# 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 March 31, 2025**

☐ **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: **001-40739**

# DERMATA THERAPEUTICS, INC.

(Exact name of registrant as specified in the charter)

| **Delaware** | **86-3218736** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **3525 Del Mar Heights Rd., #322, San Diego, CA** | **92130** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **858-800-2543**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.0001 per share | DRMA | The Nasdaq Capital Market |
| Warrants, exercisable for one share of Common Stock | DRMAW | The Nasdaq Capital Market |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated Filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☒ |

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards 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.

There were 6,378,118 shares of Common Stock, par value $0.0001, of Dermata Therapeutics, Inc. issued and outstanding as of May 12, 2025.

**DERMATA THERAPEUTICS, INC.**
**Form 10-Q**
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**PART I**

**ITEM 1: FINANCIAL STATEMENTS**

**DERMATA THERAPEUTICS, INC.**
**Balance Sheets**

| | March 31, 2025 (unaudited) | December 31, 2024 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 9,719,268 | $ 3,161,570 |
| Prepaid expenses and other current assets | 285,739 | 372,318 |
| Total assets | $ 10,005,007 | $ 3,533,888 |
| | | |
| Liabilities and Stockholders' Equity: | | |
| Liabilities: | | |
| Accounts payable | $ 1,395,313 | $ 808,011 |
| Accrued and other current liabilities | 1,308,472 | 1,164,783 |
| Total liabilities | 2,703,785 | 1,972,794 |
| Commitments and Contingencies (see Note 6) | | |
| Stockholders' Equity: | | |
| Common Stock, par value $0.0001 per share, 250,000,000 shares authorized; 6,032,648 shares issued and outstanding as of March 31, 2025; 2,517,768 shares issued and outstanding as of December 31, 2024 | 603 | 252 |
| Additional paid-in capital | 75,279,545 | 67,236,181 |
| Accumulated deficit | (67,978,926) | (65,675,339) |
| Total stockholders' equity | 7,301,222 | 1,561,094 |
| Total liabilities and stockholders' equity | $ 10,005,007 | $ 3,533,888 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Operations**
**(unaudited)**

| | For the three months ended March 31, | |
|---|---|---|
| | **2025** | **2024** |
| Operating expenses: | | |
| Research and development | $ 1,281,141 | $ 1,600,741 |
| General and administrative | 1,058,662 | 1,602,819 |
| Total operating expenses | 2,339,803 | 3,203,560 |
| Loss from operations | (2,339,803) | (3,203,560) |
| Other income and expenses: | | |
| Interest income | 36,216 | 69,298 |
| Net loss | $ (2,303,587) | $ (3,134,262) |
| | | |
| Net loss per share of Common Stock, basic and diluted | $ (0.45) | $ (7.06) |
| | | |
| Weighted-average basic and diluted Common Stock | 5,154,698 | 443,998 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Stockholder's Equity**
**(unaudited)**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | Equity |
| Balance at December 31, 2024 | 2,517,768 | $ 252 | $ 67,236,181 | $ (65,675,339) | $ 1,561,094 |
| Stock-based compensation | - | - | 37,189 | - | 37,189 |
| Issuance of Common Stock and warrants from January 2025 PIPE, net of issuance costs | 1,935,412 | 193 | 2,254,528 | - | 2,254,721 |
| Issuance of Common Stock upon exercise of pre-funded warrants | 977,468 | 98 | 879 | - | 977 |
| Issuance of Common Stock and warrants from March 2025 Warrant Inducement, net of issuance costs | 602,000 | 60 | 5,750,768 | - | 5,750,828 |
| Net loss | - | - | - | (2,303,587) | (2,303,587) |
| Balance at March 31, 2025 | 6,032,648 | $ 603 | $ 75,279,545 | $ (67,978,926) | $ 7,301,222 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Stockholder's Equity**
**(unaudited)**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | Equity |
| Balance at December 31, 2023 | 261,998 | $ 26 | $ 59,742,870 | $ (53,387,878) | $ 6,355,018 |
| Stock-based compensation | - | - | 587,234 | - | 587,234 |
| Issuance of abeyance shares | 182,000 | 18 | (18) | - | - |
| Net loss | - | - | - | (3,134,262) | (3,134,262) |
| Balance at March 31, 2024 | 443,998 | $ 44 | $ 60,330,086 | $ (56,522,140) | $ 3,807,990 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Cash Flows**
**(unaudited)**

| | For the three months ended March 31, | |
|---|---|---|
| | **2025** | **2024** |
| Cash flows from operating activities: | | |
| Net loss | $ (2,303,587) | $ (3,134,262) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation | 37,189 | 587,234 |
| Increase (decrease) in cash resulting from changes in: | | |
| Prepaid expenses and other current assets | 86,579 | 94,424 |
| Accounts payable | 102,064 | (43,482) |
| Accrued and other current liabilities | 143,689 | (208,368) |
| Total adjustments to reconcile net loss to net cash used in operations | 369,521 | 429,808 |
| Net cash used in operating activities | (1,934,066) | (2,704,454) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Common Stock, pre-funded warrants, and warrants, net of issuance costs | 8,541,282 | - |
| Proceeds from exercise of pre-funded warrants | 977 | - |
| Payment of prior period issuance costs | (50,495) | - |
| Net cash provided by financing activities | 8,491,764 | - |
| Net increase (decrease) in Cash and cash equivalents | 6,557,698 | (2,704,454) |
| Cash and cash equivalents at beginning of period | 3,161,570 | 7,438,135 |
| Cash and cash equivalents at end of period | $ 9,719,268 | $ 4,733,681 |
| Non-cash financing activities: | | |
| Issuance of abeyance shares | $ - | $ (18) |
| January 2025 PIPE issuance costs in accounts payable | $ 79,102 | $ - |
| March 2025 Warrant Inducement issuance costs in accounts payable | $ 456,631 | |

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

**DERMATA THERAPEUTICS, INC.**
**Notes to Financial Statements**
**(unaudited)**

## 1. Organization and Basis of Presentation

Dermata Therapeutics, Inc., (the "Company"), was formed in December 2014 as a Delaware limited liability company ("LLC") under the name Dermata Therapeutics, LLC. On March 24, 2021, the Company converted from an LLC to a Delaware C-corporation and changed its name to Dermata Therapeutics, Inc. The Company is a clinical-stage biotechnology company focused on the treatment of medical and aesthetic skin conditions and diseases.

### Reverse Stock Splits

On May 7, 2024, the Company held its annual meeting of stockholders at which time the stockholders approved the adoption of an amendment to its Amended and Restated Certificate of Incorporation, as amended, to effect a reverse stock split of its issued and outstanding shares of Common Stock, at a specific ratio, ranging from one-for-five to one-for-thirty, with the exact ratio determined by the Company's board of directors without further approval or authorization of its stockholders. On May 16, 2024, the Company effected the reverse split of its shares of Common Stock at a ratio of 1-for-15, as approved by the Company's board of directors. The par value was not adjusted as a result of the May 2024 reverse stock split. All issued and outstanding shares of Common Stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

### Liquidity and Going Concern Uncertainty

Since its inception, the Company has devoted substantially all of its resources to research and development activities and has not generated any revenue or commercialized any product candidates. As of March 31, 2025, cash and cash equivalents totaled $9.7 million and the Company had an accumulated deficit of $68.0 million. For the three months ended March 31, 2025, and the year ended December 31, 2024, the Company used cash of $1.9 million and approximately $11.1 million, respectively, in operations. The Company's cash and cash equivalents are expected to fund operations into the first quarter of 2026. The Company anticipates that it will continue to incur net losses for the foreseeable future. These factors raise substantial doubt about the Company's ability to continue as a going concern for the one-year period following the date that these financial statements were issued.

Historically, the Company's principal sources of cash have included proceeds from the issuance of equity securities and debt. The Company's principal uses of cash have included cash used in operations and payments for license rights. The Company expects that the principal uses of cash in the future will be for continuing operations, funding of research and development, conducting preclinical studies and clinical trials, and general working capital requirements. The Company expects that as research and development expenses continue to grow, it will need to raise additional capital to sustain operations and research and development.

### Management's Plan to Continue as a Going Concern

To continue as a going concern, the Company will need, among other things, to raise additional capital resources. Until the Company can generate significant cash from operations, management's plans to obtain such resources for the Company include proceeds from offerings of the Company's equity securities or debt, or transactions involving product development, technology licensing or collaboration. Management can provide no assurance that any sources of a sufficient amount of financing or collaboration agreements will be available to the Company on favorable terms, if at all. The Company's ability to raise additional capital may be adversely impacted by potential worsening of global economic conditions, potential future global pandemics or health crises, and the disruptions to, and volatility in, the credit and financial markets in the United States. Because of historical and expected operating losses and net operating cash flow deficits, there is substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements, which is not alleviated by management's plans. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

**Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations, cash flows, and stockholders' equity for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ materially from those estimates. The unaudited financial statements included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2024, filed with Securities and Exchange Commission (the "SEC") on March 17, 2025, which includes a broader discussion of the Company's business and the risks inherent therein.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The Company's financial statements are prepared in accordance with GAAP. The preparation of the Company's financial statements requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, and expenses and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates and judgments, including those related to accrued research and development expenses. The Company bases its estimates on various assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

**Segment Information**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company and the Company's chief operating decision maker view the Company's operations and manage its business in one operating segment, which is the business of developing and commercializing pharmaceuticals.

