (8.8 mmHg improvement). However, results from IMPALA did show statistically significant improvement in two secondary endpoints: the St. George's Respiratory Questionnaire ("SGRQ") and diffusing capacity of the lungs for carbon monoxide ("DLCO"). Two other secondary endpoints were numerically in favor of the continuous dosing arm of Molgradex but were not statistically significant (six-minute walk distance and time to whole lung lavage), while adverse event frequencies were similar between the treatment arms and placebo.

On October 1, 2019, we received a written response from the FDA in connection with a Type C meeting regarding the Molgradex development program for aPAP and results from the IMPALA study in which the FDA indicated that the data provided in the briefing package for the Type C meeting did not provide sufficient evidence of efficacy and safety.

On December 23, 2019, the FDA granted us Breakthrough Therapy designation for Molgradex for the treatment of aPAP, a process designed to expedite the development and review of drugs that are intended to treat a serious condition and for which preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on a clinically significant endpoint(s). During the first half of 2020, we have worked with the FDA and EMA regarding the protocol and design of an additional Phase 3 study of Molgradex for the treatment of aPAP, or the IMPALA 2 study. The IMPALA 2 study sample size will be 160 patients with an expected start date in the first quarter of 2021. IMPALA 2 will be a 48-week, double-blind, placebo-controlled study, with efficacy endpoints assessed at week 24 for the primary analyses. However, the placebo-controlled period will be 48 weeks to better support the durability of treatment effect, as well as long-term safety of the drug, which is intended to be administered chronically. At the end of the placebo-controlled period, both the placebo and non-placebo treatment arms will rollover into a 48-week open-label follow-on period in which all patients will receive Molgradex 300 micrograms administered once-daily and provide useful information on the long-term safety of the drug. The primary endpoint of the IMPALA-2 study will be the lung function test of DLCO. Three secondary endpoints designed to measure direct patient benefit will be evaluated which include the SGRQ Total Score, SGRQ Activity Component score, and exercise capacity using a treadmill test.

On March 12, 2020, we announced top line microbiology results from our Phase 2a, exploratory, open-label, non-controlled clinical study evaluating Molgradex for the treatment of NTM lung infection in patients not affected by CF, designated as OPTIMA. Any further activity or development on the OPTIMA program remains dependent upon the results of our ENCORE study.

Due to the COVID-19 pandemic, and out of an abundance of caution for people living with CF and clinical study staff, on March 30, 2020 we announced the termination of enrollment in our Phase 3 study of AeroVanc to treat persistent MRSA lung infection in individuals living with CF, designated as AVAIL, and the termination of enrollment in our Phase 2a study of the use of Molgradex for the treatment of NTM in patients living with CF, designated as ENCORE. With patient safety at the forefront of the decision and in accordance with guidelines established by the FDA, efforts will be made to allow enrolled patients to continue with study treatments and site visit protocols, where possible. Top line results from the AVAIL study are expected in early 2021.

Clinical testing is expensive, can take many years to complete, and its outcome is inherently uncertain. A failure of one or more of our clinical trials can occur at any time during the clinical trial process as demonstrated by our IMPALA study results in June 2019. The results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. There is a high failure rate for drugs proceeding through clinical trials, and product candidates in later stages of clinical trials may fail to show the required safety and efficacy despite having progressed through preclinical studies and initial clinical trials. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier clinical trials, and we cannot be certain that we will not face similar setbacks. Even if our clinical trials are completed, the results may not be sufficient to obtain regulatory approval for our product candidates.

Given the developmental nature of our product candidates, we are subject to risks associated with initiating, completing, and achieving positive outcomes from our current and future clinical trials, including:

- slow implementation, enrollment, and completion of the clinical trials;
- inability to enroll enough patients in the clinical trials;
- low patient compliance and adherence to dosing and reporting requirements, for example, incomplete reporting of patient reported outcomes in the clinical trials or missed doses;
- lack of safety and efficacy in the clinical trials;
- delays in manufacture of supplies for both drug and device components due to delays in formulation, process development, or manufacturing activities;
- requirements for additional nonclinical or clinical studies based on changes to formulation and/or changes to regulatory requirements; and
- requirements for additional clinical studies based on inconclusive or negative clinical results or changes in market, standard of care, and/or regulatory requirements.

If we successfully complete the necessary clinical trials for our product candidates, our success will be subject to the risks associated with obtaining regulatory approvals, product launch, and commercialization, including:

- FDA rejection of our New Drug Application (“NDA”) and Biologics License Application (“BLA”) submissions for our product candidates;
- regulatory rejection in the EU, Japan, and other markets;
- delays during regulatory review and/or requirements of additional Chemistry, Manufacturing, and Controls, nonclinical, or clinical studies, resulting in increased costs and/or delays in marketing approval and subsequent commercialization of the product candidates in the U.S. and other markets;
- inability to consistently manufacture commercial supplies of drug and delivery devices resulting in slowed market development and lower revenue;
- poor commercial sales due to:
 - the inability of our future sales organization or our potential commercialization partners to effectively sell the product candidates;
 - our lack of success in educating physicians and patients about the benefits, administration, and use of our product candidates;
 - the availability, perceived advantages, relative cost, relative safety, and relative efficacy of other products or treatments for the targeted indications of the product candidates;
 - low patient demand for the product candidates; and
 - poor prescription coverage and inadequate reimbursement for our product candidates;
- our inability to enforce our intellectual property rights in our product candidates; and
- reduction in the safety profile of our product candidates following approval.

Many of these clinical, regulatory, and commercial matters are beyond our control and are subject to other risks described elsewhere in this “Risk Factors” section. Accordingly, we cannot assure that we will be able to advance our product candidates further through final clinical development, or obtain regulatory approval of, commercialize, or generate significant revenue from them. If we cannot do so, or are significantly delayed in doing so, our business will be materially harmed.

If we fail to attract and retain senior management and key scientific personnel, we may be unable to successfully develop and commercialize our product candidates.

We have historically operated with a limited number of employees that manage third parties for most development activities. Institutional knowledge is concentrated within a small number of employees. Our success depends on our continued ability to attract, retain, and motivate highly qualified management, clinical, and scientific personnel. Our future success is highly dependent upon the contributions of our senior management, as well as our senior scientists and other members of our senior management team. The loss of services of any of these individuals, who all have at-will employment arrangements with us, could delay or prevent the successful development of our product pipeline, completion of our planned clinical trials, or the commercialization of our product candidates.

Replacing key employees may be a difficult, costly, and protracted process, and we may not have other personnel with the capacity to assume all the responsibilities of a key employee upon his/her departure. Transition periods can be difficult to manage and may cause disruption to our business. In addition, there may be intense competition from other companies and organizations for qualified personnel. Other companies and organizations with which we compete for personnel may have greater financial and other resources and different risk profiles than us, and a history of successful development and commercialization. If we cannot attract and retain skilled personnel, as needed, we may not achieve our development and other goals.

In addition, the success of our business will depend on our ability to develop and maintain relationships with respected service providers and industry-leading consultants and advisers. If we cannot develop and maintain such relationships as needed, the rate and success at which we can develop and commercialize product candidates may be limited. In addition, our outsourcing strategy, which has included engaging consultants that spend considerable time to manage key functional areas, may subject us to scrutiny under labor laws and regulations, which may divert management time and attention and have an adverse effect on our business and financial condition.

The COVID-19 global pandemic has required us to adapt our operations, such as enabling employees to work remotely, which may adversely affect their employment satisfaction or productivity.

We do not have, and do not have plans to establish commercial manufacturing facilities. We completely rely on third parties for the manufacture and supply of our clinical trial drug and delivery device supplies and, if approved, commercial product materials. The loss of any of these vendors or a vendor's failure to provide us with an adequate supply of clinical trial or commercial product material in a timely manner and on commercially acceptable terms, or at all, could harm our business.

We outsource the manufacture of our product candidates and do not plan to establish our own manufacturing facilities. To manufacture our product candidates, we have made numerous custom modifications at contract manufacturing organizations (“CMOs”), making us highly dependent on these CMOs. For clinical and commercial supplies, if approved, we have supply agreements with third party CMOs for drug substance, finished drug product, drug delivery devices and other necessary components of our product candidates. While we have secured long-term commercial supply agreements with many of the third party CMOs, we would need to negotiate agreements for commercial supply with several important CMOs, and we may not be able to reach agreement on acceptable terms. In addition, we rely on these third parties to conduct or assist us in key manufacturing development activities, including qualification of equipment, developing and validating methods, defining critical process parameters, releasing component materials, and conducting stability testing, among other things. If these third parties are unable to perform their tasks successfully in a timely manner, whether for technical, financial, or other reasons, we may be unable to secure clinical trial material, or commercial supply material if approved, which likely would delay the initiation, conduct, or completion of our clinical studies or prevent us from having enough commercial supply material for sale, which would have a material and adverse effect on our business. For example, the impacts of the current COVID-19 global pandemic are rapidly evolving. The extent to which the pandemic impacts our ability to procure sufficient supplies for the development and commercialization of our products and product candidates will depend on the severity and duration of the spread of COVID-19, and the actions undertaken to contain the pandemic or treat its effects.

All manufacturers of our clinical trial material and, if approved, commercial product, including drug substance manufacturers, must comply with current Good Manufacturing Practices (“cGMP”) requirements enforced by the FDA through its facilities inspection program and applicable requirements of foreign regulatory authorities. These requirements include quality control, quality assurance, and the maintenance of records and documentation. Manufacturers of our clinical trial material may be unable to comply with these cGMP requirements and with other FDA, state, and foreign regulatory requirements. While we and our representatives generally monitor and audit our manufacturers’ systems, we do not have full control over their ongoing compliance with these regulations. Although the responsibility to maintain cGMP compliance is shared between us and the third-party manufacturer, we bear ultimate responsibility for our supply chain and compliance with regulatory standards. Failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay or failure to obtain product approval, product seizure or recall, or withdrawal of product approval.

