

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2020

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: 001-39102

TFF PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

82-4344737

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

2600 Via Fortuna, Suite 360

Austin, Texas 78746

(Address of principal executive offices, including zip code)

(737) 802-1973

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 \$.001	TFFP	Nasdaq Capital Market

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

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

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

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

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

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

As of August 8, 2020, there were 18,671,658 outstanding shares of the common stock of TFF Pharmaceuticals, Inc.

TFF PHARMACEUTICALS, INC.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss</u>	2
<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	16
<u>Item 4.</u> <u>Controls and Procedures</u>	16
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1A.</u> <u>Risk Factors</u>	17
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>Item 6.</u> <u>Exhibits</u>	18

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**TFF PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,924,119	\$ 28,094,936
Prepaid assets and other current assets	610,376	1,092,462
Total assets	<u>\$ 22,534,495</u>	<u>\$ 29,187,398</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 689,803	\$ 410,638
Total current liabilities	689,803	410,638
Accrued research and development expense (see Note 5)	—	1,132,013
Total liabilities	<u>689,803</u>	<u>1,542,651</u>
Commitments and contingencies (see Note 4)		
Stockholders' equity:		
Common stock; \$0.001 par value, 45,000,000 shares authorized; 18,671,658 and 18,450,992 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	18,672	18,451
Additional paid-in capital	45,191,702	43,338,710
Accumulated other comprehensive loss	(39,491)	—
Accumulated deficit	(23,326,191)	(15,712,414)
Total stockholders' equity	<u>21,844,692</u>	<u>27,644,747</u>
Total liabilities and stockholders' equity	<u>\$ 22,534,495</u>	<u>\$ 29,187,398</u>

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

TFF PHARMACEUTICALS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating expenses:				
Research and development	\$ 2,567,771	\$ 1,319,656	\$ 4,803,313	\$ 2,990,518
General and administrative	1,274,803	889,453	2,892,727	1,421,051
Total operating expenses	<u>3,842,574</u>	<u>2,209,109</u>	<u>7,696,040</u>	<u>4,411,569</u>
Loss from operations	(3,842,574)	(2,209,109)	(7,696,040)	(4,411,569)
Other income:				
Interest income	25,995	22,189	82,263	41,834
Total other income	<u>25,995</u>	<u>22,189</u>	<u>82,263</u>	<u>41,834</u>
Net loss	(3,816,579)	(2,186,920)	(7,613,777)	(4,369,735)
Preferred stock dividend	—	(288,962)	—	(510,240)
Net loss applicable to common stock	(3,816,579)	(2,475,882)	(7,613,777)	(4,879,975)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(19,208)	—	(39,491)	—
Comprehensive loss	<u>(3,835,787)</u>	<u>(2,475,882)</u>	<u>(7,653,268)</u>	<u>(4,879,975)</u>
Net loss applicable to common stock per share, basic and diluted	<u>\$ (0.20)</u>	<u>\$ (0.56)</u>	<u>\$ (0.40)</u>	<u>\$ (1.11)</u>
Weighted average common shares outstanding, basic and diluted	<u>19,071,658</u>	<u>4,400,000</u>	<u>19,040,134</u>	<u>4,400,000</u>

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

TFF PHARMACEUTICALS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Other Comprehensive</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Loss</u>	<u>Deficit</u>	<u>Stockholders' Equity</u>
Balance, January 1, 2020	18,450,992	\$ 18,451	\$43,338,710	\$ -	\$ (15,712,414)	\$ 27,644,747
Issuance of common stock for accrued research and development expense	220,666	221	1,131,792	-	-	1,132,013
Stock-based compensation	-	-	425,844	-	-	425,844
Foreign currency translation adjustment	-	-	-	(20,283)	-	(20,283)
Net loss	-	-	-	-	(3,797,198)	(3,797,198)
Balance, March 31, 2020	<u>18,671,658</u>	<u>18,672</u>	<u>44,896,346</u>	<u>(20,283)</u>	<u>(19,509,612)</u>	<u>25,385,123</u>
Stock-based compensation	-	-	295,356	-	-	295,356
Foreign currency translation adjustment	-	-	-	(19,208)	-	(19,208)
Net loss	-	-	-	-	(3,816,579)	(3,816,579)
Balance, June 30, 2020	<u>18,671,658</u>	<u>\$ 18,672</u>	<u>\$45,191,702</u>	<u>\$ (39,491)</u>	<u>\$ (23,326,191)</u>	<u>\$ 21,844,692</u>
Balance, January 1, 2019	4,000,000	\$ 4,000	\$ 596,724	\$ -	\$ (3,842,186)	\$ (3,241,462)
Stock-based compensation	-	-	121,226	-	-	121,226
Dividends on preferred stock	-	-	(221,279)	-	-	(221,279)
Net loss	-	-	-	-	(2,182,815)	(2,182,815)
Balance, March 31, 2019	<u>4,000,000</u>	<u>4,000</u>	<u>496,671</u>	<u>-</u>	<u>(6,025,001)</u>	<u>(5,524,330)</u>
Stock-based compensation	-	-	486,396	-	-	486,396
Dividends on preferred stock	-	-	(288,962)	-	-	(288,962)
Net loss	-	-	-	-	(2,186,920)	(2,186,920)
Balance, June 30, 2019	<u>4,000,000</u>	<u>\$ 4,000</u>	<u>\$ 694,106</u>	<u>\$ -</u>	<u>\$ (8,211,921)</u>	<u>\$ (7,513,815)</u>

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

TFF PHARMACEUTICALS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Cash flows from operating activities:		
Net loss	\$ (7,613,777)	\$ (4,369,735)
Adjustment to reconcile net loss to net cash used in operating activities:		
Stock based compensation	721,200	607,622
Changes in operating assets and liabilities:		
Prepaid assets	491,273	(15,025)
Accounts payable	274,255	(60,812)
Net cash used in operating activities	<u>(6,127,049)</u>	<u>(3,837,950)</u>
Cash flows from investing activities:		
Net cash from investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	-	7,208,393
Net cash from financing activities	<u>-</u>	<u>7,208,393</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(43,768)</u>	<u>-</u>
Net change in cash and cash equivalents	(6,170,817)	3,370,443
Cash and cash equivalents at beginning of period	28,094,936	10,261,671
Cash and cash equivalents at end of period	<u>\$ 21,924,119</u>	<u>\$ 13,632,114</u>
Supplemental disclosure of non-cash investing and financing activities:		
Accrued offering costs	<u>\$ -</u>	<u>\$ 17,158</u>
Accrued dividend	<u>\$ -</u>	<u>\$ 510,240</u>
Issuance of common stock for accrued research and development expense	<u>\$ 1,132,013</u>	<u>\$ -</u>