**Cash and Cash Equivalents**

The Company deposits its cash and cash equivalents with accredited financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"), which are held in checking and cash sweep accounts. At times, deposits held may exceed the amount of insurance provided by the FDIC. The Company maintains an insured cash sweep account in which cash from its main operating checking account is invested overnight in highly liquid, short-term investments. The Company considers all highly liquid investments with a maturity date of 90 days or less at the date of purchase to be cash equivalents.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company is exposed to credit risk in the event of a default by the financial institutions holding the Company's cash and cash equivalents to the extent of the amounts held in excess of FDIC limits. The Company limits its credit risk by placing its cash and cash equivalents with financial institutions it believes are of high quality. To date, the Company has not experienced any losses on its deposits of cash and cash equivalents.

**Fair Value Measurement**

The Company uses a three-tier fair value hierarchy to prioritize the inputs used in the Company's fair value measurements. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company believes the carrying amount of cash and cash equivalents, accounts payable and accrued expenses approximate their estimated fair values due to the short-term nature of these assets and liabilities.

**Interest Income**

Interest income consists of interest income earned on cash and cash equivalents from interest bearing demand accounts.

**Patent Costs**

Patent costs related to obtaining and maintaining patent protection in both the United States and other countries are expensed as incurred. Patents costs are classified as general and administrative expenses.

**Research and Development**

Research and development costs consist of expenses incurred in connection with the development of the Company's product candidates. Such expenses include expenses incurred under agreements with contract research organizations, manufacturing and supply scale-up expenses and the cost of acquiring and manufacturing preclinical and clinical trial supply, outsourced laboratory services, including materials and supplies used to support the Company's research and development activities, and payments made for license fees and milestones that have not been demonstrated to have commercial value. Such costs are expensed in the periods in which they are incurred. Upfront payments and milestone payments for licensed technology are expensed as research and development as incurred or when the milestone is achieved or is determined to be probable of being achieved. Advanced payments for goods or services to be received in the future for research and development activities are recorded as prepaid expenses and expensed as the related goods are received or services are performed.

**Income Taxes**

The Company is a C-Corporation and accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that the Company believes these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If management determines that the Company would be able to realize its deferred tax assets in the future in excess of their net recorded amount, management would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) management determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, management recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes interest and penalties related to unrecognized tax benefits within income tax expense. Any accrued interest and penalties are included within the related tax liability.

**Stock-Based Compensation**

The Company measures and recognizes compensation expense for all stock-based awards made to employees, directors, and non-employees, based on estimated fair values recognized using the straight-line method over the requisite service period. The fair value of options to purchase Common Stock granted to employees is estimated on the grant date using the Black-Scholes valuation model. The calculation of stock-based compensation expense requires that the Company make certain assumptions and judgments about variables used in the Black-Scholes model, including the expected term of the stock-based award, expected volatility of the underlying Common Stock, dividend yield, and the risk-free interest rate. Forfeitures are accounted for in the period they occur.

**Warrants**

The Company performs an assessment of warrants upon issuance to determine their proper classification in the financial statements based upon the warrant's specific terms, in accordance with the authoritative guidance provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 480, *Distinguishing Liabilities from Equity ("ASC 480")*, and ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815-40")*. The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480 and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed in the Company's own Common Stock and whether the warrant holders could potentially require cash settlement of the warrants.

For issued or modified warrants that meet all the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are required to be liability-classified and recorded at their initial fair value on the date of issuance and remeasured at fair value at each balance sheet date thereafter. The Company has performed an assessment of all warrants issued and modified and determined that the Company's warrants are equity-classified.

**Comprehensive Loss**

Comprehensive loss includes net loss and other comprehensive income (loss) for the periods presented. The Company did not have other comprehensive income (loss) items such as unrealized gains and losses and so for the periods presented, comprehensive loss was equal to the net loss.

**Net Loss Per Share of Common Stock**

Basic net loss per share is calculated by dividing net loss attributable to common shareholders by the weighted-average number of shares outstanding during the period. The weighted-average number of shares of Common Stock outstanding includes (i) pre-funded warrants because their exercise requires only nominal consideration for the delivery of shares, and (ii) shares held in abeyance because there is no consideration required for delivery of the shares, (collectively, "basic shares"), without consideration of common stock equivalents. Diluted net loss per share is calculated by adjusting basic shares outstanding for the dilutive effect of common stock equivalents outstanding for the period. For purposes of the diluted net loss per share calculation, stock options and warrants are considered to be common stock equivalents but are excluded from the calculation of diluted net loss per common stock if their effect would be anti-dilutive.

The common share equivalents that are not included in the calculation of diluted net loss per share of Common Stock but could potentially dilute basic earnings per share in the future are as follows:

| | As of March 31, | |
|---|---|---|
| | **2025** | **2024** |
| Common Stock options | 204,841 | 27,341 |
| Common Stock warrants | 12,389,769 | 557,246 |
| Total potentially dilutive securities | 12,594,610 | 584,587 |

**Recent Accounting Pronouncements**

For the three months ended **March 31, 2025**, the Company has reviewed recent accounting standards and identified the following as relevant to the Company.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09")*. ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. ASU 2023-09 is effective for public entities with annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its financial statements and income tax footnote.

In November 2024, the FASB issued ASU No. 2024-03, *Disaggregation of Income Statement Expenses ("ASU 2024-03")*. ASU 2024-03 requires additional disclosures and disaggregation of certain costs and expenses presented on the face of the income statement. ASU 2024-03 is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its financial statements.

**3. Balance Sheet Details**

The following provides certain balance sheet details:

| | March 31, 2025 | December 31, 2024 |
|---|---|---|
| Prepaid expenses and other current assets: | | |
| Prepaid insurance | $ 208,228 | $ 349,824 |
| Prepaid research and development costs | 2,000 | 12,600 |
| Prepaid other and other current assets | 75,511 | 9,894 |
| Total prepaid expenses and other current assets | $ 285,739 | $ 372,318 |
| | | |
| Accrued and other current liabilities: | | |
| Accrued research and development costs | $ 158,353 | $ 295,392 |
| Accrued compensation and benefits | 961,759 | 731,632 |
| Accrued other | 188,360 | 137,759 |
| Total accrued and other current liabilities | $ 1,308,472 | $ 1,164,783 |

**4. Equity Securities**

A summary of the Company's equity securities as of **March 31, 2025**, is as follows:

| Description | Authorized | Issued | Abeyance | Reserved | Outstanding |
|---|---|---|---|---|---|
| Common Stock, par value $0.0001 | 250,000,000 | 6,032,648 | 4,232,470 | - | 6,032,648 |
| Preferred Stock | 10,000,000 | - | - | - | - |
| Warrants | - | 12,389,769 | - | - | 12,389,769 |
| 2021 Omnibus Equity Incentive Plan | - | 205,755 | - | 63 | 204,841 |
| Total equity securities | 260,000,000 | 18,628,172 | 4,232,470 | 63 | 18,627,258 |

**Common Stock**

On March 27, 2025, the Company entered into an inducement offer letter agreement (the "March 2025 Inducement Letter") with a holder (the "Holder") of certain of its existing warrants to purchase an aggregate of 4,834,470 shares of the Company's common stock. Such existing warrants were made up of (i) certain of the May 17, 2024 (the "May 2024 Warrants"), which were issued in two separate series, having an exercise price of $4.91 per share, and (ii) the September 16, 2024, which were issued in two separate series, having an exercise price of $1.58 per share (the "September 2024 Warrants" and together with the May 2024 Warrants, the "Existing Warrants"). Pursuant to the March 2025 Inducement Letter, the Holder agreed to exercise for cash its Existing Warrants at a reduced exercise price of $1.284 per share in consideration for the Company's agreement to issue in a private placement (i) new Series A common stock purchase warrants (the "New Series A Warrants") to purchase up to 4,980,806 shares of Common Stock (the "New Series A Warrant Shares") and (ii) new Series B common stock purchase warrants (the "New Series B Warrants" and together with the New Series A Warrants, the "New Warrants") to purchase up to 4,688,134 shares of Common Stock (the "New Series B Warrant Shares" and together with the New Series A Warrant Shares, the "New Warrant Shares"). The Company received net proceeds of approximately $5.8 million from the exercise of the Existing Warrants by the Holder, after deducting financial advisor fees and other offering expenses payable by the Company.

Related to the March 2025 Inducement Letter, at closing the Holder received 602,000 Common Shares, with the balance of 4,232,470 held in abeyance as of March 31, 2025, to be released to the Holder at the Holder's request.

On January 21, 2025, the Company closed a private placement (the "January 2025 PIPE") priced at the market under Nasdaq rules, in which it sold 1,935,412 shares of Common Stock, pre-funded warrants to purchase an aggregate of 72,468 shares of Common Stock with an exercise price of $0.001 per share ("January 2025 Pre-Funded Warrants"), and 2,007,880 warrants (the "January 2025 PIPE Warrants") to purchase up to an aggregate of 2,007,880 shares of Common Stock. The January 2025 PIPE Warrants have an exercise price of $1.27. Certain Company insiders, including the Company's Chief Executive Officer, Chief Financial Officer and certain members of the Company's board of directors, participated in the January 2025 PIPE. These Company insiders purchased an aggregate of 1,220,476 shares of Common Stock and January 2025 PIPE Warrants to purchase up to an aggregate of 1,220,476 shares of Common Stock, for an aggregate purchase price of approximately $1,550,000. The purchase price per share of Common Stock and accompanying January 2025 PIPE Warrant for these Company insiders was the same as paid by other investors in the January 2025 PIPE. In connection with the January 2025 PIPE, the Company entered into a registration rights agreement with the investor, pursuant to which the Company agreed to prepare and file a registration statement with the SEC registering the resale of the shares of Common Stock underlying the securities sold in the January 2025 PIPE financing. The Company filed a Form S-3 on January 30, 2025, which was declared effective by the SEC on February 5, 2025. The Company received net cash proceeds of approximately $2.3 million from the January 2025 PIPE after deducting underwriters' discounts and offering expenses of approximately $0.3 million. During the first quarter of 2025, all of the January 2025 Pre-Funded Warrants were exercised. As of March 31, 2025, no January 2025 Pre-Funded Warrants remained outstanding.