Currently, we do not have alternative vendors to back up our primary vendors of clinical trial material or, if approved, commercial supply material. Identification of and discussions with other vendors may be protracted and/or unsuccessful, or these new vendors may be unsuccessful in producing the same results as the current primary vendors producing the material. Therefore, if our primary vendors become unable or unwilling to perform their required activities, we could experience protracted delays or interruptions in the supply of clinical trial material and, ultimately, product for commercial sale, which would materially and adversely affect our development programs, commercial activities, operating results, and financial condition. In addition, the FDA or regulatory authorities outside of the U.S. may require that we have an alternate manufacturer of a drug product before approving it for marketing and sale in the U.S. or abroad and securing such alternate manufacturer before approval of an NDA or BLA could result in considerable additional time and cost prior to NDA or BLA approval.

Any new manufacturer or supplier of finished drug product or its component materials, including drug substance and delivery devices, would be required to qualify under applicable regulatory requirements and would need to have sufficient rights under applicable intellectual property laws to the method of manufacturing of such product or ingredients required by us. The FDA or foreign regulatory agency may require us to conduct additional clinical studies, collect stability data, and provide additional information concerning any new supplier, or change in a validated manufacturing process, including scaling-up production, before we could distribute products from that manufacturer or supplier or revised process. For example, if we were to engage a third party other than our current CMOs to supply the drug substance or drug product for future clinical trials or commercial sale, the FDA or regulatory authorities outside of the U.S. may require us to conduct additional clinical and nonclinical studies to ensure comparability of the drug substance or drug product manufactured by our current CMOs to that manufactured by the new supplier. Changing of suppliers or equipment is particularly challenging for companies like us, with inhalation products, because any change could alter the performance of the drug product.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, particularly in scaling-up initial production. These problems include difficulties with production costs and yields, quality control, including stability of the product candidate and quality assurance testing, and shortages of qualified personnel. Some of our product candidates have not been manufactured at the scale we believe will be necessary to maximize their commercial value and, accordingly, we may encounter difficulties in attempting to scale-up production and may not succeed in that effort on a timely basis or at all. In addition, the FDA or other regulatory authorities may impose additional requirements as we scale up initial production capabilities, which may delay our scale-up activities and/or add expense.

If our manufacturers encounter any of the aforementioned difficulties or otherwise fail to comply with their contractual obligations or there are delays entering commercial supply agreements due to capital constraints, we may have insufficient quantities of material to support ongoing and/or planned clinical studies or to meet commercial demand, if approved. In addition, any delay or interruption in the supply of materials necessary or useful to manufacture our product candidates could delay the completion of our clinical studies, increase the costs associated with our development programs, and depending upon the period of delay, require us to commence new clinical studies at significant additional expense or terminate the studies completely. Delays or interruptions in the supply of commercial product could result in increased cost of goods sold and lost sales. We cannot provide assurance that manufacturing or quality control problems will not arise in connection with the manufacture of our clinical trial material or commercial product, if approved, or that third-party manufacturers will be able to maintain the necessary governmental licenses and approvals to continue manufacturing such clinical trial material or commercial product, as applicable. In addition, Molgradex and AeroVanc are currently manufactured entirely or partially outside the U.S. and, as a result, we may experience interruptions in supply due to shipping or customs difficulties or regional instability. Furthermore, changes in currency fluctuations, shipping costs, or import tariffs could adversely affect cost of goods sold. Any of the above factors could cause us to delay or suspend anticipated or ongoing trials, regulatory submissions or commercialization of our product candidates, entail higher costs, or result in being unable to effectively commercialize our products. Our dependence upon third parties for the manufacture of our clinical trial material may adversely affect our future costs and our ability to develop and commercialize our product candidates on a timely and competitive basis.

We rely significantly on third parties to conduct our nonclinical testing and clinical studies and other aspects of our development programs and if those third parties do not satisfactorily perform their contractual obligations or meet anticipated deadlines, the development of our product candidates could be adversely affected.

We do not employ personnel or possess the facilities necessary to conduct many of the activities associated with our programs. We engage consultants, advisors, contract research organizations (“CROs”), CMOs, and others to assist in the design and conduct of nonclinical and clinical studies of our product candidates, with interpretation of the results of those studies and with regulatory activities, and we expect to continue to outsource all or a significant amount of such activities. As a result, many important aspects of our development programs are and will continue to be outside our direct control, and our third-party service providers may not perform their activities as required or expected, including the maintenance of good clinical practice (“GCP”), good laboratories practice (“GLP”), and cGMP compliance, which are ultimately our responsibility to ensure. Further, such third parties may not be as committed to the success of our programs as our own employees and, therefore, may not devote the same time, thoughtfulness, or creativity to completing projects or problem-solving as our own employees would. To the extent we are unable to successfully manage the performance of third-party service providers, our business may be adversely affected.

The CROs that we engage to execute our clinical studies play a significant role in the conduct of the studies, including the collection and analysis of study data, and we likely will depend on CROs and clinical investigators to conduct future clinical studies and to assist in analyzing data from completed studies and developing regulatory strategies for our product candidates. Individuals working at the CROs with which we contract, as well as investigators at the sites at which our studies are conducted, are not our employees, and we have limited control over the amount or timing of resources that they devote to their programs. In addition, our CROs may be affected by business or workforce interruptions for many reasons, including as a result of an outbreak of COVID-19 or another infectious disease, over which they and we have limited control. If our CROs, study investigators, and/or third-party sponsors fail to devote sufficient time and resources to studies of our product candidates, if we and/or our CROs do not comply with all GLP and GCP regulatory and contractual requirements, or if their performance is substandard, we may delay commencement and/or completion of these studies, submission of applications for regulatory approval, regulatory approval, and commercialization of our product candidates. Failure of CROs to meet their obligations to us could adversely affect development of our product candidates.

In addition, CROs we engage may have relationships with other commercial entities, some of which may compete with us. Through intentional or unintentional means, our competitors may benefit from lessons learned on our projects that could ultimately harm our competitive position. Moreover, if a CRO fails to properly, or at all, perform our activities during a clinical study, we may not be able to enter into arrangements with alternative CROs on acceptable terms or in a timely manner, or at all. Switching CROs may increase costs and divert management time and attention. In addition, there likely would be a transition period before a new CRO commences work. These challenges could result in delays in the commencement or completion of our clinical studies, which could materially impact our ability to meet our desired and/or announced development timelines and have a material adverse impact on our business and financial condition. Additionally, the COVID-19 global pandemic may pose significant risks to our development and commercialization of our product candidates as our third-party service providers, manufacturers, and suppliers are experiencing restrictions and challenges which could negatively impact our supply-chain and progress of our development pipeline.

We currently have limited marketing capabilities and no sales organization. If we are unable to establish sales and marketing capabilities on our own or through third parties, we will be unable to successfully commercialize our products, if approved, or generate product revenue.

To commercialize our products, if approved, in the U.S. and other jurisdictions we seek to enter, we must build our marketing, sales, managerial, and other non-technical capabilities, or make arrangements with third parties to perform these services, and we may not be successful in doing so. If our products receive regulatory approval, we expect to market such products in the U.S. through a focused, specialized sales force, which will be costly and time consuming. Institutionally, we have no prior experience in the marketing and sale of pharmaceutical products and there are significant risks involved in building and managing a sales organization, including our ability to hire, retain, and incentivize qualified individuals, generate sufficient sales leads, provide adequate training to sales and marketing personnel, and effectively manage a geographically dispersed sales and marketing team. Outside of the U.S., we may consider collaboration arrangements. If we are unable to enter into such arrangements on acceptable terms or at all, we may not be able to successfully commercialize our products in certain markets. Any failure or delay in the development of our internal sales, marketing, and distribution capabilities would adversely impact the commercialization of our products. If we are not successful in commercializing our products, either on our own or through collaborations with one or more third parties, our future product revenue will suffer, and we would incur significant additional losses.

To establish a sales and marketing infrastructure and expand our manufacturing capabilities, we will need to increase the size of our organization, and we may experience difficulties in managing this growth.

As of August 6, 2020, we had 46 full-time employees, including 33 employees engaged in research and development. As we advance our product candidates through the development process and to commercialization, we will need to continue to expand our development, regulatory, quality, managerial, sales and marketing, operational, finance, and other resources to manage our operations and clinical trials, continue our development activities, and commercialize our product candidates, if approved. As our operations expand, we expect that we will need to manage additional relationships with various manufacturers and collaborative partners, suppliers, and other organizations.

Due to our limited financial resources and our limited experience in managing a company with such anticipated growth, we may not be able to effectively maintain or manage the expansion of our operations or recruit and train additional qualified personnel. In addition, the physical expansion of our operations may lead to significant costs and may divert our management attention and resources. Any inability to manage growth could delay the execution of our development and strategic objectives, or disrupt our operations, which could materially impact our business, revenue, and operating results.

Our product candidates may cause undesirable side effects or adverse events or have other properties that could delay or prevent our clinical development, regulatory approval, or commercialization.

Undesirable side effects or adverse events caused by our product candidates could interrupt, delay, or halt clinical studies and could result in the denial of regulatory approval by the FDA or other regulatory authorities for any or all indications, and in turn prevent us from commercializing our product candidates. A significant challenge in clinical development is that the patient population in early studies, where small numbers of patients are required, is different from the patient population observed in later stage studies, where larger groups of patients are required. For example, patients in earlier stage studies may be more sick, compliant, or otherwise motivated than patients in larger studies. As such, efficacy or safety results may differ significantly between studies. Side-effects seen at high doses in earlier studies of AeroVanc, such as bronchoconstriction or other airway irritation, may be seen in significant numbers at the lower doses selected for later studies. Also, for AeroVanc, while not observed in the Phase 2 clinical study, the emergence of vancomycin-resistant MRSA could occur during the longer dosing period of AeroVanc that is currently implemented in the Phase 3 clinical study. If this or other undesirable side effects occur, they could possibly prevent approval, which would have a material and adverse effect on our business.

If any of our product candidates receive marketing approval and we or others later identify undesirable side effects caused by the product:

- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- regulatory authorities may withdraw their approval of the product;
- we may be required to change the way the product is administered, conduct additional clinical studies, or change the labeling of the product; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product, which in turn could delay or prevent us from generating significant revenue from its sale.

We may not achieve our projected development goals in the time frames we have announced.