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

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

TFF Pharmaceuticals, Inc. (the “Company”) was incorporated in the State of Delaware on January 24, 2018 by Lung Therapeutics, Inc. (“LTI”), at which time the Company and LTI entered into a Contribution and Subscription Agreement (“Contribution Agreement”) pursuant to which LTI agreed to transfer to the Company certain of LTI’s non-core intellectual property rights and other assets, including LTI’s rights under a patent license agreement with the University of Texas at Austin (see Note 5), in exchange for 4,000,000 shares of the Company’s common stock. The transactions under the Contribution Agreement closed in March 2018. LTI’s basis in such assets were minimal. LTI is an early-stage biotechnology company focused on the development of certain technologies in the pulmonary field. The Company’s initial focus is on the development of inhaled dry powder drugs to enhance the treatment of pulmonary diseases and conditions. In December 2019, the Company established a wholly-owned Australian subsidiary, TFF Pharmaceuticals Australia Pty Ltd (“TFF Australia”), in order to conduct clinical research. TFF Pharmaceuticals, Inc., along with TFF Australia, are collectively referred to as the “Company”. The Company is in the development stage and is devoting substantially all of its efforts toward technology research and development.

In October 2019, the Company completed an initial public offering (“IPO”), selling 4,400,000 shares of common stock at an offering price of \$5.00 per share. The Company received gross proceeds of approximately \$22,000,000. In addition, the Company granted the underwriter a 45-day option to purchase an additional 660,000 shares of common stock at the initial public offering price, less underwriting discounts and commissions. The option was exercised in November 2019 and the underwriter purchased an additional 479,300 shares of common stock and the Company received additional gross proceeds of approximately \$2,397,000.

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease (“COVID-19”) a global pandemic. We had expected to commence Phase I clinical trials our thin film freezing, or TFF, formulation of Tacrolimus in Australia in the first quarter of 2020, and on March 13, 2020 we had received the approval of the Alfred Hospital Human Research Ethics Committee to commence Phase I trials, however later in March 2020 our contract research organization in Australia informed us that because of the spread of the COVID-19 virus in Australia, there would be a delay in initiating the trial. During the second quarter of 2020, we were able to begin dosing in the Phase I Tacrolimus trial in Melbourne, Victoria, Australia. However, due to the resurgence of COVID-19 in the Melbourne area, in July 2020 the Phase I trials were delayed. With the flaring of COVID-19 in the Melbourne area and in order to remain dynamic, we are opening a second clinical trial site in Brisbane, Queensland, Australia and we expect to resume dosing in the Phase I clinical trials in Australia before the end of the third quarter 2020. Any financial impact cannot be reasonably estimated at this time, but may materially affect our business and financial condition. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others.

NOTE 2 - LIQUIDITY AND MANAGEMENT’S PLANS

As of June 30, 2020, the Company had cash and cash equivalents of approximately \$21,924,000 and a working capital of approximately \$21,845,000. The Company has not generated revenues since inception and has incurred recurring operating losses. The Company expects to continue incurring losses for the foreseeable future and may need to raise additional capital to pursue its product development.

The Company expects to further increase its research and development activities, which will increase the amount of cash utilized subsequent to June 30, 2020. Specifically, the Company expects increased spending on research and development activities and higher payroll expenses as it increases its professional and scientific staff and continues to prepare for anticipated manufacturing activities. The Company currently believes its existing cash and cash equivalents will be sufficient to fund its operating expenses and capital expenditure requirements for at least the next 12 months from the date of issuance of these condensed consolidated financial statements.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (“SEC”). Accordingly, they do not contain all information and footnotes required by GAAP for annual financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2020 and the results of operations, changes in stockholders’ equity and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the operating results for the full fiscal year or any future period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Principles of Consolidation

The consolidated financial statements include the accounts of TFF Pharmaceuticals, Inc. and its wholly-owned subsidiary, TFF Australia. All material intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency

The currency of TFF Australia, the Company’s international subsidiary, is in Australian dollars. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at each balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a separate component of stockholders’ equity in accumulated other comprehensive income (loss).

Fair Value of Financial Instruments

Authoritative guidance requires disclosure of the fair value of financial instruments. The Company’s financial instruments consist of cash and cash equivalents and accounts payable, the carrying amounts of which approximate their estimated fair values primarily due to the short-term nature of the instruments or based on information obtained from market sources and management estimates. The Company measures the fair value of certain of its financial assets and liabilities on a recurring basis. A fair value hierarchy is used to rank the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value which is not equivalent to cost will be classified and disclosed in one of the following three categories:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as unadjusted quoted prices for similar assets and liabilities, unadjusted quoted prices in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Basic and Diluted Earnings per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares and dilutive share equivalents outstanding for the period, determined using the treasury-stock and if-converted methods. Since the Company has had net losses for all periods presented, all potentially dilutive securities are anti-dilutive. Basic weighted average shares outstanding for the three and six months ended June 30, 2020 and 2019 include 400,000 shares underlying a warrant to purchase common shares. As the shares underlying this warrant can be issued for little consideration (an aggregate exercise price of \$0.01 per share), these shares are deemed to be issued for purposes of basic earnings per share.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

For the six months ended June 30, 2020 and 2019, the Company had the following potential common stock equivalents outstanding which were not included in the calculation of diluted net loss per common share because inclusion thereof would be anti-dilutive:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Stock Options	2,301,333	1,333,594
Series A Convertible Preferred Stock*	—	9,425,436
Warrants	1,076,463	985,012
	3,377,796	11,744,042

* On an as-converted basis

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Significant estimates include the fair value of stock-based compensation and warrants and the valuation allowance against deferred tax assets and related disclosures. Actual results could differ from those estimates.