On September 17, 2024, the Company closed a private placement (the "September 2024 PIPE") priced at the market under Nasdaq rules, in which it sold 1,912,569 pre-funded warrants to purchase up to an aggregate of 1,912,569 shares of Common Stock with an exercise price of $0.001 per share (the "September 2024 Pre-Funded Warrants"), and 1,912,569 series A warrants (the "September 2024 PIPE Series A Common Warrants") to purchase up to an aggregate of 1,912,569 shares of Common Stock and 1,912,569 series B warrants (the "September 2024 PIPE Series B Common Warrants" and together with the September 2024 PIPE Series A Warrants, the "September 2024 PIPE Warrants") to purchase up to an aggregate of 1,912,569 shares of Common Stock. The September 2024 PIPE Warrants have an exercise price of $1.58. In connection with the September 2024 PIPE, the Company entered into a registration rights agreement with the investor, pursuant to which the Company agreed to prepare and file a registration statement with the SEC registering the resale of the shares of Common Stock underlying the securities sold in the September 2024 PIPE financing. The Company filed a Form S-3 on September 19, 2024, which was declared effective by the SEC on September 24, 2024. The Company received net cash proceeds of approximately 3.1 million from the September 2024 PIPE after deducting underwriters' discounts and offering expenses of approximately $0.4 million. As of December 31, 2024, 905,000 September 2024 Pre-Funded Warrants remained outstanding, which were exercised during the first quarter of 2025. As of March 31, 2025, no September 2024 Pre-Funded Warrants remained outstanding.

In June 2024, the Company entered into an At The Market Offering Agreement (the "ATM Agreement") with a sales agent (the "Sales Agent"), providing for the sale of up to $1,157,761 of its shares of Common Stock as set forth in the ATM Agreement. The Sales Agent will be entitled to compensation at a fixed commission rate of 3.0% of the gross sales price of the shares of Common Stock sold pursuant to the ATM Agreement, as well as other transactional fees. During July 2024, the Company issued 355,806 shares of Common Stock under the ATM Agreement resulting in gross proceeds of $1,157,248 before deducting issuance costs. After issuance of the 355,806 shares during July 2024, $513 remained registered under the ATM Agreement. On August 2, 2024, the Company increased the maximum aggregate offering amount of Common Stock issuable under the ATM Agreement by $505,000, from $1,157,761 to $1,662,761. During September 2024, the Company issued 194,218 shares of Common Stock under the ATM Agreement resulting in additional gross proceeds of $504,894 before deducting issuance costs. During 2024, the Company issued a total of 550,024 shares from its ATM resulting in net proceeds of $1.5 million after deducting issuer costs and other expenses related to setting up and issuing shares from the Company's ATM. As of March 31, 2025, the Company does not have any remaining capacity under its ATM Agreement.

On May 21, 2024, the Company closed on inducement agreements (the "May 2024 Inducement") with certain holders (the "Holders") of certain of the Company's existing warrants to purchase up to an aggregate of 516,336 shares of the Company's Common Stock, issued to the Holders on (i) May 26, 2023 (the "May 2023 Warrants"), having an exercise price of $32.40 per share, and (ii) November 2023 New Warrants (as defined below), which were issued in two separate series, each having an exercise price of $9.7665 per share (together with the May 2023 Warrants, the "May 2024 Existing Warrants"). Pursuant to the May 2024 Inducement, the Holders agreed to exercise for cash their May 2024 Existing Warrants at a reduced exercise price of $5.16 per share in consideration for the Company's agreement to issue in a private placement (i) new Series A Common Stock purchase warrants (the "New May 2024 Series A Warrants") to purchase up to 601,174 shares of Common Stock, and (ii) new Series B Common Stock purchase warrants (the "New May 2024 Series B Warrants" and together with the New May 2024 Series A Warrants, the "New May 2024 Warrants") to purchase up to 431,498 shares of Common Stock. The Company received net proceeds of approximately $2.3 million from the exercise of the May 2024 Existing Warrants by the Holders, after deducting placement agent fees and other offering expenses payable by the Company.

Related to the May 2024 Inducement, during July 2024, the balance of 267,000 abeyance shares related to the May 2024 Warrant Inducement were released to the investor, leaving no further abeyance shares outstanding as of December 31, 2024.

**Preferred Stock**

While the Company has 10,000,000 shares of preferred stock authorized with a par value of $0.0001, no shares of preferred stock are outstanding as of March 31, 2025, or December 31, 2024, respectively.

**Warrants**

*Summary of Warrants Outstanding*

The warrants outstanding as of March 31, 2025, are exercisable into 12,389,769 shares of Common Stock which had a fair value of $1.08 per share, based on the closing trading price on March 31, 2025. The aggregate intrinsic value of warrants outstanding as of March 31, 2025, is calculated as the difference between the exercise price of the warrants and the closing market price of the Company's Common Stock on that date. The intrinsic value of warrants outstanding as of March 31, 2025, was zero.

| | Quantity of Warrants Outstanding as of | | | |
|---|---|---|---|---|
| **Description** | **March 31, 2025** | **December 31, 2024** | **Exercise Price** | **Expiration Date** |
| Pre-IPO Series 1a Warrants | 279 | 279 | $ 4,920.00 | 11/15/2026 |
| IPO Warrants | 12,320 | 12,320 | 1,680.00 | 8/17/2026 |
| IPO Underwriter Warrants | 535 | 535 | 1,932.00 | 8/17/2026 |
| March 2023 Offering Placement Agent Warrants | 7,549 | 7,549 | 57.94 | 3/16/2028 |
| May 2023 PIPE Placement Agent Warrants | 3,736 | 3,736 | 42.84 | 5/23/2028 |
| November 2023 Placement Agent Warrants | 16,202 | 16,202 | 12.21 | 11/21/2028 |
| May 2024 Series A Common Warrants | 23,340 | 601,174 | 4.91 | 11/21/2029 |
| May 2024 Series B Common Warrants | - | 431,498 | 4.91 | 5/21/2026 |
| May 2024 Placement Agent Warrants | 36,144 | 36,144 | 6.45 | 11/21/2029 |
| September 2024 PIPE Series A Common Warrants | - | 1,912,569 | 1.58 | 3/18/2030 |
| September 2024 PIPE Series B Common Warrants | - | 1,912,569 | 1.58 | 3/17/2026 |
| September 2024 PIPE Placement Agent Warrants | 133,880 | 133,880 | 2.29 | 3/18/2030 |
| January 2025 PIPE Warrants | 2,007,880 | - | 1.27 | (1) |
| January 2025 PIPE Placement Agent Warrants | 140,552 | - | 1.59 | (1) |
| March 2025 Warrant Inducement Series A Warrants | 4,980,806 | - | 1.284 | (1) |
| March 2025 Warrant Inducement Series B Warrants | 4,688,134 | - | 1.284 | (1) |
| March 2025 Warrant Inducement Placement Agent Warrants | 338,412 | - | 1.605 | (1) |
| Total warrants outstanding | 12,389,769 | 5,068,455 | | |

(1) The warrants issued in January and March 2025 are subject to stockholder approval, at which time the warrants will become exercisable. The warrants will expire five years from the effective date of such stockholder approval for the recently issued Series A Warrants or will expire eighteen months from the effective date of such stockholder approval for the recently issued Series B and Placement Agent Warrants.

*Warrant Inducements*

In March 2025, the Company entered into the March 2025 Inducement Letter with a Holder who agreed to exercise 4,834,470 warrants to purchase Common Stock at a reduced exercise price of $1.284 per share in exchange for 4,980,806 New Series A Warrants and 4,688,134 New Series B Warrants with an exercise price of $1.284 per share. The March 2025 Inducement Letter, which resulted in the lowering of the exercise price of the Existing Warrants and the issuance of the New Warrants, is considered a modification of the Existing Warrants under the guidance ASC 815-40. The modification is consistent with the equity issuance classification under that guidance as the reason for the modification was to induce the holders of the Existing Warrants to cash exercise their warrants, which raised equity capital and generated net proceeds of approximately $5.8 million. As the Existing Warrants and the New Warrants were classified as equity instruments before and after the exchange, and as the exchange is directly attributable to an equity offering, the Company recognized the effect of the modification of approximately $4.9 million as an equity issuance cost.

In May 2024, the Company completed the May 2024 Inducement with the Holders who agreed to exercise 516,336 warrants to purchase Common Stock at a reduced exercise price of $5.16 per share in exchange for 601,174 New May 2024 Series A Warrants and 431,498 New May 2024 Series B Warrants with an exercise price of $4.91 per share. The May 2024 Inducement, which resulted in the lowering of the exercise price of the May 2024 Existing Warrants and the issuance of the May 2024 New Warrants, is considered a modification of the May 2024 Existing Warrants under the guidance ASC 815-40. The modification is consistent with the equity issuance classification under that guidance as the reason for the modification was to induce the holders of the May 2024 Existing Warrants to cash exercise their warrants, which raised equity capital and generated net proceeds of approximately $2.3 million. As the May 2024 Existing Warrants and the May 2024 New Warrants were classified as equity instruments before and after the exchange, and as the exchange is directly attributable to an equity offering, the Company recognized the effect of the modification of approximately $1.5 million as an equity issuance cost.