We have set goals for accomplishing certain objectives material to the successful development of our product candidates. The actual timing of these events may vary due to many factors, including delays or failures in our nonclinical testing, clinical studies, and manufacturing and regulatory activities and the uncertainties inherent in the regulatory approval process. From time to time we create estimates for the completion of enrollment of or announcement of data from clinical studies of our product candidates. However, predicting the rate of enrollment or the time from completion of enrollment to announcement of data for any clinical study requires us to make significant assumptions that may prove to be incorrect. As an example, due to the COVID-19 pandemic, we have stopped enrollment in our AVAIL and ENCORE studies. Our estimated enrollment rates and the actual rates may differ materially, and the time required to complete enrollment of any clinical study may be considerably longer than we estimate. Such delays may adversely affect our financial condition and results of operations.

Even if we complete a clinical study with successful results, we may not achieve our projected development goals in the time frames we initially anticipate or announce. If a development plan for a product candidate becomes more extensive and costly than anticipated, we may determine that the associated time and cost are not financially justifiable and, as a result, may discontinue development in a particular indication or of the product candidate as a whole. In addition, even if a study did complete with successful results, changes may occur in regulatory requirements or policy during the period of product development and/or regulatory review of an NDA or BLA that relate to the data required to be included in NDAs or BLAs, which may require additional studies that may be costly and time consuming. Any of these actions may be viewed negatively, which could adversely impact our financial condition.

Further, throughout development, we must provide adequate assurance to the FDA and other regulatory authorities that we can consistently develop and produce our product candidates in conformance with GLP, GCP, cGMP, and other regulatory standards. As discussed above, we rely on CMOs for the manufacture of clinical, and future commercial, quantities of our product candidates. If future FDA or other regulatory authority inspections identify cGMP compliance deficiencies at these third-party facilities, production of our clinical trial material or, in the future, commercial product, could be disrupted, causing potentially substantial delay in or failure of development or commercialization of our product candidates.

Our employees, independent contractors and consultants, principal investigators, CROs, CMOs and other vendors, and any future commercial partners may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.

We are exposed to the risk that our employees, independent contractors and consultants, principal investigators, CROs, CMOs and other vendors, and any future commercial partners may engage in fraudulent conduct or other misconduct, including intentional failures to comply with FDA regulations or similar regulations of comparable foreign regulatory authorities, to provide accurate information to the FDA or comparable foreign regulatory authorities, to comply with manufacturing standards required by cGMP or our standards, to comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable foreign regulatory authorities, and to report financial information or data accurately or disclose unauthorized activities to them. The misconduct of our employees and other service providers could involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. Although we have adopted a code of business conduct and ethics, it is not always possible to identify and deter such misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against them, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant fines or other sanctions. For example, if one of our manufacturing partners were placed under a consent decree, we may be hampered in our ability to manufacture clinical or commercial supplies.

Our business and operations would suffer in the event of third-party computer system failures, cyber-attacks on third-party systems, or deficiency in our cyber-security.

We rely on information technology (“IT”) systems, including third-party “cloud based” service providers, to keep financial records, maintain laboratory data, clinical data and corporate records, communicate with staff and external parties, and operate other critical functions. This includes critical systems such as email, other communication tools, electronic document repositories, and archives. If any of these third-party IT providers are compromised due to computer viruses, unauthorized access, malware, natural disasters, fire, terrorism, war and telecommunication failures, electrical failures, cyber-attacks, or cyber-intrusions over the internet, then sensitive emails or documents could be exposed or deleted. Similarly, we could incur business disruption if our access to the internet is compromised and we are unable to connect with third-party IT providers. The risk of a security breach or disruption, particularly through cyber-attacks or cyber-intrusion by computer hackers, foreign governments, or cyber-terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. In addition, we rely on those third parties to safeguard important confidential personal data regarding our employees and patients enrolled in our clinical trials. If a disruption event were to occur and cause interruptions in a third-party IT provider’s operations, it could result in a disruption of our drug development programs. For example, the loss of clinical trial data from completed, ongoing, or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach results in loss or damage to our data or applications or inappropriate disclosure of confidential or proprietary information, we could incur liability and development of our product candidates could be delayed or could fail. We have experienced and may continue to experience attempts to breach our security and attempts to introduce malicious software into our IT systems; however, to date and to our knowledge, such attacks have not resulted in any material damage to us.

We are continually working to maintain reliable systems to control costs and improve our operations. Our efforts include, but are not limited to, the following: firewalls, antivirus protection, patches, log monitors, routine backups with offsite retention of storage media, system audits, data partitioning, and routine password modifications. Our internal IT systems environment continues to evolve and our business policies and internal security controls may not keep pace as new threats emerge. No assurance can be given that our efforts to continue to enhance our systems will be successful.

If we fail to comply with data protection laws and regulations, we could be subject to government enforcement actions (which could include civil or criminal penalties), private litigation and/or adverse publicity, which could negatively affect our operating results and business, or if we or our vendors fail to comply with applicable data privacy laws, including the GDPR or the CCPA, we could be subject to government enforcement actions and significant penalties against us, and our business could be adversely impacted.

A number of state, national, and foreign laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. Due to our Danish subsidiary, Savara ApS, our clinical trial activities, and operations in Europe, we are subject to data protection laws in the EU, including the General Data Protection Regulation (“GDPR”). The GDPR, which became effective on May 25, 2018, has caused the EU requirements for the protection of personal data to become more stringent and increased the penalties for noncompliance. Penalties can consist of fines up to 20 million euros or 4% of global annual revenues, whichever is higher. As a result, we have been required to implement additional mechanisms to ensure compliance with the new EU data protection rules, which may cause us to incur additional costs. Similarly, in June 2018, California enacted the California Consumer Privacy Act of 2018 (the “CCPA”), which became effective in January 2020. The CCPA, among other things, requires covered companies to provide new disclosures to California consumers and afford such consumers new rights to opt-out of certain sales of personal information. The CCPA creates a private right of action for statutory damages for certain breaches of information. The California Attorney General has proposed regulations under the CCPA which are effective as of July 1, 2020. Aspects of the CCPA and its interpretation and enforcement remain unclear at this time. In addition, other states have enacted or proposed legislation that regulates the collection, use, and sale of personal information, and such regimes might not be compatible with either the GDPR or the CCPA. We may be required to implement additional mechanisms to comply with the CCPA or such other state laws, which may be difficult to implement and may require us to incur additional costs. If we or our vendors fail to comply with applicable data privacy laws, including the GDPR, we could be subject to government enforcement actions and significant penalties against us, and our business could be adversely impacted.

Our operations might be interrupted and financial results could be adversely impacted by the occurrence of a natural disaster, war, system malfunction, terrorism, telecommunication and electrical failures or other catastrophic event, or public health crises, such as the 2020 COVID-19 pandemic.

Our corporate headquarters is located in a single commercial facility in Austin, Texas, USA. We maintain a second office in a single commercial facility in Denmark where many of our product development staff are located. Important documents and records, including copies of our regulatory documents and other records for our product candidates, are located both at a secure offsite document storage facility as well at our own facilities and we depend on our facilities for the continued operation of our business. Natural disasters and other catastrophic events, such as wildfires and other fires, earthquakes and extended power interruptions, terrorist attacks, public health crises, or severe weather conditions could significantly disrupt our operations and result in additional, unplanned expense. As a small company with limited resources, we are currently preparing or implementing a formal business continuity or disaster recovery plan and any natural disaster or catastrophic event could disrupt our business operations and result in setbacks to our development programs. Even though we believe we carry commercially reasonable insurance, we might suffer losses that are not covered by or exceed the coverage available under these insurance policies.

During the first quarter of 2020, COVID-19 was declared a pandemic by the WHO, resulting in significant disruptions to U.S. and international manufacturing and supply chains or operations as well as travel restrictions in the U.S., Denmark, and many other countries. While the continued impact of the current COVID-19 pandemic on our business and financial results is uncertain, a continued and prolonged public health crisis such as the COVID-19 pandemic could have a negative impact on our business, financial condition, and operating results. As a result of the COVID-19 pandemic, there could be delays in the manufacturing supply chain for our product candidates, including delays in procurement of materials for certain of our clinical studies due to the outbreak, delays in clinical trials or recruitment, or in a more severe scenario, our business, financial condition, and operating results could be more severely affected. Given the dynamic nature of these circumstances, the duration of any business disruption or potential impact to our business of the COVID-19 pandemic is difficult to predict.

Risks Related to Drug Development and Commercialization

We depend on the successful completion of clinical studies of our product candidates, and any positive results in prior clinical studies do not ensure that ongoing or future clinical studies will be successful.

Pharmaceutical products are subject to stringent regulatory requirements covering quality, safety, and efficacy. The burden of proof is on the manufacturer, such as us, to show with substantial clinical data that the risk/benefit profile for any new drug is favorable. Only after successfully completing extensive pharmaceutical development, nonclinical testing, and clinical studies may a product be considered for regulatory approval.

Clinical studies are expensive, difficult to design and implement, they can take many years to complete, and outcomes are inherently uncertain. A drug product may fail to demonstrate positive results at any stage of testing despite having progressed satisfactorily through nonclinical testing and initial clinical studies. There is significant risk in clinical development where later stage clinical studies are designed and powered based on the analysis of data from earlier studies, with these earlier studies involving a smaller number of patients, and the results of the earlier studies being driven primarily by a subset of responsive patients. In addition, interim results of a clinical study do not necessarily predict final results. Further, clinical study data frequently are susceptible to varying interpretations. Medical professionals and/or regulatory authorities may analyze or weigh study data differently than the sponsor company, resulting in delay or failure to obtain marketing approval for a product candidate. Additionally, the possible lack of standardization across multiple investigative sites may induce variability in the results which can interfere with the evaluation of treatment effects.

If we license rights to develop our product candidates to independent third parties or otherwise permit such third parties to evaluate our product candidates in clinical studies, we may have limited control over those clinical studies. Any safety or efficacy concern identified in a third-party sponsored study could adversely affect our or another licensee's development of our product candidate and prospects for its regulatory approval, even if the data from that study are subject to varying interpretations and analyses.

There is significant risk that ongoing and future clinical studies of our product candidates are unsuccessful. Negative or inconclusive results could cause the FDA and other regulatory authorities to require us to repeat or conduct additional clinical studies, which could significantly increase the time and expense associated with development of that product candidate or cause us to elect to discontinue one or more clinical programs. For example, as a result of our IMPALA study results and related correspondence from the FDA, we are planning an additional Phase 3 study of Molgradex for the treatment of aPAP. Failure to complete a clinical study of a product candidate or an unsuccessful result of a clinical study could have a material adverse effect on our business.