Recent Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. This ASU will require lessees to recognize a right-of-use asset and lease liability on the consolidated balance sheet for leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU No. 2016-02 supersedes the lease accounting requirements of ASC Topic 840, *Leases*. The Company adopted this standard on January 1, 2020, using the modified retrospective approach, which did not cause adjustments to prior comparative periods. The new standard provides a number of optional practical expedients in transition. The Company has elected the following "package of practical expedients" when assessing the transition impact as the lessee as of January 1, 2020: (1) not to reassess whether any expired or existing contracts, contain leases; (2) not to reassess the lease classification for any expired or existing leases; and (3) not to reassess initial direct costs for any existing leases. Leases with an initial term of 12 months or less are considered short-term leases and are not recorded on the balance sheet as the Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company has reviewed all contracts that may contain leases and have determined that there was no impact related to the adoption of ASU 2016-02 as the only contract that contains a lease is for office space in Doylestown, Pennsylvania, which is considered a short-term lease. See Note 4 for more information regarding the leased office space.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Operating Leases

In October 2018, the Company entered into a lease agreement for office space in Doylestown, Pennsylvania. The lease commenced on October 15, 2018 and the Company exercised a one-year lease renewal in October 2019 that will expire on October 31, 2020. The lease has an additional one-year option for renewal, and the base rent is \$36,000 per year. The Company has determined that the lease agreement is considered a short-term lease under ASC 842 and has not recorded a right-of-use asset or liability. Short-term lease expense for the three and six months ended June 30, 2020 was \$9,000 and \$18,000, respectively.

Approximate future minimum lease payments required under the operating leases are as follows:

Year ending December 31,	Amount
2020 – Remaining	\$ 12,000

Legal

The Company may be involved, from time to time, in legal proceedings and claims arising in the ordinary course of its business. Such matters are subject to many uncertainties and outcomes and are not predictable with assurance. While management believes that such matters are currently insignificant, matters arising in the ordinary course of business for which the Company is or could become involved in litigation may have a material adverse effect on its business and financial condition. To the Company's knowledge, neither the Company nor any of its properties are subject to any pending legal proceedings.

NOTE 5 - LICENSE AND AGREEMENTS

In July 2015, the University of Texas at Austin ("UT") granted to the Company's former parent, LTI, an exclusive worldwide, royalty bearing license to the patent rights for the TFF platform in all fields of use, other than vaccines for which LTI received a non-exclusive worldwide, royalty bearing license to the patent rights for the TFF platform. In March 2018, LTI completed an assignment to the Company all of its interest to the TFF platform, including the patent license agreement with UT, at which time the Company paid UT an assignment fee of \$100,000 in accordance with the patent license agreement. In November 2018, the Company and UT entered into an amendment to the patent license agreement pursuant to which, among other things, the Company's exclusive patent rights to the TFF platform were expanded to all fields of use. The patent license agreement requires the Company to pay royalties and milestone payments and conform to a variety of covenants and agreements, and in the event of the Company's breach of agreement, UT may elect to terminate the agreement. During the year ended December 31, 2019, the Company achieved one milestone by gaining IND approval on first indication of a licensed product on November 24, 2019. The milestone fee associated with this achievement to be paid is \$50,000 and the Company must issue UT common shares equal to 1% of the Company's outstanding shares of common stock, on a fully diluted basis, as of 30 days after IND approval, which was December 24, 2019. The total amount of common shares due and payable on December 31, 2019 to UT were 220,666 common shares, which have a fair value of approximately \$1,132,000 based on the closing stock price of \$5.13 on December 24, 2019. As of December 31, 2019, the Company had not paid the \$50,000 or issued the shares and has included the \$50,000 in accounts payable and the share amount due as a research and development expense payable. The Company paid the \$50,000 and issued the shares in January 2020. As of the date of these condensed consolidated financial statements, the Company is in compliance with the patent license agreement as all required amounts have been paid in accordance with the agreement.

In May 2018, the Company entered into a master services agreement and associated individual study contracts with ITR Canada, Inc. ("ITR") to provide initial contract pre-clinical research and development services for the Company's drug product candidates. The fees payable for pre-clinical research and development services under these study contracts totaled \$1,790,000, with no minimum fee requirement. In January 2019, the Company cancelled all of the individual study contracts with ITR and entered into a contract with Canada Inc. (dba VJO Non-Clinical Development ("VJO")) to complete additional pre-clinical research and development services in order to take advantage of eligible Canadian Tax Credits. The services related to the contract with VJO were sub-contracted to ITR under substantially the same terms as the initial contract with ITR, with fees payable for services under statements of work that are currently open totaling \$3,715,000, as amended. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately \$0 and \$779,000, respectively. During the three and six months ended June 30, 2019, the Company recorded research and development costs of approximately \$693,000 and \$1,753,000, respectively.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 5 - LICENSE AND AGREEMENTS, continued

In April 2019, the Company entered into a master services agreement with Irisys, LLC to provide contract manufacturing services for one of the Company's drug product candidates, Voriconazole. The fees payable for contract manufacturing services under this agreement total \$2,224,500, as amended, with additional pass-through costs. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately \$682,000 and \$1,017,000, respectively. During the three and six months ended June 30, 2019, the Company recorded research and development costs of approximately \$58,000 and \$58,000, respectively

In June 2019, the Company entered into a master services agreement with CoreRx to provide contract manufacturing services for one of the Company's drug product candidates, Tacrolimus. The fees payable for contract manufacturing services under this agreement total \$958,994, as amended, with additional pass-through costs. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately \$123,000 and \$242,000, respectively. During the three and six months ended June 30, 2019, the Company recorded research and development costs of approximately \$122,000 and \$122,000, respectively

In August 2019, the Company entered into a master services agreement and associated individual study contracts with Conform Clinical Development, Inc. and its affiliates, Les Entreprises Envie Inc. (dba Envie Ventures) and Desire Ventures LLC, which sub-contracted with Inflamm Research Limited (dba Cliantha Research) to perform a Phase I study of one of the Company's drug candidates, Voriconazole. The fees payable for the services under this contract total approximately \$1,483,000, as amended. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately \$70,000 and 225,000, respectively.

In January 2020, TFF Australia entered into a master consultancy agreement with Clinical Network Services Pty Ltd. to provide initial contract clinical research and development services for the Company's drug product candidates. The fees payable for clinical research and development services under these study contracts totaled AUD\$909,405, as amended. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately AUD\$99,000 (US\$65,000) and AUD\$184,000 (US\$121,000), respectively.