**5. Equity Incentive Plan**

Under the Company's Omnibus Equity Incentive Plan (the "2021 Plan") as amended, the Company may grant options to purchase shares of Common Stock, restricted stock awards, performance stock awards, incentive bonus awards, other cash-based awards or directly issue shares of Common Stock to employees, directors, and consultants of the Company. At the Company's 2024 Annual Meeting of Stockholders held on May 7, 2024, the Company's stockholders approved an amendment to the Company's 2021 Plan to increase the number of shares of Common Stock authorized for issuance thereunder from 41,937 shares to 79,930 shares. Further at the Company's 2024 Annual Meeting of Stockholders, the Company's stockholders approved an amendment to the Company's 2021 Plan, to increase the evergreen provision from one percent to five percent of the total number of the Company's Common Stock outstanding starting on January 1, 2025. The five percent evergreen provision resulted in an additional 125,888 shares of Common Stock issuable pursuant to the 2021 Plan as of January 1, 2025.

Stock awards may be granted at an exercise price per share of not less than 100% of the fair market value at the date of grant. Stock awards granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years for employees and one year for directors of the Company's Board and consultants.

As of March 31, 2025, there remain 63 shares reserved for issuance under the 2021 Plan, as amended.

**Fair Value Measurement**

The Company uses the Black-Scholes option valuation model, which requires the use of highly subjective assumptions, to determine the fair value of stock-based awards. The fair value of each employee stock option is estimated on the grant date under the fair value method using the Black-Scholes model. The estimated fair value of each stock option is then expensed over the requisite service period, which is generally the vesting period. The assumptions and estimates that the Company uses in the Black-Scholes model are as follows:

- *Fair Value of Common Stock.* The fair value of Common Stock is measured as the Company's closing price of Common Stock on the date of grant.

- *Risk-Free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to that of the expected term of the options.

- *Expected Term.* The expected term represents the period that the Company's stock-based awards are expected to be outstanding, which is calculated using the simplified method for stock-based awards granted to employees, as the Company has insufficient historical information to provide a basis for an estimate. The simplified method calculates the expected term as the average of the vesting term plus the contractual life of the options. As permitted under ASC 718, the Company has elected to use the contractual term as the expected term for certain non-employee awards, on an award-by-award basis.

- *Volatility.* The Company determines the price volatility based on the historical volatilities of industry peers as it has limited trading history for its Common Stock price. Industry peers consist of several public companies in the biotechnology industry with comparable characteristics, including clinical trials progress and therapeutic indications.

- *Dividend Yield.* The expected dividend assumption is based on the Company's current expectations about its anticipated dividend policy. To date, the Company has not declared any dividends to common shareholders and, therefore, the Company has used an expected dividend yield of zero.

The following table presents the weighted-average assumptions used for stock options granted during the following periods:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2025** | **2024** |
| Grant date fair value | $ 1.16 | $ 7.68 |
| Risk-free interest rate | 4.65% | 4.0% |
| Dividend yield | 0.00% | 0.00% |
| Expected life in years | 5.9 | 5.9 |
| Expected volatility | 110% | 110% |

***Stock-based Compensation Expense***

In general, stock-based compensation is allocated to research and development expense or general and administrative expense according to the classification of cash compensation paid to the employee, director, or consultant to whom the stock award was granted.

The following table summarizes the total stock-based compensation expense related to stock options included in the Company's statements of operations:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2025 | 2024 |
| Research and development | $ 7,620 | $ 237,337 |
| General and administrative | 29,569 | 349,897 |
| Total | $ 37,189 | $ 587,234 |

***Stock Option Award Activity***

A summary of the Company's 2021 Plan stock option activity is as follows:

| | Number of Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in Years) |
|---|---|---|---|
| Balance at December 31, 2024 | 52,341 | $ 6.03 | 9.3 |
| Options granted | 152,500 | 1.38 | - |
| Options exercised | - | - | - |
| Options cancelled | - | - | - |
| Balance at March 31, 2025 | 204,841 | $ 2.57 | 9.6 |
| | | | |
| Options exercisable at March 31, 2025 | 29,629 | $ 5.24 | 9.3 |

In January 2024, the Board unanimously approved to provide employees and directors of the Company the opportunity to cancel outstanding, out-of-the-money, stock options without consideration, in accordance with an option cancellation agreement. Accordingly, 6,747 of the 6,763 stock options outstanding as of December 31, 2023, were cancelled in February 2024.

In accordance with accounting guidance provided in ASC 718, since the stock option cancellations were not accompanied by a concurrent grant, or offer to grant, a replacement award, any unrecognized compensation cost was recognized at the cancellation date. Accordingly, the Company recognized stock-based compensation expense of $568,372 resulting from the stock option cancellation during the first quarter of 2024.

The aggregate intrinsic value of options outstanding and exercisable as of March 31, 2025, is calculated as the difference between the exercise price of the underlying options and the closing market price of the Company's Common Stock on March 31, 2025, which was $1.08 per share. The intrinsic value of options outstanding and exercisable as of March 31, 2025, was zero.

As of March 31, 2025, total unrecognized compensation cost related to stock options was approximately $0.3 million and the weighted average period over which this cost is expected to be recognized is 2.6 years.

**6. Commitments and Contingencies**

***Clinical Trials***

During the first quarter of 2025, the Company announced positive topline results for its XYNGARI™ Phase 3 STAR-1 clinical trial. The total contract amount with the clinical research organization is approximately $7.2 million, which will extend from the fourth quarter of 2023 to the first half of 2025, and which has a 30-day termination notice period. During the three months ended March 31, 2025, and 2024, the Company recognized $0.7 million and $0.9 million, respectively, in research and development expense for the STAR-1 clinical trial.

***Supplier Agreement***

As a result of Russia's invasion of Ukraine, the United States, the United Kingdom, and the European Union governments, among others, have developed coordinated sanctions and export-control measure packages against Russian individuals and entities. The Company is currently a party to an exclusive supply agreement for the supply of the *Spongilla* raw material used in XYNGARI™ and DMT410. The counterparty to this supply agreement is a Russian entity. The imposition of enhanced export controls and economic sanctions on transactions with Russia and Russian entities by the United States, the United Kingdom, and/or the European Union could prevent the Company from performing under this existing contract or any future contract it may enter or may prevent the Company from remitting payment for raw material purchased from the Company's supplier. The Company has received multiple shipments of raw material from its supplier subsequent to the implementation of export controls and sanctions, containing additional quantities of *Spongilla* raw material, which will provide the Company with sufficient quantities of *Spongilla* to initiate and complete two Phase 3 studies in moderate-to-severe acne and support filing a new drug application for XYNGARI™ in acne upon the successful completion of two Phase 3 studies. Depending on the extent and breadth of new sanctions or export controls that may be imposed against Russia, otherwise or as a result of the impact of the war in Ukraine, it is possible that the Company's ability to obtain additional supply of the *Spongilla* raw material used in XYNGARI™ and DMT410 could be negatively impacted, which could adversely affect its business, results of operations, and financial condition.

***License Agreements***

On March 31, 2017, the Company entered into a license agreement, as amended (the "License Agreement") with Villani, Inc. whereby Villani has granted the Company an exclusive, sub-licensable, royalty-bearing license (the "License") under the Licensed Patents (as defined in the License Agreement), to formulate, develop, seek regulatory approval for, make or sell products that contain *Spongilla lacustris* (alone or in combination with other active or inactive ingredients) for the treatment of diseases, disorders and conditions of the skin, including but not limited to acne, rosacea, psoriasis, atopic dermatitis, seborrheic dermatitis, actinic keratosis and eczema that were developed using certain licensed know-how ("Licensed Products"). The Company is responsible for the development (including manufacturing, packaging, non-clinical studies, clinical trials and obtaining regulatory approval and commercialization (including marketing, promotion, distribution, etc.)) for all Licensed Products. The original License Agreement was amended in 2019, and pursuant to the amended License Agreement, the Company was required to make future milestone payments to Villani in an aggregate amount of up to $20.25 million upon the achievement of specified development and sales milestones, payable in cash or in equity, at the option of Villani, as well as single-digit royalty payments on net sales. On July 30, 2021, the Company further amended the License Agreement in the Second Amendment to the License and Settlement Agreement (the "Second Amendment"). Pursuant to the Second Amendment, the Company is required to make future milestone payments to Villani in an aggregate amount of up to $40.5 million upon the achievement of specified development and sales milestones, payable in cash or in equity, at the option of Villani, as well as single-digit royalty payments on net sales. The Second Amendment includes customary terms relating to, among others, indemnification, intellectual property protection, confidentiality, remedies, and warranties. As of March 31, 2025, the Company evaluated the likelihood of the Company achieving the specified milestones and determined that the likelihood is not yet probable and as such no accrual of these payments is required as of March 31, 2025.