Molgradex, Apulmiq, and AeroVanc have received Orphan Drug Designation by the FDA and Molgradex has also received Orphan Drug Designation in Europe. While orphan designation provides certain benefits, there are also associated risks.

Molgradex has received Orphan Drug Designation in the U.S. by the FDA and in Europe by the EMA for the treatment of aPAP, Apulmiq has been granted Orphan Drug Designation in the U.S. by the FDA for the treatment of lung infection in NCFB patients, and AeroVanc has been granted Orphan Drug Designation in the U.S. by the FDA for the treatment of MRSA lung infection in patients with CF. Orphan Drug Designation will not shorten the regulatory review or reduce the clinical data requirements needed to obtain approval. If approval is received to market Molgradex, Apulmiq, or AeroVanc for the respective indications, the FDA will not approve a similar product, with the same active ingredient, to Molgradex, Apulmiq, or AeroVanc for seven years and the EMA will not approve a similar product to Molgradex for ten years, unless we are unable to produce enough supply to meet demand in the marketplace or another similar product, with the same active ingredient, is deemed clinically superior. Similar product candidates, with the same active ingredient and route of delivery, may be granted Orphan Drug Designation during the development of the respective products, but the Orphan Drug exclusivity is granted only to the first of such products approved, which means there is risk that a competitor product candidate may receive approval and Orphan Drug exclusivity before us, thus preventing us from marketing one or more of our product candidates until the exclusivity of the competing product expires. Also, the Orphan Drug status will not prevent a competitor with a different active ingredient from competing with our product candidates. If we are prevented from marketing one or more product candidates due to a competitor's Orphan Drug exclusivity, this would have a material adverse effect on our business.

Delays in commencement and completion of clinical studies are common and have many causes. Delays in clinical studies of our product candidates would likely increase overall development costs and jeopardize our ability to obtain regulatory approval and successfully commercialize any approved products.

Clinical testing typically is expensive, can take many years to complete, and its outcome is inherently uncertain. Clinical studies may not commence on time or be completed on schedule, if at all. The commencement and completion of clinical studies can be delayed for a variety of reasons, including:

- inability to raise sufficient funding to initiate or continue a clinical study;
- delays in obtaining regulatory approval to commence a clinical study;
- delays in identifying and reaching agreement on acceptable terms with prospective CROs, clinical study sites, and investigators, which agreements can be subject to extensive negotiation and may vary significantly among study sites;
- delays in obtaining regulatory approval in a prospective country;
- delays in obtaining ethics committee approval to conduct a clinical study at a prospective site;
- delays in reaching agreements on acceptable terms with prospective CMOs or other vendors for the production and supply of clinical trial material and, if necessary, drug administration devices, which agreements can be subject to extensive negotiation;
- delays in the production or delivery of sufficient quantities of clinical trial material or drug delivery devices from our CMOs and other vendors to initiate or continue a clinical study;
- delays due to product candidate recalls as the result of stability failure, excessive product complaints, or other failures of the product candidate during its use or testing;

- invalidation of clinical data caused by premature unblinding or integrity issues;
- invalidation of clinical data caused by mixing up of the active drug and placebo through randomization or manufacturing errors;
- delays on the part of our CROs, CMOs, and other third-party contractors in developing procedures and protocols or otherwise conducting activities in accordance with applicable policies and procedures and in accordance with agreed upon timelines;
- delays in identifying and hiring or engaging, as applicable, additional employees or consultants to assist in managing clinical study-related activities;
- delays in recruiting and enrolling individuals to participate in a clinical study, which historically can be challenging in orphan diseases;
- delays caused by patients dropping out of a clinical study due to side effects, concurrent disorders, difficulties in adhering to the study protocol, unknown issues related to different patient profiles than in previous studies, such as the reduced age limit required for inclusion into the AeroVanc Phase 3 study, or otherwise;
- delays in having patients complete participation in a clinical study, including returning for post-treatment follow-up;
- delays resulting from study sites dropping out of a trial, providing inadequate staff support for the study, problems with shipment of study supplies to clinical sites, or focusing its staff's efforts on enrolling studies that compete for the same patient population;
- suspension of enrollment at a study site or the imposition of a clinical hold by the FDA or other regulatory authority following an inspection of clinical study operations at study sites or finding of a drug-related serious adverse event;
- delays in quality control/quality assurance procedures necessary for study database lock and analysis of unblinded data; and
- delays, inconsistencies, or negative results in statistical analyses of clinical study data.

Patient enrollment, a critical component to successful completion of a clinical study, is affected by many factors, including the size and nature of the study population, the proximity of patients to clinical sites, the eligibility criteria for the study, the design of the clinical study, ongoing studies competing for the same patient population and clinicians and patients' perceptions as to the potential advantages of the drug being studied in relation to available alternatives, including therapies being investigated by other companies which may be viewed as more beneficial or important to study, fear of being randomized to the placebo arm, and changes in standard of care. Challenges to complete enrollment can be exacerbated in orphan indications, like those being pursued by us, with a limited number of qualifying patients and the lack of clinical sites with the necessary expertise and experience to conduct our studies. Further, completion of a clinical study and/or its results may be adversely affected by failure to retain patients who enroll in a study but withdraw due to adverse side effects, perceived lack of efficacy, belief that they are on placebo, improvement in condition before treatment has been completed, for personal reasons, without reason, or by patients who fail to return for or complete post-treatment follow-up. On March 30, 2020, due to the COVID-19 pandemic, and out of an abundance of caution for people living with CF and clinical study staff, we announced the close-out of enrollment in our Phase 3 AVAIL and Phase 2a ENCORE studies. With patient safety at the forefront of the decision, and in accordance with guidelines established by the FDA, efforts will be made to allow enrolled patients to continue with study treatments and site visit protocols, where possible. However, the COVID-19 pandemic may cause further delays in our clinical trials and have a negative impact on our business, financial condition and operating results.

Clinical studies may not begin on time or be completed in the time frames we anticipate and may be costlier than we anticipate for a variety of reasons, including one or more of those described above. The length of time necessary to successfully complete clinical studies varies significantly and is difficult to predict accurately. We may make statements regarding anticipated timing for completion of enrollment in and/or availability of results from our clinical studies, but such predictions are subject to a number of significant assumptions and actual timing may differ materially for a variety of reasons, including patient enrollment rates, length of time needed to prepare raw study data for analysis and then to review and analyze it, and other factors described above. If we experience delays in the completion of a clinical study, if a clinical study is terminated, or if failure to conduct a study in accordance with regulatory requirements or the study's protocol leads to deficient safety and/or efficacy data, the regulatory approval and/or commercial prospects for our product candidates may be harmed, and our ability to generate product revenue will be delayed. In addition, any delays in completing our clinical studies likely will increase our development costs. Further, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical studies have in the past and may in the future ultimately lead to the denial of regulatory approval of a product candidate. Even if we ultimately commercialize our product candidates, the standard of care may have changed or other therapies for the same indications may have been introduced to the market in the interim and may establish a competitive threat to us or diminish the need for our products.

Clinical studies are very expensive, difficult to design and implement, often take many years to complete, and the outcome is inherently uncertain.

Clinical development of pharmaceutical products for humans is generally very expensive, takes many years to complete, and failures can occur at any stage of clinical testing. We estimate that clinical development of our product candidates will take several additional years to complete, but because of the variety of factors that can affect the design, timing and outcome of clinical studies, we are unable to estimate the exact funds required to complete research and development, obtain regulatory approval, and commercialize all of our product candidates. We will need significant additional capital to continue to advance our products as per current business plans.

Failure at any stage of clinical testing is not uncommon and we may encounter problems that would require additional, unplanned studies or cause us to abandon a clinical development program.

In addition, a clinical study may be suspended or terminated by us, an IRB, a data safety monitoring board, the FDA, or other regulatory authorities due to a number of factors, including:

- lack of adequate funding to continue the study;
- failure to conduct the study in accordance with regulatory requirements or the study's protocol;
- inspection of clinical study operations or sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- unforeseen safety issues, including adverse side effects; or
- changes in governmental regulations or administrative actions.

Changes in governmental regulations and guidance relating to clinical studies may occur and we may need to amend study protocols to reflect these changes, or we may amend study protocols for other reasons. Amendments may require us to resubmit protocols to IRBs for re-examination and approval or renegotiate terms with CROs, study sites and investigators, all of which may adversely impact the costs or timing of or our ability to successfully complete a trial.

There is significant uncertainty regarding the regulatory approval process for any investigational new drug, substantial further testing and validation of our product candidates and related manufacturing processes may be required, and regulatory approval may be conditioned, delayed, or denied, any of which could delay or prevent us from successfully marketing our product candidates and substantially harm our business.

Pharmaceutical products generally are subject to rigorous nonclinical testing and clinical studies and other approval procedures mandated by the FDA and foreign regulatory authorities. Various federal and foreign statutes and regulations also govern or materially influence the manufacturing, safety, labeling, storage, record keeping, and marketing of pharmaceutical products. The process of obtaining these approvals and the subsequent compliance with appropriate U.S. and foreign statutes and regulations is time-consuming and requires the expenditure of substantial resources. Molgradex is currently in Phase 3 clinical testing. The clinical study topline results were released by us on June 12, 2019 and did not meet all of the statistical goals and protocol end points. On October 1, 2019, we received a written response from the FDA in connection with a Type C meeting regarding the Molgradex development program for aPAP and results from the IMPALA Phase 3 study in which the FDA indicated that the data provided in the briefing package for the Type C meeting did not provide sufficient evidence of efficacy and safety for the treatment of aPAP.

On December 23, 2019, the FDA provided communication to us regarding the granting of Breakthrough Therapy designation, a process designed to expedite the development and review of drugs that are intended to treat a serious condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy on clinically significant endpoint(s), for Molgradex for the treatment of aPAP. As such, we have worked with the FDA and EMA and determined the scope and design of an additional Phase 3 study for the Molgradex development program for the treatment of aPAP, the IMPALA 2 study. The scope, powering, cost, and timing of IMPALA 2, expected to commence in the first quarter of 2021, will require us to expend substantial additional resources, significantly extend the timeline for clinical development prior to market approval, and may result in failure to complete the clinical development or gain regulatory approval of Molgradex for the treatment of aPAP.