In May 2020, TFF Australia entered into an amended clinical trial research agreement with Nucleus Network Pty Ltd. to provide a Phase I study of one of the Company's drug candidates, Tacrolimus. The fees payable for services under this contract totaled AUD\$1,392,805, as amended. During the three and six months ended June 30, 2020, the Company recorded research and development costs of approximately AUD\$335,000 (US\$221,000) and AUD\$368,000 (US\$242,000), respectively.

NOTE 6 – STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

Prior to the close of the Company's IPO, the Company was authorized to issue up to 10,000,000 shares of preferred stock, \$0.001 par value, all of which had been designated as Series A Preferred Stock and had a stated value of \$2.50 per share. All outstanding shares of Series A Preferred Stock converted to shares of the Company's common stock, and all authorized and unissued shares of Series A Preferred Stock was extinguished, upon the close of the Company's IPO in October 2019. As of June 30, 2020 and December 31, 2019, there are no shares of Series A Preferred Stock authorized, issued or outstanding. The Series A Preferred Stock ranked senior to common stock with respect to dividends rights and liquidation preferences and had full voting rights. The Series A Preferred Stock accrued a dividend at a rate of 6% per annum with no amounts outstanding as of June 30, 2020 and December 31, 2019. The Company recorded \$288,962 and \$510,240 of preferred dividends during the three and six months ended June 30, 2019, respectively.

Common Stock

In November 2019, the Company achieved a milestone in connection with the UT agreement (see Note 5). As a result of the milestone, the Company owed UT 220,666 shares of common stock, which had a fair value of approximately \$1,132,000, which was accrued in accrued research and development expense as of December 31, 2019. In January 2020, the Company issued the 220,666 shares of common stock to UT.

NOTE 7 – STOCK BASED COMPENSATION

In January 2018, the Company's board of directors approved its 2018 Stock Incentive Plan ("2018 Plan"). The 2018 Plan provides for the grant of non-qualified stock options and incentive stock options to purchase shares of the Company's common stock, the grant of restricted and unrestricted share awards and grant of restricted stock units. The Company initially reserved 1,630,000 shares of its common stock under the 2018 Plan; however, upon completion of the Company's IPO the number of shares reserved for issuance under the 2018 Plan increased to 3,284,480, representing 15% of the Company's outstanding shares of common stock calculated on a fully diluted basis upon the close of the IPO. All of the Company's employees and any subsidiary employees (including officers and directors who are also employees), as well as all of the Company's nonemployee directors and other consultants, advisors and other persons who provide services to the Company will be eligible to receive incentive awards under the 2018 Plan.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

NOTE 7 – STOCK BASED COMPENSATION, continued

The following table summarizes the stock-based compensation expense recorded in the Company's results of operations during the periods ended June 30, 2020 and 2019 for stock options and warrants:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Research and development	\$ 43,605	\$ 43,605	\$ —	\$ —
General and administrative	251,751	677,595	486,396	607,622
	<u>\$ 295,356</u>	<u>\$ 721,200</u>	<u>\$ 486,396</u>	<u>\$ 607,622</u>

As of June 30, 2020, there was approximately \$4,043,000 of total unrecognized compensation expense related to non-vested options that are expected to vest. This cost is expected to be recognized over a weighted-average period of 2.5 years.

The Company records compensation expense for awards with graded vesting using the straight-line method. The Company recognizes compensation expense over the requisite service period applicable to each individual award, which generally equals the vesting term. The Company estimates the fair value of each option award using the Black-Scholes-Merton option pricing model. Forfeitures are recognized when realized.

The Company estimated the fair value stock options using the Black-Scholes option pricing model. The fair value of stock options is being amortized on a straight-line basis over the requisite service periods of the respective awards. The fair value of stock options issued was estimated using the following weighted-average assumptions:

	Six Months Ended June 30, 2020
Weighted average exercise price	\$ 5.18
Weighted average grant date fair value	\$ 4.02
Assumptions	
Expected volatility	87-90%
Expected terms (in years)	6.3-10
Risk-free interest rate	0.43-1.47%
Expected dividend yield	0.00%

The risk-free interest rate was obtained from U.S. Treasury rates for the applicable periods. The Company's expected volatility was based upon the historical volatility for industry peers and used an average of those volatilities. The expected life of the Company's options was determined using the simplified method as a result of limited historical data regarding the Company's activity. The dividend yield considers that the Company has not historically paid dividends, and does not expect to pay dividends in the foreseeable future.

For grants prior to the IPO, the fair value of the common stock was determined by the board of directors based on a variety of factors, including valuations prepared by third parties, the Company's financial position, the status of development efforts within the Company, the current climate in the marketplace and the prospects of a liquidity event, among others. For grants after the IPO, the Company uses the closing stock price on the date of grant as the fair value of the common stock.

TFF PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For The Three and Six Months Ended June 30, 2020 and 2019

The following table summarizes stock option activity during the six months ended June 30, 2020:

	Number of Shares	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term (In Years)	Intrinsic Value
Outstanding at January 1, 2020	2,139,078	\$ 3.46	9.17	\$ 4,052,512
Granted	182,255	5.18	—	—
Cancelled	(20,000)	5.24	—	—
Outstanding at June 30, 2020	<u>2,301,333</u>	<u>\$ 3.58</u>	<u>8.75</u>	<u>\$ 5,027,263</u>
Exercisable at June 30, 2020	<u>681,381</u>	<u>\$ 2.50</u>	<u>8.13</u>	<u>\$ 2,219,552</u>

NOTE 8 – SUBSEQUENT EVENTS

August 2020 Private Placement

On August 10, 2020, the Company engaged Jefferies LLC to act as its placement agent (“Placement Agent”) in connection with a private placement (the “Private Placement”) of approximately 3,048,653 shares of our common stock, at a purchase price per share of \$8.50, for aggregate gross proceeds to the Company of approximately \$25,910,000, before deducting Placement Agent fees and other offering expenses payable by the Company.