***Collaboration Agreement***

On January 17, 2025, the Company entered into a Clinical Trial Collaboration Agreement (the "Clinical Trial Agreement") with Revance Therapeutics, Inc. ("Revance"), pursuant to which the Company and Revance intend to conduct a multi-center clinical trial (the "Trial") to evaluate the topical application of XYNGARI™, the Company's topical Spongilla powder (formerly referred to as DMT310), with Daxxify (daxibotulinumtoxinA-lanm), Revance's botulinum toxin type A. Pursuant to the terms of the Clinical Trial Agreement, Revance has granted the Company a non-exclusive, worldwide, non-transferable, royalty-free license, with a right to sublicense (subject to limitations), to use certain Revance intellectual property, solely as necessary or useful for the Company to conduct the trial under the Clinical Trial Agreement. The Company has granted Revance a similar license to use XYNGARI™ and other compound(s) under the Clinical Trial Agreement. The Clinical Trial Agreement will terminate upon completion of the Trial, the delivery of the data resulting from the Trial and the completion of any statistical analyses of the data resulting from the Trial. Either party may terminate the Clinical Trial Agreement upon a material breach by the other party that remains uncured following 30 days after the date of written notice of such breach. In addition, either party may terminate the Clinical Trial Agreement immediately upon written notice if such party reasonably deems it necessary in order to protect the safety, health or welfare of subjects enrolled in the Trial. The Company has agreed to sponsor, conduct, and fund the Phase 2a clinical trial. As of March 31, 2025, the Company has not incurred any expenses related to the Revance Clinical Trial Agreement.

***Registration Rights Agreement***

In connection with the January 2025 PIPE (see Note 4), the Company entered into a Registration Rights Agreement with the purchasers, dated as of January 21, 2025 (the "Registration Rights Agreement"). The Registration Rights Agreement provides that the Company shall file a registration statement covering the resale of all of the registrable securities (as defined in the Registration Rights Agreement) with the SEC. The registration statement on Form S-3 required under the Registration Rights Agreement was filed with the SEC on January 30, 2025, and became effective on February 5, 2025.

Upon the occurrence of any Event (as defined in the Registration Rights Agreement), which, among others, prohibits the purchasers from reselling the securities for more than ten consecutive calendar days or more than an aggregate of fifteen calendar days during any 12-month period, and should the registration statement cease to remain continuously effective, the Company would be obligated to pay to each purchaser, on each monthly anniversary of each such Event, an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 2.0% multiplied by the aggregate subscription amount paid by such purchaser in the Private Placement, up to a maximum of 12% of the aggregate subscription amount. As of March 31, 2025, the Company determined that the likelihood of the Company incurring liquidated damages pursuant to the Registration Rights Agreement is remote, and as such, no accrual of these payments is required as of March 31, 2025.

***Legal Proceedings***

In the normal course of business, the Company may be involved in legal proceedings or threatened legal proceedings. The Company is not a party to any legal proceedings or aware of any threatened legal proceedings which are expected to have a material adverse effect on its financial condition, results of operations or liquidity.

**7. Segment Information**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker ("CODM"), in deciding how to allocate resources and in assessing performance. The Company and the Company's chief operating decision maker view the Company's operations and manage its business in one operating segment, which is the business of identifying, developing, and commercializing pharmaceutical products for the treatment of medical and aesthetic skin conditions and diseases.

The CODM, who is the Chief Executive Officer ("CEO"), President, and Chairman of the Board, manages and allocates resources to the operations of the Company on an entity-wide basis. The Company's measure of segment profit or loss is net loss. Managing and allocating resources on an entity-wide basis enables the CEO to assess the overall level of resources available and how to best deploy these resources across functions and research and development projects that are in line with the Company's long-term company-wide strategic goals. Consistent with this decision-making process, the CEO uses financial information for purposes of evaluating performance, forecasting future period financial results, allocating resources, and setting incentive targets. Operating expenses are used to monitor budget versus actual results. The CODM does not review assets in evaluating the results of the Company, and therefore, such information is not presented.

The following table summarizes the segment's financial information including the Company's significant segment expenses:

| | Quarters Ended March 31, | |
|---|---|---|
| | 2025 | 2024 |
| Research and development | $ | |
| Clinical | 726,321 | 870,915 |
| Nonclinical | 144,701 | 120,403 |
| Personnel related | 410,119 | 609,423 |
| Total research and development | $ 1,281,141 | $ 1,600,741 |
| General and administrative | 1,058,662 | 1,602,819 |
| Interest income | 36,216 | 69,298 |
| Net loss | $ (2,303,587) | (3,134,262) |

**8. Related Party Transaction**

In connection with the January 2025 PIPE financing, certain Company insiders, including the Company's CEO, Chief Financial Officer and certain members of the Company's board of directors, participated in the offering. These Company insiders purchased an aggregate of 1,220,476 Common Stock and Warrants to purchase up to an aggregate of 1,220,476 shares of Common Stock, for an aggregate purchase price of $1.55 million. The purchase price per share and accompanying Warrant for these Company insiders was the same as paid by other investors in the January 2025 PIPE.

**9. Subsequent Events**

Subsequent to March 31, 2025, at the Holder's request, the Company delivered 345,470 shares of Common Stock which were held in abeyance, related to the March 2025 Warrant Inducement to the Holder. Accordingly, 3,887,000 shares are held in abeyance, which are not issued and not outstanding.

As previously reported, on March 25, 2025, the Company received a letter from the Listing Qualifications Department of The Stock Market LLC ("Nasdaq") notifying the Company that it is no longer in compliance with the minimum stockholders' equity requirement for continued listing on the Nasdaq Capital Market as set forth in Nasdaq Rule 5550(b)(1) ("Stockholders' Equity Requirement"). Nasdaq has provided the Company with 45 calendar days, or until May 9, 2025, to either regain compliance with the minimum stockholders' equity standard or submit a plan to regain compliance. If the plan is accepted, then Nasdaq can grant and extension of up to 180 calendar days from the date of the letter.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report, particularly those under "Risk Factors."*

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties, and other factors, which may be beyond our control, and which may cause our actual results, performance, or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "point to," "project," "predict," "could," "intend," "target," "potential" and other similar words and expressions of the future.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our lack of operating history;
- the expectation that we will incur significant operating losses for the foreseeable future and will need significant additional capital;
- our current and future capital requirements to support our development and commercialization efforts for our product candidates and our ability to satisfy our capital needs;
- our dependence on our product candidates, which are still in various stages of clinical development;
- our ability to acquire sufficient quantities of raw material needed to manufacture our drug product;
- our, or that of our third-party manufacturers, ability to manufacture cGMP quantities of our product candidates as required for pre-clinical and clinical trials and, subsequently, our ability to manufacture commercial quantities of our product candidates;
- our ability to complete required clinical trials for our product candidates and obtain approval from the FDA or other regulatory agencies in different jurisdictions;
- our lack of a sales and marketing organization and our ability to commercialize our product candidates if we obtain regulatory approval;
- our dependence on third parties to manufacture our product candidates;
- our reliance on third-party CROs to conduct our clinical trials;

- our ability to maintain or protect the validity of our intellectual property;
- our ability to internally develop new inventions and intellectual property;
- interpretations of current laws and the passages of future laws;
- Impacts of increased trade tariffs, import quotas or other trade restrictions or measures taken by the United States and other countries, including the recent and potential changes in U.S. trade policies that have been and may be made by the Trump presidential administration;
- acceptance of our business model by investors;
- the accuracy of our estimates regarding expenses and capital requirements;
- our ability to adequately support organizational and business growth; and
- other factors discussed in our most recent Annual Report on Form 10-K.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipate in our forward-looking statements. Please see "Risk Factors" for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report, or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith, and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs, or projections will result or be achieved or accomplished.

**Overview**

We are a late-stage medical dermatology company focused on identifying, developing, and commercializing innovative pharmaceutical product candidates for the treatment of medical skin diseases and aesthetic applications we believe represent significant market opportunities.

Dermatological diseases such as acne vulgaris (or acne), psoriasis vulgaris (or psoriasis), hyperhidrosis, and various aesthetic indications, affect millions of people worldwide each year which may negatively impact their quality of life and emotional well-being. While there are multiple current treatment options for these indications on the market, we believe that most have significant drawbacks, including underwhelming efficacy, cumbersome application regimens and varying negative side effects, all of which we believe lead to decreased patient compliance. A majority of these indications are first treated with topical therapies, however, many patients frequently switch treatments or discontinue treatment altogether due to patient dissatisfaction. This is primarily due to slow and modest response rates, early tolerability issues, once or twice daily application schedules and long duration of therapy. Given the limitations with current topical therapies, we believe there is a significant opportunity to address the needs of frustrated patients searching for topical products that satisfy their dermatological and lifestyle needs.

Our two product candidates, XYNGARI™ (formerly DMT310) and DMT410, both incorporate our proprietary, multifaceted, *Spongilla* technology to topically treat a variety of dermatological conditions. Our *Spongilla* technology is derived from a naturally grown freshwater sponge, *Spongilla lacustris* or *Spongilla*, which is processed into a powder that is mixed with a fluidizing agent immediately prior to application to form an easily applicable paste. *Spongilla* is a unique freshwater sponge that only grows in commercial quantities in select regions of the world and under specific environmental conditions, all of which give it its distinctive anti-microbial, anti-inflammatory, and mechanical properties. The combination of these environmental conditions, the proprietary harvesting protocols developed with our exclusive supplier, and our post-harvest processing procedures produce a pharmaceutical product candidate that optimizes the mechanical components as well as the chemical components of the sponge to create a product candidate with multiple mechanisms of action for the treatment of inflammatory skin diseases and aesthetic applications.