We are currently planning a new Phase 3 clinical study of Apulmiq in NCFB patients. Apulmiq's original developer, Aradigm Corporation, submitted an NDA for Apulmiq to the FDA in July 2017, based on the results from their ORBIT4 study, and supportive evidence from their ORBIT2 and ORBIT3 studies. In January 2018, Aradigm received a complete response letter ("CRL") from the FDA regarding the NDA for Apulmiq, which stated that the FDA determined it cannot approve the NDA as submitted, and provided recommendations needed for resubmission. The areas of concern included clinical data, human factors validation study and product quality. Most importantly, the recommendations in the CRL included an additional Phase 3 clinical study that demonstrates a significant treatment effect on clinically meaningful endpoints. The CRL also included a request to conduct another human factors study to demonstrate that the product packaging and instructions for use are effective, and the CRL requested, among other things, additional product quality information with respect to microbiology and a new in vitro drug release method development report. We now plan to engage in discussions with the FDA to discuss the topics covered in the CRL, with a focus on the design and endpoints of another Phase 3 clinical study that would support a resubmission of the NDA for Apulmiq. While we believe we have a reasonable plan for a new Phase 3 study, we cannot provide assurance that we will be able to reach agreement with the FDA on a feasible study design. For example, the FDA may require us to use endpoints that necessitate the study to be excessively large, or to apply a treatment duration that would be excessively long, both of which may make a new study unfeasible. In the case that we are successful in reaching agreement with the FDA on the study design, we cannot provide assurance that we will be able to conduct such study with positive results, and to be able to resubmit the NDA. Even if we resubmit the NDA, we may not be successful in obtaining FDA approval of Apulmiq. For example, the FDA could require us to complete further clinical, or other studies, which could further delay or preclude any approval of the NDA and require us to obtain significant additional funding.

Our Phase 3 trial of AeroVanc is ongoing, the success of which will be needed for FDA approval to market AeroVanc in the U.S. to treat persistent MRSA lung infection in individuals living with CF. However, due to the COVID-19 pandemic, and out of an abundance of caution for people living with CF and clinical study staff, we announced the termination of enrollment in our Phase 3 AVAIL study on March 30, 2020. With patient safety at the forefront of the decision, and in accordance with guidelines established by the FDA, we are making efforts to allow enrolled patients to continue with study treatments and site visit protocols, where possible. While significant communication with the FDA on the Phase 3 study design has occurred, even if the Phase 3 clinical study meets all of its statistical goals and protocol end points, the FDA may not view the results as robust and convincing. Additionally, they may require additional clinical studies and/or other costly studies, which could require us to expend substantial additional resources and could significantly extend the timeline for clinical development prior to market approval. Additionally, we are conducting a two-year nonclinical carcinogenicity study on the AeroVanc powder, required by the FDA. The results of this study will not be known until a short time prior to potential submission of an NDA or BLA for AeroVanc. If the carcinogenicity study cannot be completed for technical or other reasons, or provides results that the FDA determines to be concerning, this may cause a delay or failure in obtaining approval for AeroVanc.

Significant uncertainty exists with respect to the regulatory approval process for any investigational new drug, including Molgradex, Apulmiq, and AeroVanc. Regardless of any guidance the FDA or foreign regulatory agencies may provide a drug's sponsor during its development, the FDA or foreign regulatory agencies retain complete discretion in deciding whether to accept an NDA or BLA or the equivalent foreign regulatory approval submission for filing or, if accepted, whether to approve an NDA or BLA. There are many components to an NDA or BLA or marketing authorization application submission in addition to clinical study data. For example, the FDA or foreign regulatory agencies will review the sponsor's internal systems and processes, as well as those of its CROs, CMOs, and other vendors, related to development of its product candidates, including those pertaining to its clinical studies and manufacturing processes. Before accepting an NDA or BLA for review or before approving the NDA or BLA, the FDA or foreign regulatory agencies may request that we provide additional information that may require significant resources and time to generate and there is no guarantee that our product candidates will be approved for any indication for which we may apply. The FDA or foreign regulatory agencies may choose not to approve an NDA or BLA for a variety of reasons, including a decision related to the safety or efficacy data, manufacturing controls or systems, or for any other issues that the agency may identify related to the development of its product candidates. Even if one or more Phase 3 clinical studies are successful in providing statistically significant evidence of the efficacy and safety of the investigational drug, the FDA or foreign regulatory agencies may not consider efficacy and safety data from the submitted studies adequate scientific support for a conclusion of effectiveness and/or safety and may require one or more additional Phase 3 or other studies prior to granting marketing approval. If this were to occur, the overall development cost for the product candidate would be substantially greater and competitors may bring products to market before us, which could impair our ability to generate revenues from the product candidates, or even seek approval, if blocked by a competitor's Orphan Drug exclusivity, which would have a material adverse effect on our business, financial condition, and results of operations.

Further, development of our product candidates and/or regulatory approval may be delayed for reasons beyond our control. For example, U.S. federal government shut-downs or budget sequestrations, such as ones that occurred during January 2018 and December 2018 through January 2019, may result in significant reductions to the FDA's budget, employees, and operations, which may lead to slower response times and longer review periods, potentially affecting our ability to progress development of our product candidates or obtain regulatory approval for our product candidates. Further, regulatory oversight and actions may be disrupted or delayed in regions particularly impacted by COVID-19 if regulators and industry professionals are expending significant and unexpected resources addressing the outbreak.

Even if the FDA or foreign regulatory agencies grant approvals for our product candidates, the conditions or scope of the approval(s) may limit successful commercialization of the product candidates and impair our ability to generate substantial sales revenue. For example, Molgradex with restrictions for use only by patients unresponsive to the current standard of care, Apulmiq with restrictions for use only by NCFB patients colonized by specific bacteria or having had a specified number of recent exacerbations, or the FDA may approve label claims for AeroVanc with age restrictions and/or treatment duration limitations. They may limit the label of Molgradex, Apulmiq, or AeroVanc to a subset of patients based on a review of which patient groups had the greatest efficacious response in clinical studies. Such label restriction may be undesirable and may limit successful commercialization. The FDA or foreign regulatory agencies may also only grant marketing approval contingent on the performance of costly post-approval nonclinical or clinical studies, or subject to warnings or contraindications that limit commercialization. Additionally, even after granting approval, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion, and recordkeeping for our products will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, and continued compliance with cGMP, GCP, international conference on harmonization regulations, and GLP, which are regulations and guidelines that are enforced by the FDA or foreign regulatory agencies for all clinical development and for any clinical studies that we conduct post-approval. The FDA or foreign regulatory agencies may decide to withdraw approval, add warnings, or narrow the approved indications in the product label, or establish risk management programs that could restrict distribution of our products. These actions could result from, among other things, safety concerns, including unexpected side effects or drug interaction problems, or concerns over misuse of a product. If any of these actions were to occur following approval, we may have to discontinue commercialization of the product, limit our sales and marketing efforts, implement risk minimization procedures, and/or conduct post-approval studies, which in turn could result in significant expense and delay or limit our ability to generate sales revenues.

Regulations may be changed prior to submission of a marketing application that require higher hurdles than currently anticipated. These may occur as a result of drug scandals, recalls, or a political environment unrelated to our products.

Even if we receive regulatory approval for a product candidate, we may face regulatory difficulties that could materially and adversely affect our business, financial condition, and results of operations.

Even if initial regulatory approval is obtained, as a condition to the initial approval, the FDA or a foreign regulatory agency may impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies or marketing surveillance programs, any of which would limit the commercial potential of the product. Our product candidates also will be subject to ongoing FDA requirements related to the manufacturing processes, labeling, packaging, storage, distribution, advertising, promotion, record-keeping, and submission of safety and other post-market information regarding the product. For instance, the FDA may require changes to approved drug labels, require post-approval clinical studies, and impose distribution and use restrictions on certain drug products. In addition, approved products, manufacturers and manufacturers' facilities are subject to continuing regulatory review and periodic inspections. If previously unknown problems with a product are discovered, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, the FDA may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If we or a CMO of ours fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- impose civil or criminal penalties;
- suspend or withdraw regulatory approval;
- suspend or terminate any ongoing clinical studies;
- refuse to approve pending applications or supplements to approved applications;
- exclude our product from reimbursement under government healthcare programs, including Medicaid or Medicare;
- impose restrictions or affirmative obligations on our or our CMO's operations, including costly new manufacturing requirements;
- close the facilities of a CMO; or
- seize or detain products or require a product recall.

If any of our product candidates for which we receive regulatory approval fails to achieve significant market acceptance among the medical community, patients, or third-party payers, the revenue we generate from its sales will be limited and our business may never achieve profitability.

Our success will depend in substantial part on the extent to which our product candidates, if approved, are accepted by the medical community and patients and reimbursed by third-party payers, including government payers. The degree of market acceptance with respect to each of our approved products, if any, will depend upon a number of factors, including:

- the safety and efficacy of our products as demonstrated in clinical studies;
- acceptance in the medical and patient communities of our products as a safe and effective treatment;
- the product's taste, ease of use, or features associated with the delivery device;
- the perceived advantages of our product over alternative treatments, including with respect to the incidence and severity of any adverse side effects and the cost of treatment;
- the indications for which our product is approved;
- claims or other information (including limitations or warnings) in a product's approved labeling;
- reimbursement and coverage policies of government and other third-party payers;
- pricing and cost-effectiveness of our product relative to alternative treatments;
- availability of alternative treatments;
- smaller-than-expected market size due to lack of disease awareness of a rare disease, or the patient population with a specific rare disease being smaller than anticipated;
- inappropriate diagnostic efforts due to limited knowledge and/or resources among clinicians;
- difficulties identifying patients;
- the prevalence of off-label substitution of chemically equivalent products or alternative treatments; and
- the resources we devote to marketing our product and restrictions on promotional claims we can make with respect to the product.