UNION therapeutics Agreement

On August 12, 2020, the Company entered into a licensing and collaboration agreement (the “License Agreement”) with UNION therapeutics A/S (“UNION”) in which UNION acquired an option to obtain a worldwide exclusive license for the TFF technology in combination with Niclosamide (“Licensed Product”). Pursuant to the terms of the License Agreement, UNION can exercise its option to obtain the license within 45 days after the complete data has been received by UNION from investigator-initiated trials. Upon exercise of the option, UNION shall be responsible to pay all expenses incurred in the development of any Licensed Product. The Company will be eligible to receive up to \$40,000,000 upon the achievement of certain milestones in the development the Licensed Products, based on completion of clinical trials, pre-marketing approvals and/or the receipt of at least \$25,000,000 of grant funding. The Company will receive a single-digit tiered royalty on net sales. The Company will also be entitled to receive sales-related milestone payments of up to \$160,000,000 based on the commercial success of the Licensed Products.

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

Cautionary Statement

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other filings with the Securities and Exchange Commission, or SEC, including our 2019 Annual Report on Form 10-K filed with the SEC on March 27, 2020 and Amendment No. 1 to the 2019 Annual Report on Form 10-K filed with the SEC on April 29, 2020.

In this report we make, and from time to time we otherwise make written and oral statements regarding our business and prospects, such as projections of future performance, statements of management’s plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimates,” “projects,” “believes,” “expects,” “anticipates,” “intends,” “target,” “goal,” “plans,” “objective,” “should” or similar expressions identify forward-looking statements, which may appear in our documents, reports, filings with the SEC, and news releases, and in written or oral presentations made by officers or other representatives to analysts, stockholders, investors, news organizations and others, and in discussions with management and other of our representatives.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties, including those risks included in Part I, Item 1 “Risk Factors” in our 2019 Annual Report on Form 10-K filed with the SEC on March 27, 2020. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

General

TFF Pharmaceuticals, Inc. (NASDAQ: TFFP) is a clinical-stage biopharmaceutical company focused on developing and commercializing innovative drug products based on our patented Thin Film Freezing, or TFF, technology platform. We believe, and early testing confirms, that our TFF platform can significantly improve the solubility of poorly water-soluble drugs, a class of drugs that makes up approximately 33% of the major pharmaceuticals worldwide, thereby improving the pharmacokinetic effect of those drugs. We believe that in the case of some new drugs that cannot be developed due to poor water-solubility, our TFF platform has the potential to improve the pharmacokinetic effect of the drug to a level allowing for its development and commercialization. In November 2019, we initiated Phase I human clinical trials of our lead product, TFF Vori, and in June 2020 we commenced Phase I human clinical trials of our TFF Tac-Lac product in Melbourne, Victoria, Australia, but in July 2020, the Phase I trials of our TFF Tac-Lac product were delayed due to a resurgence of COVID-19 in the Melbourne area. A second clinical trial site in Brisbane, Queensland, Australia is being opened and we expect to resume dosing in the Phase 1 clinical trials in Australia before the end of the third quarter 2020. As of the date of this report, we have not progressed the development of any other of our drug candidates to human clinical trials and our efforts have focused on the formulation, early stage animal testing and formal toxicology studies of our initial drug candidates in preparation for our first clinical trials.

We intend to initially focus on the development of inhaled dry powder drugs for the treatment of pulmonary diseases and conditions. While our TFF platform was designed to improve solubility of poorly water-soluble drugs generally, we have found that the technology is particularly useful in generating dry powder particles with properties that allow for superior inhalation delivery, especially to the deep lung, which is an area of extreme interest in respiratory medicine. We believe that our TFF platform can significantly increase the number of pulmonary drug products that can be delivered by way of breath-actuated inhalers, which are generally considered to be the most effective and patient-friendly means of delivering medication directly to the lungs. Our dry powder drug products will be designed for use with dry powder inhalers, which are generally considered to be the most effective of all breath-actuated inhalers. We plan to focus on developing inhaled dry powder formulations of existing off-patent drugs intended for lung diseases and conditions, which we believe includes dozens of potential drug candidates, many of which have a potential market ranging from \$100 million to over \$500 million.

We intend to initially focus on the development of the following product candidates:

- **TFF Vori** is an inhaled dry powder version of Voriconazole, generally considered to be the best antifungal drug used to treat invasive pulmonary aspergillosis, or IPA, a severe fungal pulmonary disease with a mortality rate that can reach 90% in some patient populations. In October 2019, we submitted to the U.S. Food and Drug Administration, or FDA, an Investigational New Drug Application, or IND, for our TFF Vori and initiated our Phase I human clinical trials in November 2019. In July 2020, we completed the clinical portion of the Phase I trial with both single ascending and multiple ascending dose phases with 32 healthy subjects enrolled in each part to evaluate the safety, tolerability and pharmacokinetic profile of TFF Vori. We believe, and our clinical testing to date confirms, that our TFF platform can be used to formulate a dry powder version of Voriconazole, which is no longer subject to patent protection. Voriconazole is currently marketed in Australia, Europe and the U.S. as Vfend. As of the date of this report, the Clinical Practice Guidelines released by the Infectious Diseases Society of America recommend Voriconazole as first-line monotherapy for IPA. However, since the registration of Vfend in Europe and the U.S. in 2002, several studies have examined the exposure-response relationship with Voriconazole, identifying a relationship between low Voriconazole exposure and higher rates of treatment failure, as well as a higher propensity for neurotoxicity at higher exposures. We believe a TFF prepared dry powder formulation of Voriconazole administered directly to the lungs can maximize both the prophylactic value for immunocompromised patients susceptible to IPA and the treatment value of patients suffering from chronic IPA. We also believe our dry powder drug formulation would benefit patients by providing the drug at the “port of entry” of invasive fungal infections, while also reducing or eliminating the unpleasant and potentially fatal side effects associated with Voriconazole and other last line antifungals.
- **TFF Tac-Lac** is an inhaled dry powder version of tacrolimus, an immunosuppressive drug used in transplant medicine. Prograf tacrolimus is currently the second most commonly administered immunosuppressive drug used in solid organ transplants, despite what we believe to be the many challenges for patients and physicians when used for extended periods. Prograf tacrolimus can cause toxicity in the kidneys, particularly when used in high doses. Tacrolimus is no longer under patent protection, and we intend to develop a dry powder version suitable for use with a dry powder inhaler. Because our dry powder version would provide for a high local lung concentration without the typical systemic toxicity frequently experienced with oral dosage form immunosuppressants, we believe our drug candidate should have a high likelihood of success in competing in the immunosuppressant market for lung and heart/lung transplants. On September 26, 2019, we participated in a pre-IND meeting with the FDA for purposes of discussing our proposed regulatory pathway for TFF Tac-Lac and obtaining guidance from the FDA on the pre-clinical plan leading to the filing and acceptance of an IND application for TFF Tac-Lac. We were successful in gaining agreement that a 505(b)(2) approach would be appropriate for TFF Tac-Lac. We intend to conduct Phase I clinical trials for our TFF formulation of Tacrolimus in Australia, which we consider to be a highly desirable site to conduct human clinical trials. On March 13, 2020, we had received the approval of the Alfred Hospital Human Research Ethics Committee to commence Phase I trials in Melbourne, Victoria, Australia. However, later in March 2020, our contract research organization partner in Australia informed us that because of the spread of the COVID-19 virus in Australia, there would be a delay in initiating the trials. One contributing factor is that Tacrolimus is an immunosuppressant drug and, given the threat of the COVID-19 virus, concern exists that even though we would be dosing healthy volunteers the inhalation of an immunosuppressant could increase the risk of severe complications if a volunteer was to contract COVID-19. In June 2020, we were able to begin dosing in the Phase I trial our TFF Tac-Lac in Melbourne, however, in July 2020, due to the resurgence of COVID-19 in the Melbourne area, the Phase I trials were delayed. With the flaring of COVID-19 in the Melbourne area and in order to remain dynamic, a second clinical trial site in Brisbane, Queensland, Australia is being opened and we expect to resume dosing in the Phase I clinical trials before the end of the third quarter of 2020. As of the date of this report, we intend to submit to the FDA an IND for TFF Tac-Lac upon completion of the Phase I clinical trials.
- **TFF Niclosamide** is an inhaled dry powder formulation of Niclosamide. Niclosamide has been used to treat tapeworm infections in humans since the 1960s and was recently reported to be one of the most potent approved drugs in screens for antiviral activity against the SARS-CoV2 virus that causes the COVID-19 disease. Early testing confirmed that our TFF platform can be used to formulate a dry powder version of Niclosamide, which is no longer subject to patent protection. We believe a TFF prepared dry powder formulation of Niclosamide administered directly to the lungs can maximize both the prophylactic value for persons exposed to COVID-19 and for the treatment of patients with COVID-19 infections at risk for serious disease complications. TFF has also obtained the rights to a novel formulation that may enhance the bioavailability of Niclosamide through oral delivery under our license from the University of Texas. Systemically delivered Niclosamide has shown promise for the treatment of COVID -19 and various forms of cancer.

We have identified a number of additional drug candidates that show promise upon initial evaluation, including dry powder formulations of:

- **Cannabidiol**, or CBD, a controlled substance as defined in the federal Controlled Substances Act of 1970 that is reported to be used by some for the treatment of various epilepsy syndromes as well as anxiety, insomnia, and different types of pain. We are in the early stages of developing an inhaled dry powder form of CBD that could be used to support or to treat a variety of health issues that may benefit from CBD administration.
- **Vaccines** containing aluminum salts, which make up approximately 35% of all vaccines. Aluminum salts are incorporated into many vaccine formulations as an adjuvant, which is a substance added to vaccines to enhance the immune response of vaccinated individuals. A major limitation with these vaccines is that they are fragile and to maintain their efficacy they must be formulated as liquid suspensions and kept in a cold chain (2 – 8°C) during transport and storage, which is burdensome and expensive. We have conducted drug and performance characterization activities of certain TFF formulated salt containing vaccines, which suggest that the salt containing vaccines can be successfully converted from liquid suspension into dry powder, and then later be reconstituted at the time of use without causing a decrease in efficacy.

As of the date of this report, we intend to develop our dry powder formulations of CBD and salt containing vaccines with a pharmaceutical company active in the space and we do not intend to pursue the development of our dry powder formulation of CBD or salt containing vaccines beyond performance characterization and efficacy data through early animal testing until such time, if ever, as we obtain a development partner.

We are also focused on the joint development of dry powder formulations of proprietary drugs owned or licensed by other pharmaceutical companies. As of the date of this report, we are at various stages of different feasibility studies of new chemical entities owned by international pharmaceutical companies. In addition, we recently commenced preliminary analysis and testing of dry powder formulations of certain drugs and vaccines through topical, ocular and nasal applications in connection with our participation in submissions made to certain government agencies for government contracts. Also, in May 2020, we authorized a third-party to conduct feasibility studies and market testing of dry powder formulations of cannabis and cannabis-derived products.

Our business model is to develop proprietary innovative drug product candidates that offer commercial or functional advantages, or both, to currently available alternatives. In our initial evaluation of the market, we have identified a number of potential drug candidates that show promise upon initial assessment. In most cases, these are off-patent drugs for which we would directly pursue the development of a dry powder formulation, however, we do not expect any dry powder formulation of a CBD drug product to be off-patent and our dry powder formulation of aluminum salt vaccines may not be off-patent. In those cases where our initial dry powder drug candidate will be established drugs that are off-patent, such as TFF Vori and TFF Tac-Lac, we believe that our drug product candidates may qualify for approval by the FDA through the FDA's 505(b)(2) regulatory pathway and in corresponding regulatory paths in other foreign jurisdictions. The 505(b)(2) pathway sometimes does not require clinical trials other than a bioequivalence trial. Our dry powder formulation of a CBD drug candidate will likely require a full NDA through the FDA's 505(b)(1) regulatory pathway, however, a non-pharmaceutical CBD dry formulation, such as a dietary supplement, may not require FDA approval. We expect that our dry powder formulation of aluminum salt vaccines will require a biological license application, or BLA, which is very similar to a full NDA through the FDA's 505(b)(1) regulatory pathway. In addition, to the extent we claim that any of our off-patent drug product candidates target a new indication or offer improved safety compared to the existing approved products, and it is our present expectation that we will in many cases, it is likely that we will be required to conduct additional clinical trials in order to obtain marketing approval. For example, based on separate pre-IND meetings with the FDA concerning TFF Vori and TFF Tac-Lac, we believe we will need to conduct Phase I and Phase II studies prior to filing for marketing approval for TFF Vori and Phase I and Phase IIb/IIIa studies prior to filing for marketing approval for TFF Tac-Lac. However, there can be no assurance that the FDA will not ask for additional clinical data for either TFF Vori or TFF Tac-Lac.