We believe our *Spongilla* technology platform will enable us to develop XYNGARI™ as either a single, stand-alone agent, or used together with other dermatology products to target the topical delivery of chemical compounds into the dermis for a variety of dermatology indications. We believe the combination of *Spongilla's* mechanical and chemical components (which we believe have demonstrated, *in-vitro*, anti-microbial and anti-inflammatory properties), add to the versatility of our *Spongilla* technology platform's effectiveness as a singular product, in the treatment of a wide variety of medical skin diseases like acne and psoriasis. We also believe the mechanical properties of our *Spongilla* technology allows for the intradermal delivery of a variety of large molecules, like botulinum toxins, monoclonal antibodies, or dermal fillers, to targeted treatment sites, through topical application without the need for needles.

Our lead product candidate, XYNGARI™, is intended to utilize our *Spongilla* technology for the once weekly treatment of a variety of skin diseases, with our initial focus being the treatment of acne, which has a U.S. market size of approximately 30 million patients seeking treatment. In March 2025, we announced that our XYNGARI™ Phase 3 **S**pongilla **T**reatment of **A**cne **R**esearch (STAR-1) trial topline data met all co-primary endpoints at week 12. XYNGARI™ demonstrated highly statistically significant difference compared with placebo for all primary endpoints after 12 weeks of once weekly treatments. XYNGARI™ patients saw a rapid and sustained therapeutics treatment effect in absolute reduction in inflammatory lesion counts with a -11.4 lesion reduction at week four, -14.7 lesions reduction at week 8, and -16.8 lesion reduction at week 12 compared to -8.6, -10.9, and -13.1 lesion reduction for placebo at weeks 4, 8, and 12, respectively. XYNGARI™ patients also saw a rapid and sustained therapeutics treatment effect in absolute reduction in noninflammatory lesion counts with a -12.4 lesion reduction at week four, -15 lesions reduction at week 8, and -17.3 lesion reduction at week 12 compared to -8.8, -10.4, and -12.4 lesion reduction for placebo at weeks 4, 8, and 12, respectively. Lastly, we observed a sustained therapeutics treatment effect in the investigator's global assessment of acne with a 11.9% of XYNGARI™ patients being considered a responder at week four, 21.6% of XYNGARI™ patients being considered a responder at week 8, and 29.4% of XYNGARI™ patients being considered a responder at week 12 compared to 6.2%, 8.0%, and 15.2% of placebo patients being considered a responder at weeks 4, 8, and 12, respectively. The Phase 3 STAR-1 trial was double-blind, randomized, placebo controlled, and enrolled 520 patients with moderate-to-severe acne, age 9 years or older across sites in the United States and Latin America. The co-primary endpoints included absolute reduction in inflammatory and noninflammatory lesion counts and the improvement in investigators global assessment (IGA) of acne. Patients were treated once a week for 12 weeks with either XYNGARI™ or placebo and were evaluated monthly. We are currently evaluating the full data set from the STAR-1 trial. As requested by the FDA, we will have to complete a second Phase 3 trial, STAR-2, which will be followed by an extension study to follow patients for a 12-month total treatment period. The STAR-2 trial will include a near identical trial design to the STAR-1 trial and is planned to begin by the end of 2025. Previously XYNGARI™ has shown its ability to treat the multiple causes of acne in a Phase 2b study where we initially saw a 45% reduction in inflammatory lesions after four treatments, with XYNGARI™ achieving statistically significant improvements at all time points for all three primary endpoints throughout the study (reduction in inflammatory lesions, reduction in non-inflammatory lesions, and improvement in IGA). In addition, based on the multiple mechanisms of action and anti-inflammatory effect seen with the XYNGARI™ acne trial, we completed a Phase 1b proof of concept, or POC, trial in psoriasis where we saw encouraging results warranting further investigation upon our receipt of adequate funding.

XYNGARI™ consists of two grams of powder processed from the naturally grown freshwater sponge, *Spongilla lacustris*. The patient mixes the powder with a fluidizing agent (3% hydrogen peroxide) immediately prior to application to form an easy-to-apply paste. The paste is applied like a mud mask and is left on the skin for approximately ten to fifteen minutes, after which time it is washed off with water. Due to the unique combination of XYNGARI™'s mechanical components and chemical components, and based on our Phase 2 acne data, we believe patients will only need to apply XYNGARI™ once weekly to produce the desired treatment effect. The mechanical components of the *Spongilla* powder consist of many microscopic siliceous, needle-like spicules that, when massaged into the skin, penetrate the stratum corneum (the skin's outermost protective layer) and create microchannels into the dermis where pro-inflammatory cytokines and bacteria reside. We believe that the penetration of the spicules also leads to the opening of microchannels, which allow oxygen to enter pilosebaceous glands, helping to kill C. *acnes*, which grow in an anaerobic (without oxygen) environment (*C. acnes* are the bacteria that cause inflammatory lesions in acne patients). The spicules also cause turnover of the top layer of dead skin, thereby increasing collagen production resulting in skin rejuvenation. Additionally, we believe the newly created microchannels provide a conduit for XYNGARI™'s naturally occurring chemical compounds to be delivered to the dermis and pilosebaceous glands, helping to kill the *C. acnes and reduce inflammation*. In addition to anti-microbial compounds, XYNGARI™ also appears to have anti-inflammatory chemical compounds, as demonstrated during *in vitro* experiments, that inhibit inflammation through the reduction of *C.acnes* stimulated IL-8 production and by inhibiting IL-17A and IL-17F expression in human cell lines. Also, during *in vitro* studies of XYNGARI™'s organic compounds, we observed the inhibition of the lipogenesis of sebocytes, which may translate to a reduction in sebum (an oily and waxy substance produced by the human body's sebaceous glands) production and the oiliness of the skin in patients, which was observed by a number of clinical investigators in our Phase 2 acne studies. We believe the combination of these biological and mechanical effects could be important factors in treating multiple inflammatory skin diseases, as seen in our clinical trials.

Our second product candidate utilizing our *Spongilla* technology is DMT410. DMT410 is intended to consist of one treatment of our proprietary sponge powder followed by one topical application of botulinum toxin for delivery into the dermis. Currently, botulinum toxin is only approved to be delivered to the dermis by intradermal injections, which can be painful for the patient and time-consuming for the physician. However, we believe DMT410's ability to topically deliver botulinum toxin into the dermis could have similar levels of efficacy to existing delivery techniques, with fewer tolerability issues, and a quicker application time, possibly replacing the need for intradermal injections. We first tested DMT410 in a Phase 1 POC trial in primary axillary hyperhidrosis patients where we observed 80% of patients achieving a reduction in gravimetric sweat production greater than 50% four weeks after a single treatment. With almost 40% of the hyperhidrosis market currently being treated with intradermal injections of botulinum toxin, we believe there could be significant opportunity for DMT410 to break into this market and replace intradermal injections of botulinum toxin. Based on DMT410's ability to effectively deliver botulinum toxin to the dermis as observed in the Phase 1 axillary hyperhidrosis trial, we also conducted a Phase 1 POC trial of DMT410 for the treatment of multiple aesthetic skin conditions, including reduction of pore size, sebum production, and fine lines, among others. In November 2021, we announced top-line results from this trial, where we saw promising data that we believed warranted further investigation of DMT410.

On January 17, 2025, we entered into a Clinical Trial Collaboration Agreement (the "Collaboration Agreement") with Revance Therapeutics, Inc. ("Revance") where we intend to initiate a Phase 2a clinical trial to evaluate the topical application of XYNGARI™ followed by the topical application of DAXXIFY® for the treatment of primary axillary hyperhidrosis. The Phase 2a clinical trial is anticipated to evaluate the efficacy, safety, and tolerability of XYNGARI™ and DAXXIFY® versus XYNGARI™ and placebo in patients with moderate-to-severe axillary hyperhidrosis for 16 weeks. The trial is anticipated to be randomized (1:1:1:1), double-blind, placebo-controlled, enrolling approximately 48 patients across sites in the United States. The endpoints are intended to be the percent of patients with greater than 50% reduction in gravimetrically measured sweat production from baseline, the percent of patients with gravimetric sweat production less than 50mg, and the mean absolute change from baseline in gravimetrically measured.

We have a limited operating history. Since our inception, our operations have focused on developing XYNGARI™ and DMT410, organizing and staffing our company, raising capital, establishing our supply chain and manufacturing processes, further characterizing the multiple mechanisms of action of our *Spongilla* technology, building an intellectual property portfolio, and conducting non-clinical and clinical trials. We do not have any product candidates approved for marketing and have not generated any revenue from product sales. We have funded our operations primarily through the sale of our equity securities and debt securities. Since inception, we have raised an aggregate of approximately $77.5 million of gross proceeds from the sale of our debt and equity securities.

We have not generated any revenue to date and have incurred significant operating losses. Our net losses were $2.3 million and $3.1 million for the three months ended March 31, 2025, and 2024, respectively. As of March 31, 2025, we had an accumulated deficit of $68.0 million. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase significantly in connection with our ongoing activities, as we:

- complete development of XYNGARI™ for the treatment of acne, including non-clinical studies and the second Phase 3 clinical trial;

- prepare and file for regulatory approval of XYNGARI™ for the treatment of moderate-to-severe acne;
- identify a botulinum toxin partner for DMT410 for the treatment of medical and aesthetic skin conditions and diseases;
- continue development of DMT410 for the treatment of treatment of aesthetic and medical skin conditions, including Phase 1 and Phase 2 clinical trials;
- prepare for commercialization of XYNGARI™, if approved, including the hiring of sales and marketing personnel;
- manufacture our product candidates for additional Phase 2 and Phase 3 trials and commercial sale;
- hire additional research and development and selling, general and administrative personnel;
- maintain, expand, and protect our intellectual property portfolio; and
- incur additional costs associated with operating as a public company.