We cannot predict with reasonable accuracy whether physicians, patients, healthcare insurers, health maintenance organizations, or the medical community in general, will accept or utilize any of our products, if approved. If our product candidates are approved but do not achieve an adequate level of acceptance by these parties, we may not generate sufficient revenue to become or remain profitable. In addition, our efforts to educate the medical community and third-party payers regarding benefits of our products may require significant resources and may never be successful.

If we determine that a product candidate may not achieve adequate market acceptance or that the potential market size does not justify additional expenditures on the program, we may reduce our expenditures on the development and/or the process of seeking regulatory approval of the product candidate while we evaluate whether and on what timeline to move the program forward.

Even if we receive regulatory approval to market one or more of our product candidates in the U.S., we may never receive approval or commercialize our products outside of the U.S., which would limit our ability to realize the full commercial potential of our product candidates.

In order to market products outside of the U.S., we must establish and comply with the numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. The time required to obtain approval in other countries generally differs from that required to obtain FDA approval. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA approval in the U.S., as well as other risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA approval in the U.S. As described above, such effects include the risks that our product candidates may not be approved for all indications requested, which could limit the uses of our product candidates and have an adverse effect on product sales, and that such approval may be subject to limitations on the indicated uses for which the product may be marketed or require costly, post-marketing follow-up studies. Conversely, if the product candidates do receive approval outside the U.S. in the future, we may not meet the FDA requirements in the U.S. for approval.

We must comply with the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws.

The U.S. Foreign Corrupt Practices Act, to which we are subject, prohibits corporations and individuals from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. It is illegal to pay, offer to pay, or authorize the payment of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. Other countries, such as the U.K., have similar laws with which we must comply. We face the risk that an employee or agent could be accused of violating one or more of these laws, particularly in geographies where significant overlap exists between local government and healthcare industries. Such an accusation, even if unwarranted, could prove disruptive to our developmental and commercialization efforts.

Risks Related to Our Intellectual Property

Our success will depend on obtaining and maintaining effective patent and other intellectual property protection for our product candidates and proprietary technology.

AeroVanc has received a U.S. Patent Notice of Allowance for its formulation in the U.S., AeroVanc's primary market. AeroVanc has either been issued patents or is prosecuting patent applications in numerous countries outside the U.S. AeroVanc has also been designated an Orphan Drug and a Qualified Infectious Disease Product ("QIDP"). We have no patent protection for Molgradex for the treatment of aPAP, and primarily rely on the Orphan Drug exclusivity as our primary barrier to competition. Molgradex for the treatment of NTM has issued patents ex-U.S. (under prosecution in the U.S.) with an additional international patent application pending. Both Molgradex and AeroVanc utilize proprietary delivery devices with exclusive supply agreements. Molgradex receives additional protection via a proprietary cell bank used in the production of the drug substance.

We have exclusive development and commercialization rights to Apulmiq under a development and commercialization license agreement of which related patents are owned by licensor. For example, Apulmiq is the subject of patents and patent applications focused on formulations of ciprofloxacin for inhalation. We also believe Apulmiq is protected by its difficult to manufacture liposomal formulation that relies on substantial know-how and trade secrets and that is also protected by our exclusive agreement with Apulmiq's contract manufacturer. In the U.S, Apulmiq has been granted orphan drug designation for the management of bronchiectasis and has also been designated an Orphan Drug and a QIDP for treatment of NCFB patients with chronic lung infections with *Pseudomonas aeruginosa*; as such, Apulmiq may be protected by 12 years of regulatory exclusivity in the U.S. However, we may not be able to receive such designations or protections in other regions.

Our success will depend on our ability to:

- obtain and maintain patent and other exclusivity rights with respect to our products and their uses;
- prevent third parties from infringing upon our proprietary rights;
- maintain proprietary know-how and trade secrets;
- operate without infringing upon the patents and proprietary rights of others; and
- obtain appropriate licenses to patents or proprietary rights held by third parties if infringement would otherwise occur, or if necessary, to secure exclusive rights to them, both in the U.S. and in foreign countries.

The patent and intellectual property positions of biopharmaceutical companies generally are highly uncertain, involve complex legal and factual questions, and have been and continue to be the subject of much litigation. There is no guarantee that we have or will develop or obtain the rights to products or processes that are patentable, that patents will issue from any pending applications or that claims allowed will be sufficient to protect the technology we develop or have developed or that is used by us, our CMOs, or our other service providers. In addition, any patents that are issued to us may be limited in scope or challenged, invalidated, infringed, or circumvented, including by our competitors, and rights we have under issued patents may not provide competitive advantages to us. If competitors can develop and commercialize technology and products similar to ours, our ability to successfully commercialize our technology and products may be impaired.

Patent applications in the U.S. are confidential for a period of time until they are published, and publication of discoveries in scientific or patent literature typically lags actual discoveries by several months. As a result, we cannot be certain that the inventors listed in any patent or patent application owned by us were the first to conceive of the inventions covered by such patents and patent applications (for U.S. patent applications filed before March 15, 2013), or that such inventors were the first to file patent applications for such inventions outside the U.S. and, after March 15, 2013, in the U.S. In addition, changes in or different interpretations of patent laws in the U.S. and foreign countries may affect our patent rights and limit the number of patents we can obtain, which could permit others to use our discoveries or to develop and commercialize our technology and products without any compensation to us.

Our AeroVanc patent is specific to the formulation of the AeroVanc powder. While this may prevent identical products from entering the market, it may not preclude someone skilled in the art from inventing an alternate formulation approach with comparable or improved characteristics.

We also rely on unpatented know-how and trade secrets and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, through confidentiality agreements with employees, consultants, collaborators, and others. We also have invention or patent assignment agreements with our employees and certain consultants. The steps we have taken to protect our proprietary rights, however, may not be adequate to preclude misappropriation of or otherwise protect our proprietary information or prevent infringement of our intellectual property rights, and we may not have adequate remedies for any such misappropriation or infringement. In addition, it is possible that inventions relevant to our business could be developed by a person not bound by an invention assignment agreement with us or independently discovered by a competitor.

We also intend to rely on regulatory exclusivity for protection of our product candidates, if approved for commercial sale. Implementation and enforcement of regulatory exclusivity, which may consist of regulatory data protection and market protection, varies widely from country to country. Failure to qualify for regulatory exclusivity, or failure to obtain or maintain the extent or duration of such protections that we expect for our product candidates, if approved, could affect our decision on whether to market the products in a particular country or countries or could otherwise have an adverse impact on our revenue or results of operations. For Molgradex, which is administered via nebulization, we may rely on regulatory exclusivity for the combination of Molgradex and its delivery system. However, there is no assurance that our Molgradex product and its delivery system, if approved, will benefit from this type of market protection. Additionally, while regulatory exclusivity (given Apulmiq's Orphan Drug and QIDP designation) may be a key component of Apulmiq's protection in the U.S., there are no assurances that Apulmiq, if approved, will benefit from this type of market protection in the U.S., and additionally, no similar designations have been received in other regions.

We may rely on trademarks, trade names, and brand names to distinguish our products, if approved for commercial sale, from the products of our competitors. We intend to seek approval for new names for Molgradex, Apulmiq, and AeroVanc that meet the FDA's and foreign regulatory requirements. However, our trademark applications may not be approved. Third parties may also oppose our trademark applications or otherwise challenge our use of the trademarks, in which case we may expend substantial resources to defend our proposed or approved trademarks and may enter into agreements with third parties that may limit our use of our trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our product, which could result in loss of brand recognition and could require us to devote significant resources to advertising and marketing these new brands. For example, we filed a trademark for the name "Savara" and were challenged. We decided to terminate the application, but we may revisit such filings at a future date. Further, our competitors may infringe our trademarks or we may not have adequate resources to enforce our trademarks.

Our success depends on our ability to prevent competitors from duplicating or developing and commercializing equivalent versions of our product candidates, but patent protection may be difficult to obtain and any issued claims may be limited.

We have pending patent applications and issued patents in the U.S. and other countries covering the formulation of AeroVanc. However, these patents may not provide us with significant competitive advantages, because the validity or enforceability of the patents may be challenged and, if instituted, one or more of the challenges may be successful. Patents may be challenged in the U.S. under post-grant review proceedings, *inter partes* re-examination, *ex parte* re-examination, or challenges in district court. Patents issued in foreign jurisdictions may be subjected to comparable proceedings lodged in various foreign patent offices, or courts. These proceedings could result in either loss of the patent or loss or reduction in the scope of one or more of the claims of the patent. Even if a patent issues and is held valid and enforceable, competitors may be able to design around our patents, such as by using pre-existing or newly developed technology, in which case competitors may not infringe our issued claims and may be able to market and sell products that compete directly with us before and after our patents expire. We have exclusive development and commercialization rights to Apulmiq under a development and commercialization license agreement of which related patents are owned by licensor but may still be contested.

We have filed for patent protection in the U.S. and other countries to cover various methods of therapeutic use of our product candidates, including the use of Molgradex for treating NTM lung infections and AeroVanc for the treatment of MRSA infection in the lungs of CF patients. The potential use and potential therapeutic benefits of systemically administered GM-CSF for systemic NTM disease have been described in case reports in published literature, and therefore the use of an inhaled form of GM-CSF may be considered to lack novelty and an inventive step, and thereby to be unpatentable.

While Apulmiq has been granted orphan drug designation as well as designated a QIDP in the U.S., Apulmiq has not received such designations elsewhere and we may not be able to receive such designations due to region-specific patient population sizes or other factors. As such, patent protection, manufacturing trade secrets, know-how and our exclusive contract manufacturer relationship may be especially important for protecting Apulmiq outside the U.S. We may not be able to obtain or protect such patents, and other liposomal product manufacturers may develop their own processes for manufacturing liposomal ciprofloxacin for products that could compete with Apulmiq.

The patent prosecution process is expensive and time-consuming. We and any future licensors and licensees may not apply for or prosecute patents on certain aspects of our product candidates at a reasonable cost, in a timely fashion, or at all. We may not have the right to control the preparation, filing, and prosecution of some patent applications related to our product candidates or technologies. As a result, these patents and patent applications may not be prosecuted and enforced in a manner consistent with our best interests. It is also possible that we or any future licensors or licensees will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Further, it is possible that defects of form in the preparation or filing of our patent applications may exist, or may arise in the future, such as with respect to proper priority claims, inventorship, assignment, or claim scope. If there are material defects in the form or preparation of our patents or patent applications, such patents or applications may be invalid or unenforceable. In addition, one or more parties may independently develop similar technologies or methods, duplicate our technologies or methods, or design around the patented aspects of our products, technologies, or methods. Any of these circumstances could impair our ability to protect our products, if approved, in ways which may have an adverse impact on our business, financial condition, and operating results.