We also believe that in some cases our dry powder drug products may qualify for the FDA's orphan drug status. Upon and subject to receipt of the requisite approvals, we intend to commercialize our drug products through a combination of our internal direct sales and third-party marketing and distribution partnerships. In some cases, such as the development of combination drugs or the development of dry powder formulations of patented drugs, we intend to pursue the licensing of our TFF platform or a joint development arrangement

In March 2018, we conducted a private placement of 5,662,000 shares of our Series A preferred stock, at an offering price of \$2.50 per share, for the gross proceeds of approximately \$14.2 million, and in May 2019 we conducted a private placement of 3,268,000 shares of our Series A preferred stock, at an offering price of \$2.50 per share, for the gross proceeds of approximately \$8.2 million. The shares of our Series A preferred stock accumulated dividends at the rate of 6% per annum. The shares of Series A preferred stock, including all accrued but unpaid dividends on the Series A preferred stock, which totaled \$1,603,709, automatically converted into 9,571,692 shares of our common stock concurrent with the completion of our initial public offering at the conversion price of \$2.50.

On October 29, 2019, we closed our initial public offering of 4,400,000 share of common stock at a public offering price of \$5.00 per share. After the payment of underwriter discounts and offering expenses, and after giving effect to the underwriters' exercise of its over-allotment option on November 20, 2019 to purchase an additional 479,300 shares of our common stock at the offering price of \$5.00 per share, we received net proceeds of approximately \$21.8 million.

On August 10, 2020, we engaged Jefferies LLC to act as its placement agent in connection with a private placement of approximately 3,048,653 shares of our common stock, at a purchase price per share of \$8.50, for aggregate gross proceeds to us of approximately \$25,910,000, before deducting placement agent fees and other offering expenses payable by us. The private placement is expected to close on August 13, 2020.

We were incorporated under the laws of the state of Delaware on January 24, 2018. Our principal executive offices are located at 2600 Via Fortuna, Suite 360, Austin, Texas 78746, and our telephone number is (737) 802-1973. Our website address is www.tffpharma.com. The information contained in, or accessible through, our website is not incorporated by reference into this report, and you should not consider any information contained in, or that can be accessed through, our website as part of this report or in deciding whether to purchase our common stock.

Results of Operations

We were formed in January 2018 and have not commenced revenue-producing operations. To date, our operations have consisted of the development and early-stage testing of our initial product candidates. In connection with our organization on January 24, 2018, we entered into a Contribution and Subscription Agreement with Lung Therapeutics, Inc., or LTI, our former parent, pursuant to which we agreed to acquire from LTI certain of LTI's non-core intellectual property rights and other assets, or the Acquired Assets, all of which relate to our Thin Film Freezing technology. We closed on the acquisition of the Acquired Assets concurrent with the close of the initial Series A preferred stock financing in March 2018.

In December 2019, the Company established a wholly-owned Australian subsidiary, TFF Pharmaceuticals Australia Pty Ltd. in order to conduct clinical research.

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease ("COVID-19") a global pandemic. We had expected to commence Phase I clinical trials our TFF formulation of Tacrolimus in Australia in the first quarter of 2020, and on March 13, 2020 we had received the approval of the Australian Human Research Ethics Committee to commence Phase I trials, however later in March 2020 our contract research organization in Australia informed us that because of the spread of the COVID-19 virus in Australia, there would be a delay in initiating the trial. During the second quarter of 2020, we were able to begin dosing in the Phase I Tacrolimus trial. However, due to the resurgence of COVID-19 in Australia, in July 2020 the Phase I trials were suspended and, as of the date of this report, we are unable to predict when we will be able to resume the Phase I clinical trials in Australia. Any financial impact cannot be reasonably estimated at this time, but may materially affect our business and financial condition. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others.

During the three months ended June 30, 2020 and 2019, we incurred \$2,567,771 and \$1,319,656 of research and development expenses and \$1,274,803 and \$889,453 of general and administrative expenses, respectively. The increase in research and development expenses during 2020 was due to the ramp-up of research and development activities following the completion of IPO in October 2019. The ramp up includes our preliminary analysis and testing of dry powder formulations of certain drugs and vaccines we believe have the potential to become product candidates. The increase in general and administrative expenses in 2020 from the prior year period was due to additional activity and public company costs after the IPO. We incurred a net loss applicable to common stockholders of \$3,816,579 and \$2,475,882 for three months ended June 30, 2020 and 2019, respectively.

During the six months ended June 30, 2020 and 2019, we incurred \$4,803,313 and \$2,990,518 of research and development expenses and \$2,892,727 and \$1,421,051 of general and administrative expenses, respectively. The increase in research and development expenses during 2020 was due to the ramp-up of research and development activities following the completion of IPO in October 2019. The ramp up includes our preliminary analysis and testing of dry powder formulations of certain drugs and vaccines we believe have the potential to become product candidates. The increase in general and administrative expenses in 2020 from the prior year periods was due to a higher level of activity in stock-based compensation in 2020 compared to 2019 along with additional activity and public company costs after the IPO. We incurred a net loss applicable to common stockholders of \$7,613,777 and \$4,879,975 for six months ended June 30, 2020 and 2019, respectively.

Financial Condition

As of June 30, 2020, we had total assets of approximately \$22.5 million and working capital of approximately \$21.8 million. As of June 30, 2020, our liquidity included approximately \$21.9 million of cash and cash equivalents. We believe that our cash on-hand as of the date of this report is sufficient to fund our proposed operating plan for, at least, the 12 months following the date of this report. However, as of the date of this report, we believe that we will need additional capital to fund our operations through to the marketing approval for TFF Vori and TFF Tac-Lac, assuming such approval can be obtained at all, and to engage in the substantial development of any other of our drug candidates, such as formulation, early stage animal testing and formal toxicology studies. We intend to seek additional funds through various financing sources, including the sale of our equity and debt securities, licensing fees for our technology and co-development and joint ventures with industry partners, with a preference towards licensing fees for our technology and co-development and joint ventures with industry partners. In addition, we will consider alternatives to our current business plan that may enable to us to achieve revenue producing operations and meaningful commercial success with a smaller amount of capital. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to further pursue our business plan and we may be unable to continue operations, in which case you may lose your entire investment.