We will need additional financing to support our operations. We may seek to fund our operations through public or private equity or debt financings or other sources. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital when needed or on favorable terms would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenues to achieve profitability, and we may never do so.

**Recent Developments**

On January 21, 2025, we closed a private placement (the "January 2025 PIPE") priced at the market under Nasdaq rules, in which we sold 1,935,412 shares of Common Stock, pre-funded warrants to purchase an aggregate of 72,468 shares of Common Stock with an exercise price of $0.001 per share ("January 2025 Pre-Funded Warrants"), and 2,007,880 warrants (the "January 2025 PIPE Warrants") to purchase up to an aggregate of 2,007,880 shares of Common Stock. The January 2025 PIPE Warrants have an exercise price of $1.27. Certain our insiders, including our Chief Executive Officer, Chief Financial Officer and certain members of the our board of directors, participated in the January 2025 PIPE. These insiders purchased an aggregate of 1,220,476 shares of Common Stock and January 2025 PIPE Warrants to purchase up to an aggregate of 1,220,476 shares of Common Stock, for an aggregate purchase price of approximately $1,550,000. The purchase price per share of Common Stock and accompanying January 2025 PIPE Warrant for these insiders was the same as paid by other investors in the January 2025 PIPE. In connection with the January 2025 PIPE, we entered into a registration rights agreement with the investor, pursuant to which we agreed to prepare and file a registration statement with the SEC registering the resale of the shares of Common Stock underlying the securities sold in the January 2025 PIPE financing. We filed a Form S-3 on January 30, 2025, which was declared effective by the SEC on February 5, 2025. We received net cash proceeds of approximately $2.3 million from the January 2025 PIPE after deducting underwriters' discounts and offering expenses of approximately $0.3 million. During the first quarter of 2025, all of the January 2025 Pre-Funded Warrants were exercised. As of March 31, 2025, no January 2025 Pre-Funded Warrants remained outstanding.

On March 27, 2025, we announced that our XYNGARI™ Phase 3 STAR-1 trial met all co-primary endpoints by achieving highly statistically significant difference when compared with placebo after 12 weeks of once weekly treatments. At week 12, XYNGAR™ achieved IGA success (2-point change and 0 or 1) in 29.4% of patients vs. 15.2% of patients on placebo ($p<0.001$), XYNGARI™ saw a -16.8 inflammatory lesion reduction compared with a -13.1 inflammatory lesion reduction for placebo ($p<0.001$), and XYNGARI™ saw a -17.3 noninflammatory lesion reduction compared with a -12.4 noninflammatory lesion reduction for placebo ($p<0.001$). Based on this positive data, we plan initiate the second XYNGARI™ Phase 3 STAR-2 trial by the end of 2025.

On March 27, 2025, we entered into an inducement offer letter agreement (the "March 2025 Inducement Letter") with a holder (the "Holder") of certain of our existing warrants to purchase an aggregate of 4,834,470 shares of our common stock. Such existing warrants were made up of (i) certain of the May 17, 2024 (the "May 2024 Warrants"), which were issued in two separate series, having an exercise price of $4.91 per share, and (ii) the September 16, 2024, which were issued in two separate series, having an exercise price of $1.58 per share (the "September 2024 Warrants" and together with the May 2024 Warrants, the "Existing Warrants"). Pursuant to the March 2025 Inducement Letter, the Holder agreed to exercise for cash its Existing Warrants at a reduced exercise price of $1.284 per share in consideration for our agreement to issue in a private placement (i) new Series A common stock purchase warrants (the "New Series A Warrants") to purchase up to 4,980,806 shares of Common Stock (the "New Series A Warrant Shares") and (ii) new Series B common stock purchase warrants (the "New Series B Warrants" and together with the New Series A Warrants, the "New Warrants") to purchase up to 4,688,134 shares of Common Stock (the "New Series B Warrant Shares" and together with the New Series A Warrant Shares, the "New Warrant Shares"). We received net proceeds of approximately $5.8 million from the exercise of the Existing Warrants by the Holder, after deducting financial advisor fees and other offering expenses payable by us.

**ATM Agreement**

In June 2024, we entered into an At The Market Offering Agreement (the "ATM Agreement") with H.C. Wainwright &Co., LLC ("HCW"), as sales agent, pursuant to which we may offer and sell, from time to time through HCW, shares of our common stock for aggregate proceeds of up to $1,662,761 (upon the terms and subject to the conditions and limitations set forth in the ATM Agreement). During the three months ended March 31, 2025, we sold no shares of common stock under the ATM Agreement and have no capacity to sell shares pursuant to the ATM Agreement remaining.

**Critical Accounting Policies and Use of Estimates**

We have based our management's discussion and analysis of financial condition and results of operations on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to clinical development expenses. We base our estimates on historical experience and on various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully discussed in Note 2 - Summary of Significant Accounting Policies to our unaudited financial statements contained within this Form 10-Q, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

**Research and Development Expenses**

We rely on third parties to conduct our clinical studies and to provide services, including data management, statistical analysis, and electronic compilation. Once our clinical trials begin, at the end of each reporting period, we will compare the payments made to each service provider to the estimated progress towards completion of the related project. Factors that we will consider in preparing these estimates include the number of patients enrolled in studies, milestones achieved, and other criteria related to the efforts of our vendors. These estimates will be subject to change as additional information becomes available. Depending on the timing of payments to vendors and estimated services provided, we will record net prepaid or accrued expenses related to these costs.

**Warrants**

We perform an assessment of warrants upon issuance to determine their proper classification in the financial statements based upon the warrant's specific terms, in accordance with the authoritative guidance provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 480, *Distinguishing Liabilities from Equity ("ASC 480")*, and ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815-40")*. The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480 and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed in our own Common Stock and whether the warrant holders could potentially require cash settlement of the warrants.

For issued or modified warrants that meet all the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are required to be liability-classified and recorded at their initial fair value on the date of issuance and remeasured at fair value at each balance sheet date thereafter. We have performed an assessment of all warrants issued and modified and determined that our warrants are equity classified.

***Fluctuations in Operating Results***

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the progress and timing of expenditures related to the development of our product candidates. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

**Results of Operations**

***Three Months Ended March 31, 2025, and 2024***

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

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2025** | **2024** | **Difference** |
| Operating expenses: | | | |
| Research and development | $ 1,281,141 | $ 1,600,741 | $ (319,600) |
| General and administrative | 1,058,662 | 1,602,819 | (544,157) |
| Total operating expenses | 2,339,803 | 3,203,560 | (863,757) |
| Loss from operations | (2,339,803) | (3,203,560) | 863,757 |
| Other income and expenses: | | | |
| Interest income | 36,216 | 69,298 | (33,082) |
| Net loss | $ (2,303,587) | $ (3,134,262) | $ 830,675 |

*Research and Development Expenses*

Research and development expenses decreased by $0.3 million from $1.6 million for the three months ended March 31, 2024, to $1.3 million for the three months ended March 31, 2025. The decrease in research and development expenses resulted from $0.1 million of decreased clinical expenses from the XYNGARI™ STAR-1 acne study, which completed enrollment during the fourth quarter of 2024, and $0.2 million of decreased stock-based compensation resulting from the cancellation of out-of-the-money stock options during the first quarter of 2024.

*General and Administrative Expenses*

General and administrative expenses decreased by $0.5 million from $1.6 million for the three months ended March 31, 2024, to $1.1 million for the three months ended March 31, 2025. This decrease resulted from $0.3 million of decreased stock-based compensation resulting from the cancellation of out-of-the-money stock options during the first quarter of 2024 and $0.2 million of decreased audit fees.

*Other Income and Expenses*

Interest income decreased by $33,082 from $69,298 for the three months ended March 31, 2024, to $36,216 for the three months ended March 31, 2025. The decrease in interest income resulted from decreased cash balances.

*Cash Flows*

The following table summarizes our cash flows from operating and financing activities:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2025** | **2024** |
| Statements of cash flows data: | | |
| Total net cash provided by (used in): | | |
| Operating activities | $ (1,934,066) | $ (2,704,454) |
| Financing activities | $ 8,491,764 | $ - |
| Increase (decrease) in cash and cash equivalents | $ (6,557,698) | $ (2,704,454) |

*Operating activities*

Cash used in operations of $1.9 million for the three months ended March 31, 2025, was the result of the net loss of $2.3 million, offset by increases in accounts payable and accrued expenses of approximately $0.3 million, as well as the decrease of prepaid expenses and other current assets of approximately $0.1 million.

Cash and cash equivalents used in operations of $2.7 million for the three months ended March 31, 2024, was the result of the net loss of $3.1 million, offset by $0.6 million in non-cash stock-based compensation expense, a decrease in prepaid expenses and other current assets of $0.1 million, and decreases in accounts payable and accrued and other current liabilities of $0.3 million.

*Financing activities*

Cash provided by financing activities of $8.5 million for the three months ended March 31, 2025, was the result of the January 2025 PIPE financing which raised net proceeds of $2.3 million, and the March 2025 Inducement financing which raised net proceeds of $6.2 million.