Furthermore, the issuance of a patent is not conclusive as to its inventorship, scope, validity, or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in and outside of the U.S. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated, or held unenforceable, in whole or in part, which could limit our ability to use our patents to stop others from using or commercializing similar or identical products or technology, or limit the duration of the patent protection of our technology and drugs. Given the amount of time required for the development, testing, and regulatory review of new drug candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing drugs similar or identical to ours once QIDP exclusivities have expired. See the section entitled "Risks Related to Our Industry" for further description of Orphan Drug and QIDP exclusivities.

Enforcement of intellectual property rights in certain countries outside the U.S. has been limited or non-existent. Future enforcement of patents and proprietary rights in many other countries will likely be problematic or unpredictable. Moreover, the issuance of a patent in one country does not assure the issuance of a similar patent in another country. Claim interpretation and infringement laws vary by nation, so the extent of any patent protection is uncertain and may vary in different jurisdictions.

Obtaining and maintaining patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees, and various other governmental fees on patents and applications are required to be paid to the United States Patent and Trademark Office ("USPTO"), and various governmental patent agencies outside of the U.S. in several stages over the lifetime of the patents and applications. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions during the patent application process and after a patent has been issued. There are situations in which non-compliance can result in decreased patent term adjustment or in abandonment or lapse of the patent or patent application, leading to partial or complete loss of patent rights in the relevant jurisdiction.

Third parties may claim that our products, if approved, infringe on their proprietary rights and may challenge the approved use or uses of a product or its patent rights through litigation or administrative proceedings, and defending such actions may be costly and time consuming, divert management attention away from our business, and result in an unfavorable outcome that could have an adverse effect on our business.

Our commercial success depends on our ability and the ability of our CMOs and component suppliers to develop, manufacture, market, and sell our products and product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are or may be developing products. Because patent applications can take many years to publish and issue, there currently may be pending applications, unknown to us, that may later result in issued patents that our products, product candidates, or technologies infringe, or that the process of manufacturing our products or any of our respective component materials, or the component materials themselves, infringe, or that the use of our products, product candidates, or technologies infringe.

We or our CMOs or component material suppliers may be exposed to, or threatened with, litigation by a third party alleging that our products, product candidates, and/or technologies infringe its patents and/or other intellectual property rights, or that one or more of the processes for manufacturing our products or any of our respective component materials, or the component materials themselves, or the use of our products, product candidates, or technologies, infringe its patents and/or other intellectual property rights. If a third-party patent or other intellectual property right is found to cover our products, product candidates, technologies, or our uses, or any of the underlying manufacturing processes or components, we could be required to pay damages and could be unable to commercialize our products or use our technologies or methods unless we are able to obtain a license to the patent or intellectual property right. A license may not be available to us in a timely manner or on acceptable terms, or at all. In addition, during litigation, the third-party alleging infringement could obtain a preliminary injunction or other equitable remedy that could prohibit us from making, using, selling, or importing our products, technologies, or methods.

There generally is a substantial amount of litigation involving patent and other intellectual property rights in the industries in which we operate, and the cost of such litigation may be considerable. We can provide no assurance that our product candidates or technologies will not infringe patents or rights owned by others, licenses to which might not be available to us in a timely manner or on acceptable terms, or at all. If a third party claims that we or our CMOs or component material suppliers infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, with or without merit, may be expensive and time consuming to litigate and may divert management's time and attention from our business;
- substantial damages for infringement, including the potential for treble damages and attorneys' fees, which we may have to pay if it is determined that the product and/or its use at issue infringes or violates the third party's rights;
- a court prohibiting us from selling or licensing the product unless the third party licenses its intellectual property rights to us, which it may not be required to do;
- if a license is available from the third party, we may have to pay substantial royalties, fees and/or grant cross-licenses to the third party; and
- redesigning our products or processes so they do not infringe, which may not be possible or may require substantial expense and time.

There may be issued or filed claims covering our products, product candidates, or technology or those of our CMOs or component material suppliers or the use of our products, product candidates, or technologies. Additionally, such patents may be issued or filed in the future. Because of the large number of patents issued and patent applications filed in the industries in which we operate, there is a risk that third parties may allege they have patent rights encompassing our products, product candidates, or technologies, or those of our CMOs or component material suppliers, or uses of our products, product candidates, or technologies.

Specifically, we use a liposomal formulation of ciprofloxacin in our Apulmiq product. A third party has been granted patent rights covering various liposomal formulations of inhaled antibiotics, including formulations containing ciprofloxacin. Whereas we do not believe these patent rights constitute a material obstacle for the commercialization of Apulmiq, there is a possibility that the third party may claim we are infringing their patent rights with our formulation. If that were to occur, we may need to enter into a license agreement with that party, and it may take us a long time to reach such agreement, or we may not succeed in reaching such agreement.

In the future, it may be necessary for us to enforce our proprietary rights, or to determine the scope, validity, and unenforceability of other parties' proprietary rights, through litigation or other dispute proceedings, which may be costly, and to the extent we are unsuccessful, adversely affect our rights. In these proceedings, a court or administrative body could determine that our claims, including those related to enforcing patent rights, are not valid or that an alleged infringer has not infringed our rights. The uncertainty resulting from the mere institution and continuation of any patent or other proprietary rights-related litigation or interference proceeding could have a material and adverse effect on our business prospects, operating results, and financial condition.

Risks Related to Our Industry

We expect competition in the marketplace for our product candidates, should any of them receive regulatory approval.

Molgradex, Apulmiq, and AeroVanc have received Orphan Drug Designation from the FDA and Molgradex has received Orphan Drug Designation from the EMA. Orphan Drug Designation will provide market exclusivity in the U.S. for seven years and ten years in Europe, but only if (i) Molgradex, Apulmiq, and AeroVanc receive market approval before a competitor using the same active compound for the same indication, (ii) we are able to produce sufficient supply to meet demand in the marketplace, and (iii) another product with the same active ingredient is not deemed clinically superior. AeroVanc and Apulmiq have also received QIDP status extending market exclusivity by an additional five years in addition to any other exclusivity obtained in the U.S.

The industries in which we operate (biopharmaceutical, specialty pharmaceutical, biotechnology, and pharmaceutical) are highly competitive and subject to rapid and significant change. Developments by others may render potential application of any of our product candidates in a particular indication obsolete or noncompetitive, even prior to completion of its development and approval for that indication. For example, the CTRF modulator Trikafta recently became available and has been described as a potential "transformative medication" in cystic fibrosis. It is unknown how the availability of Trikafta will impact the role of an inhaled antibiotic like AeroVanc in the cystic fibrosis treatment paradigm. If successfully developed and approved, we expect our product candidates will face competition. We may not be able to compete successfully against organizations with competitive products, particularly large pharmaceutical companies. Many of our potential competitors have significantly greater financial, technical, and human resources than us, and may be better equipped to develop, manufacture, market, and distribute products. Many of these companies operate large, well-funded research, development, and commercialization programs, have extensive experience in nonclinical and clinical studies, obtaining FDA and other regulatory approvals and manufacturing and marketing products, and have multiple products that have been approved or are in late-stage development. These advantages may enable them to receive approval from the FDA or any foreign regulatory agency before us and prevent us from competing due to their orphan drug protections. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and biotechnology companies. Furthermore, heightened awareness on the part of academic institutions, government agencies, and other public and private research organizations of the potential commercial value of their inventions have led them to actively seek to commercialize the technologies they develop, which increases competition for investment in our programs. Competitive products may

be more effective, easier to dose, or more effectively marketed and sold than ours, which would have a material adverse effect on our ability to generate revenue.

We are subject to uncertainty relating to healthcare reform measures and reimbursement policies that, if not favorable to our products, could hinder or prevent our products' commercial success, if any of our product candidates are approved.

The unavailability or inadequacy of third-party payer coverage and reimbursement could negatively affect the market acceptance of our product candidates and the future revenues we may expect to receive from those products. The commercial success of our product candidates, if approved, will depend on the extent to which the costs of such products will be covered by third-party payers, such as government health programs, commercial insurance, and other organizations. Third-party payers are increasingly challenging the prices and examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy. These challenges to prices may be problematic to us since our products are targeted for a small number of patients (those suffering from orphan diseases) thus requiring us to charge very high prices in order to recover development costs and achieve a profit on our revenue. If these third-party payers do not consider our products to be cost-effective compared to other therapies, we may not obtain coverage for our products after approval as a benefit under the third-party payers' plans or, even if we do, the level of coverage or payment may not be sufficient to allow us to sell our products on a profitable basis.

Significant uncertainty exists as to the reimbursement status for newly approved drug products, including coding, coverage, and payment. There is no uniform policy requirement for coverage and reimbursement for drug products among third-party payers in the U.S., therefore coverage and reimbursement for drug products can differ significantly from payer to payer. The coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payer separately, with no assurance that coverage and adequate payment will be applied consistently or obtained. The process for determining whether a payer will cover and how much it will reimburse a product may be separate from the process of seeking approval of the product or for setting the price of the product. Even if reimbursement is provided, market acceptance of our products may be adversely affected if the amount of payment for our products proves to be unprofitable for healthcare providers or less profitable than alternative treatments or if administrative burdens make our products less desirable to use. Third-party payer reimbursement to providers of our products, if approved, may be subject to a bundled payment that also includes the procedure of administering our products or third-party payers may require providers to perform additional patient testing to justify the use of our products. To the extent there is no separate payment for our product(s), there may be further uncertainty as to the adequacy of reimbursement amounts.

The continuing efforts of governments, private insurance companies, and other organizations to contain or reduce costs of healthcare may adversely affect:

- our ability to set an appropriate price for our products;
- the rate and scope of adoption of our products by healthcare providers;
- our ability to generate revenue or achieve or maintain profitability;
- the future revenue and profitability of our potential customers, suppliers, and collaborators; and
- our access to additional capital.