Off Balance Sheet Transactions

We do not have any off-balance sheet transactions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon their evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

As previously identified and disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, management had determined that there was not adequate segregation of duties due to a small number of employees conducting various accounting, payment and billing functions. As disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, we began to remediate this issue by adding an additional person in our accounting department, strengthening our billing and payment procedures and upgrading our accounting, billing and payment software. As of the end of the period covered by this report, the implementation of these improvements in our internal control over financial reporting have enabled us to conclude that we have adequate segregation of duties. Our management has determined that the previously identified and disclosed material weakness in our internal control over financial reporting has been remediated as of June 30, 2020.

Changes in Internal Control Over Financial Reporting

During the three-month period ended June 30, 2020, we implemented procedures to provide adequate segregation of duties of our billing, payment and accounting processes. The additional procedures that were implemented during the period have enabled us to remediate our previously disclosed material weakness. These procedures include having separate employees prepare and approve all payments and having an adequate audit trail to support the preparation and approval processes. There were no other changes in our internal control over financial reporting that occurred during the three-month period ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

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. Those forward-looking statements include our expectations, beliefs, intentions and strategies regarding the future. You should carefully consider the risk factors discussed in Part I, Item 1A. “Risk Factors” in our 2019 Annual Report on Form 10-K filed with the SEC on March 27, 2020 as, in light of those risks, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements. There have been no material changes in the risk factors included in our 2019 Annual Report on Form 10-K. The risk factors described in our 2019 Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

Initial Public Offering

On October 29, 2019, we completed our initial public offering, or IPO, of 4,400,000 shares of our common stock, and on November 20, 2019 we closed on the sale and issuance of an additional 479,300 shares of common stock from the partial exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of \$5.00 per share. The offer and sale of all of the shares in our IPO were registered under the Securities Act of 1933 (“Securities Act”) pursuant to a registration statement on Form S-1 (File No. 333-233378), which was declared effective by the SEC on October 24, 2019. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on December 12, 2014 pursuant to Rule 424(b)(4). Pending the uses described in our definitive prospectus, we have invested the net proceeds from the offering in short-term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper, and guaranteed obligations of the U.S. government.

Item 6. Exhibits

Exhibit No.	Description	Method of Filing
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on August 20, 2019.
3.2	Amended and Restated Bylaws of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on August 20, 2019.
10.1*	Amendment No. 1 Dated May 14, 2020 to Executive Employment Agreement Between Glenn Mattes and Registrant	Filed electronically herewith
31.1	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
31.2	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).	Filed electronically herewith
101.INS	XBRL Instance Document	Filed electronically herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed electronically herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed electronically herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed electronically herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed electronically herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed electronically herewith

* Indicates management compensatory plan, contract or arrangement.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TFF PHARMACEUTICALS, INC.

Date: August 13, 2020

By: /s/ Glenn Mattes
Glenn Mattes,
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2020

By: /s/ Kirk Coleman
Kirk Coleman,
Chief Financial Officer
(Principal Financial Officer)

AMENDMENT NO. 1 TO EXECUTIVE EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 TO EXECUTIVE EMPLOYMENT AGREEMENT (“*Amendment*”) is entered into as of May 14, 2020 by and between TFF Pharmaceuticals, Inc., a Delaware corporation (“*Company*”), and Glenn Mattes (“*Executive*”).

RECITAL

A. The parties hereto have previously entered into that certain Executive Employment Agreement dated December 20, 2018 (the “*Employment Agreement*”).

B. The parties hereto desire to amend the Employment Agreement as set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, the parties agree as follows:

1. Section 3(a) of the Employment Agreement is hereby amended by deleting it in its entirety and replacing it with the following new Section 3(a):

“(a) *Base Salary*. During the Employment Term, beginning on the Effective Date, the Company will pay Executive as compensation for his services a base salary of \$400,000 per annum, provided that as of June 1, 2020 the base salary shall be increased to \$450,00 (the “*Base Salary*”). The Base Salary will be paid in regular installments in accordance with the Company’s normal payroll practices (subject to required withholding). The first and last payment will be adjusted, if necessary, to reflect a commencement or termination date other than the first or last working day of a pay period. The Board will review the Executive’s performance, generally on an annual basis, with increases, if any, to the Base Salary, as determined by the Board in its sole discretion.”

2. This Amendment may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3. Except as set forth in this Amendment, all other provisions of the Employment Agreement shall remain in full force and effect.

[SIGNATURE PAGE TO AMENDMENT NO. 1
TO EXECUTIVE EMPLOYMENT AGREEMENT FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first written above.

“Company”

TFF Pharmaceuticals, Inc.,
a Delaware corporation

By: /s/ Kirk Coleman
Kirk Coleman,
Chief Financial Officer

“Executive”

/s/ Glenn Mattes
Glenn Mattes

CERTIFICATIONS

I, Glenn Mattes, certify that:

- (1) I have reviewed this Form 10-Q of TFF Pharmaceuticals, Inc. (the "Company");
- (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 Company as of, and for, the periods presented in this report;
- (4) The Company'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 company 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 Company, 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 Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; And
- (5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

TFF PHARMACEUTICALS, INC.

Date: August 13, 2020

By: /s/ Glenn Mattes
Glenn Mattes, Chief Executive Officer

CERTIFICATIONS

I, Kirk Coleman, certify that:

- (1) I have reviewed this Form 10-Q of TFF Pharmaceuticals, Inc. (the "Company");
- (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 Company as of, and for, the periods presented in this report;
- (4) The Company'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 company 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 Company, 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 Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; And
- (5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

TFF PHARMACEUTICALS, INC.

Date: August 13, 2020

By: /s/ Kirk Coleman
Kirk Coleman, Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of TFF Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glenn Mattes, the Chief Executive Officer, and Kirk Coleman, the Chief Financial Officer, of the Company, respectively, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

By: /s/ Glenn Mattes
Glenn Mattes,
Title: President and Chief Executive Officer

Dated: August 13, 2020

By: /s/ Kirk Coleman
Kirk Coleman,
Title: Chief Financial Officer

Dated: August 13, 2020

This certification is made solely for the purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.