***Liquidity and Capital Resources***

Since our inception, we have not generated any revenue or commercialized any products. As of March 31, 2025, our cash and cash equivalents totaled $9.7 million, and we had an accumulated deficit of $68.0 million. For the three months ended March 31, 2025, and the year ended December 31, 2024, we used cash of $1.9 million and approximately $11.1 million, respectively, in operations. We expect our cash resources to fund operations into the first quarter of 2026. We anticipate that we will continue to incur net losses for the foreseeable future.

Historically, our principal sources of cash have included proceeds from the issuance of common and preferred equity and proceeds from the issuance of debt. Our principal uses of cash have included cash used in operations (including clinical development of our product candidates and general and administrative expenses) and payments for license rights. We expect that the principal uses of cash in the future will be for continuing operations, funding of research and development, and general working capital requirements. We expect that as research and development expenses continue to grow, we will need to raise additional capital to sustain operations and research and development activities.

*Funding Requirements*

We plan to focus in the near term on the development, regulatory approval, and potential commercialization of XYNGARI™ for the treatment of acne. We anticipate we will incur net losses for the next several years as we complete clinical development of XYNGARI™ for the treatment of acne and psoriasis and continue research and development of DMT410 for the treatment of aesthetic and medical skin conditions. In addition, we plan to seek opportunities to identify, acquire or in license and develop additional drug candidates, potentially build commercial capabilities, and expand our corporate infrastructure. We may not be able to complete the development and initiate commercialization of these programs if, among other things, our clinical trials are not successful or if the FDA does not approve our drug candidate arising out of our current clinical trials when we expect, or at all.

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, clinical costs, external research and development services, legal and other regulatory expenses, and administrative and overhead costs. Our future funding requirements will be heavily determined by the resources needed to support the development of our drug candidates.

We believe that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into the first quarter of 2026. We have based this estimate of cash runway on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect. We anticipate that we will continue to incur net losses for the foreseeable future. These factors raise substantial doubt about our ability to continue as a going concern for the one-year period following the date that these financial statements were issued. We will require additional capital to complete the Phase 3 studies for XYNGARI™ for the treatment of acne, continue development of XYNGARI™, and to pursue in-licenses or acquisitions of other drug candidates. Therefore, based on our recurring losses from operations incurred since inception, expectation of continuing operating losses for the foreseeable future, and the need to raise additional capital to finance future operations, we are developing plans to mitigate this risk, which may consist of raising additional capital through some combination of equity or debt financings, and/or potentially new collaborations, business transactions, and reducing cash expenditures. If we are not able to secure adequate additional funding, we may be forced to make significant reductions in our operations and the pursuit of our growth strategy. In that event, we may have to delay, scale back, or eliminate some or all of our research and development programs and activities which could adversely affect our business prospects, or we may be unable to continue operations.

We may raise additional capital through the sale of equity or convertible debt securities. In such an event, the terms of these securities may include liquidation or other preferences that adversely affect the rights of the holders of our Common Stock.

Because of the numerous risks and uncertainties associated with research, development, and commercialization of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including:

- the number and characteristics of the drug candidates we pursue;
- the scope, progress, results, and costs of researching and developing our drug candidates, and conducting preclinical studies and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our drug candidates;
- the cost of manufacturing our drug candidates and any drugs we successfully commercialize;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending, and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or milestone payments related to or royalties on, our current or future drug candidates, if any.

To continue to grow our business over the longer term, we plan to commit substantial resources to research and development, clinical trials of our product candidates, and other operations and potential product acquisitions and in licensing. We have evaluated and expect to continue to evaluate a wide array of strategic transactions as part of our plan to acquire or in license and develop additional products and product candidates to augment our internal development pipeline. Strategic transaction opportunities that we may pursue could materially affect our liquidity and capital resources and may require us to incur additional indebtedness, seek equity capital or both. In addition, we may pursue development, acquisition or in licensing of approved or development products in new or existing therapeutic areas or continue the expansion of our existing operations. Accordingly, we expect to continue to opportunistically seek access to additional capital to license or acquire additional products, product candidates or companies to expand our operations, or for general corporate purposes. Strategic transactions may require us to raise additional capital through one or more public or private debt or equity financings or could be structured as a collaboration or partnering arrangement. We have no arrangements, agreements, or understandings in place at the present time to enter into any acquisition, in licensing or similar strategic business transaction.

*Contractual Obligations and Commitments*

We do not currently own or lease any office space.

We enter into contracts in the normal course of business with contract research organizations for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. These contracts generally provide for termination upon notice, and therefore we believe that our non-cancelable obligations under these agreements are not material.

*JOBS Act Accounting Election*

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

*Recent Accounting Pronouncements*

See Item 1 of Part I, "Notes to Financial Statements — Note 2 — Summary of Significant Accounting Policies" for a discussion of recent accounting pronouncements.

**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 our disclosure controls and procedures as of March 31, 2025. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2025, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

*Evaluation of Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. From time to time, we make changes to our internal control over financial reporting that are intended to enhance its effectiveness and which do not have a material effect on our overall internal control over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

None.

**ITEM 1A: RISK FACTORS**

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2024, filed with the SEC on March 17, 2025. No material changes to such risk factors have occurred during the quarter ended March 31, 2025.

**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**

*2025 Annual Meeting of Stockholders Date*

Our Board of Directors has set the date of our 2025 Annual Meeting of Stockholders (the "2025 Annual Meeting") for July 15, 2025. The exact time and place of the 2025 Annual Meeting will be specified in our Notice of 2025 Annual Meeting and related proxy statement for the 2025 Annual Meeting.

Because the date of the 2025 Annual Meeting will differ by more than 30 days from the anniversary date of our 2024 Annual Meeting of Stockholders, the previously announced deadline for stockholder proposals for the 2025 Annual Meeting pursuant to Rule 14a-8 under the Exchange Act is no longer applicable. Under the new deadline set by the Company, any stockholder proposal intended to be included in our proxy materials for the 2025 Annual Meeting pursuant to Exchange Act Rule 14a-8 must be mailed to: Dermata Therapeutics, Inc., 3525 Del Mar Heights Rd., #322, San Diego, CA 92130, Attn.: Corporate Secretary, on or before the close of business on May 22, 2025. In addition to complying with this deadline, stockholder proposals intended to be included in our proxy materials for the 2025 Annual Meeting must also comply with all applicable SEC rules, including Exchange Act Rule 14a-8.

Because the date of the 2025 Annual Meeting will not be more than thirty (30) days before or more than seventy (70) days after the anniversary date of our 2024 Annual Meeting of Stockholders, the previously announced deadline for stockholder proposals or nominations under our bylaws for the 2025 Annual Meeting is still applicable. Pursuant to the bylaws, the deadline for any stockholder proposal or nomination other than pursuant to Exchange Act Rule 14a-8 for the 2025 Annual Meeting was on February 6, 2025.

In addition, to comply with the universal proxy rules, stockholders who intend to solicit proxies in support of director nominees other than nominees approved by the Board of Directors must provide notice that sets forth the information required by Rule 14a-19 under the Exchange Act.

*Rule 10b5-1 Trading Plans*

During the fiscal quarter ended March 31, 2025, no director or "officer" (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(c) of Regulation S-K.

**ITEM 6: EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 4.1 | Form of January 2025 PIPE Pre-Funded Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2025). |
| 4.2 | Form of January 2025 PIPE Warrant (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2025). |
| 4.3 | Form of January 2025 PIPE Placement Agent Warrant (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2025). |
| 4.4 | Form of March 2025 New Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2025). |
| 4.5 | Form of March 2025 HCW Warrant (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2025). |
| 10.1 | Clinical Trial Collaboration Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 21, 2025) |
| 10.2 | Form of January 2025 PIPE Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2025). |
| 10.3 | Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2025). |
| 10.4 | Form of March 2025 Inducement Letter (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2025). |
| 31.1* | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a). |
| 31.2* | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a). |
| 32.1** | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b). |
| 101.INS* | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its 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 |

* Filed herewith.
** Furnished, not filed.
† Indicates a management contract or compensation plan, contract or arrangement.

**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.

Dermata Therapeutics, Inc.

Date: May 14, 2025

By: */s/ Gerald T. Proehl*
Gerald T. Proehl
President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ Kyri K. Van Hoose*
Kyri K. Van Hoose
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**EXHIBIT 31.1**

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

I, Gerald T. Proehl, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2025, of Dermata Therapeutics, 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 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 the 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: May 14, 2025

*/s/ Gerald T. Proehl*
Gerald T. Proehl
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31.2**

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

I, Kyri K. Van Hoose, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2025, of Dermata Therapeutics, 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 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 the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2025

*/s/ Kyri K. Van Hoose*
Kyri K. Van Hoose
Chief Financial Officer
(Principal Financial Officer)

**EXHIBIT 32.1**

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

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purpose of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Periodic Report on Form 10-Q of Dermata Therapeutics, Inc. (the "Company") for the quarter ended March 31, 2025 (the "Quarterly Report"), each of Gerald T. Proehl, as Chief Executive Officer, and Kyri K. Van Hoose, as Chief Financial Officer, certifies in his or her capacity as such officer of the Company, that to such officer's knowledge:

1) The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2025

By: */s/ Gerald T. Proehl*
Gerald T. Proehl
Chief Executive Officer
(Principal Executive Officer)

Dated: May 14, 2025

By: */s/ Kyri K. Van Hoose*
Kyri K. Van Hoose
Chief Financial Officer
(Principal Financial Officer)

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.