Our ability to successfully commercialize our products will depend on the extent to which governmental authorities, private health insurers, and other organizations establish what we believe are appropriate coverage and reimbursement for our products. The containment of healthcare costs has become a priority of federal and state governments worldwide and the prices of drug products have been a focus in this effort. For example, there have been several recent U.S. Congressional inquiries and proposed bills designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drugs, and President Trump has stated that reducing drug pricing is a priority for his administration and unveiled four executive orders on July 24, 2020 aimed at bringing down pharmaceutical prices. We expect that federal, state, and local governments in the U.S., as well as in other countries, will continue to consider legislation directed at lowering the total cost of healthcare. In addition, in certain foreign markets, the pricing of drug products is subject to government control and reimbursement may in some cases be unavailable or insufficient. It is uncertain whether and how future legislation, whether domestic or abroad, could affect prospects for our product candidates or what actions federal, state, or private payers for healthcare treatment and services may take in response to any such healthcare reform proposals or legislation. Adoption of price controls and cost-containment measures, and adoption of more restrictive policies in jurisdictions with existing controls and measures may prevent or limit our ability to generate revenue, attain profitability, or commercialize our product candidates, especially in light of our plans to price our product candidates at a high level.

Furthermore, we expect that healthcare reform measures that may be adopted in the future are unpredictable, and the potential impact on our operations and financial position is uncertain, but may result in more rigorous coverage criteria, lower reimbursement, and additional downward pressure on the price we may receive for approved products. Any reduction in reimbursement from Medicare or other government-funded programs may result in a similar reduction in payments from private payers. The implementation of cost

containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products, if approved.

We face potential product liability exposure and, if successful claims are brought against us, we may incur substantial liability for a product or product candidate and may have to limit its commercialization. In the future, we anticipate that we will need to obtain additional or increased product liability insurance coverage and it is uncertain whether such increased or additional insurance coverage can be obtained on commercially reasonable terms, if at all.

Our business (in particular, the use of our product candidates in clinical studies and the sale of any products for which we obtain marketing approval) will expose us to product liability risks. Product liability claims might be brought against us by patients, healthcare providers, pharmaceutical companies, or others selling or involved in the use of our products. If we cannot successfully defend ourselves against any such claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our products and loss of revenue;
- impairment of our business reputation;
- delays in enrolling patients to participate in our clinical studies;
- withdrawal of clinical study participants;
- a “clinical hold,” suspension or termination of a clinical study or amendments to a study design;
- significant costs of related litigation;
- substantial monetary awards to patients or other claimants; and
- the inability to commercialize our products and product candidates.

We maintain limited product liability insurance for our clinical studies, but our insurance coverage may not reimburse us or may not be sufficient to reimburse us for all expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses.

We expect that we will expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for any of our product candidates, but we may be unable to obtain product liability insurance on commercially acceptable terms or may not be able to maintain such insurance at a reasonable cost or in sufficient amounts to protect us against potential losses. Large judgments have been awarded in class action lawsuits based on drug products that had unanticipated side effects. A successful product liability claim or series of claims brought against us, if judgments exceed our insurance coverage, could consume a significant portion of our cash and adversely affect our business.

Risks Related to our Common Stock

Our stock price is expected to continue to be volatile.

The market price of our common stock has experienced substantial declines since we announced the top-line results of our IMPALA Phase 3 study of Molgradex for aPAP on June 12, 2019, and our stock price has been and is expected to continue to be subject to significant volatility and fluctuations. Market prices for securities of early-stage pharmaceutical, biotechnology, and other life sciences companies have historically been particularly volatile. Some of the factors that may cause the market price of our common stock to fluctuate include:

- impact of the COVID-19 pandemic on the global economy, financial markets, and liquidity and availability of capital;
- failed or inconclusive data results from our clinical studies;
- our ability to obtain regulatory approvals for our product candidates, and delays or failures to obtain such approvals;
- failure to meet or exceed any financial and development projections that we may provide to the public;
- failure to meet or exceed the financial and development projections of the investment community;
- failure of any of our product candidates, if approved, to achieve commercial success;
- failure to maintain our existing third-party license and supply agreements;
- failure by us or our licensors to prosecute, maintain, or enforce our intellectual property rights;

- changes in laws or regulations applicable to our product candidates;
- any inability to obtain adequate supply of our product candidates or the inability to do so at acceptable prices;
- adverse regulatory authority decisions;
- introduction of new products, services, or technologies by our competitors;
- if securities or industry analysts do not publish research or reports about our business, or if they issue adverse or misleading opinions regarding our business and stock;
- failure to obtain sufficient capital to fund our business objectives;
- sales of our common stock by us or our stockholders in the future;
- trading volume of our common stock;
- the perception of the pharmaceutical industry by the public, legislatures, regulators, and the investment community;
- announcements of significant acquisitions, strategic partnerships, joint ventures, or capital commitments by us or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters, and our ability to obtain patent protection for our technologies;
- additions or departures of key personnel;
- significant lawsuits, including patent or stockholder litigation;
- changes in the market valuations of similar companies;
- general market or macroeconomic conditions;
- announcements by commercial partners or competitors of new commercial products, clinical progress or the lack thereof, significant contracts, commercial relationships, or capital commitments;
- adverse publicity relating to the CF, aPAP, NCFB, or NTM markets generally, including with respect to other products and potential products in such markets;
- the introduction of technological innovations or new therapies that compete with our products;
- changes in the structure of health care payment systems; and
- period-to-period fluctuations in our financial results.

Moreover, the stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may also adversely affect the trading price of our common stock.

In the past, following periods of volatility in the market price of a company's securities, such as the decline in our stock price, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm our profitability and reputation.

If we fail to satisfy all applicable Nasdaq continued listing requirements, including the \$1.00 minimum closing bid price requirement, our common stock may be delisted from Nasdaq, which could have an adverse impact on the liquidity and market price of our common stock.

Our common stock is currently listed on the Nasdaq Global Select Market, which has qualitative and quantitative continued listing requirements, including corporate governance requirements, public float requirements, and a \$1.00 minimum closing bid price requirement. If our common stock trades at closing bid prices below \$1.00 for 30 consecutive business days, or if we are unable to satisfy any of the other continued listing requirements, Nasdaq may take steps to delist our common stock. Such a delisting would likely have an adverse effect on the market liquidity of our common stock, decrease the market price of our common stock, result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities, and adversely affect our ability to obtain financing for the continuation of our operations.

For example, on November 15, 2019, we received written notice from The Nasdaq Stock Market LLC indicating that, for the last thirty consecutive business days, the bid price for our common stock had closed below the minimum \$1.00 per share requirement for continued listing on the Nasdaq Global Select Market under Nasdaq Listing Rule 5550(a)(2). However, on December 10, 2019, we received written notice from The Nasdaq Stock Market LLC stating that because our shares had a closing bid price at or above \$1.00 per share for a minimum of ten consecutive business days, our stock had regained compliance with the minimum bid price

requirement of \$1.00 per share for continued listing on the Nasdaq Global Select Market, as set forth in NASDAQ Listing Rule 5450(a)(1).

We will continue to incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

As a public company, will continue to incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We will also continue to incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act, as well as rules implemented by the U.S. Securities and Exchange Commission (“SEC”) and Nasdaq. These rules and regulations may also make it difficult and expensive for us to obtain directors’ and officers’ liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers, which may adversely affect investor confidence in us and cause our business or stock price to suffer.

In March 2020, the SEC amended the definitions of accelerated filer and large accelerated filer to exclude smaller reporting companies that have not yet begun to generate significant revenue. Accordingly, we will be changing our status from a smaller reporting company, accelerated filer, to a smaller reporting company, non-accelerated filer, effective for our December 31, 2020 annual report. In accordance with the SEC amendments, we no longer require an integrated independent audit of our internal controls under Sarbanes-Oxley 404(b) but will continue to comply with Sarbanes-Oxley 404(a) and (c).

We do not expect to pay any cash dividends in the foreseeable future.

We expect to retain any future earnings to fund the development and growth of our business and do not expect to pay any cash dividends. As a result, capital appreciation, if any, of our common stock will be stockholders’ sole source of gain, if any, for the foreseeable future.

We have completed certain transactions that likely have resulted in an ownership change under Section 382 of the Internal Revenue Code limiting the use of our net operating loss carryforwards and certain other tax attributes.

If a corporation undergoes an “ownership change” within the meaning of Sections 381, 382, and 383 of the Internal Revenue Code, the corporation’s net operating loss carryforwards and certain other tax attributes arising from before the ownership change are subject to limitations on use after the ownership change. In general, an ownership change occurs if there is a cumulative change in the corporation’s equity ownership by certain stockholders that exceeds fifty percentage points over a rolling three-year period. Similar rules may apply under state tax laws. Our net operating loss carryforwards and certain other tax attributes will be subject to limitations on use. Additional ownership changes in the future could result in additional limitations on our net operating loss carryforwards. Consequently, even if we achieve profitability, we may not be able to utilize a material portion of our net operating loss carryforwards and other tax attributes, which could have a material adverse effect on cash flow and results of operations.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

An Exhibit Index has been attached as part of this report and is incorporated by reference.

Exhibit Index

Exhibit Number	Description
10.1	<u>Savara Inc. Amended and Restated 2015 Omnibus Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 1, 2020.)</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

Company Name

Date: August 6, 2020

By: /s/ David Lowrance

Dave Lowrance
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 6, 2020

By: /s/Robert Neville

Robert Neville
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Neville, certify that:

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

Date: August 6, 2020

/s/ Robert Neville

Robert Neville
Chief Executive Officer and Chairman
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Lowrance, certify that:

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

Date: August 6, 2020

/s/ David Lowrance

David Lowrance

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Savara Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Neville, principal executive officer of the Company, 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:

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

August 6, 2020

/s/ Robert Neville

Robert Neville

Chief Executive Officer and Chairman

(Principal Executive Officer)

In connection with the Quarterly Report of Savara Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Lowrance, principal financial officer of the Company, 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:

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

August 6, 2020

/s/ David Lowrance

David Lowrance

Chief Financial Officer

(Principal Financial and Accounting Officer)