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 September 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 001-36829

Inotek Pharmaceuticals Corporation

(Exact name of registrant as specified in its charter)

Delaware	**04-3475813**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

91 Hartwell Avenue
Lexington, MA 02421
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code:
(781) 676-2100

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☒		

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

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

As of November 3, 2017, there were 27,222,745 shares of common stock, $0.01 par value per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. We make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements by words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or the negative of these words or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- our ability to complete the Proposed Merger with Rocket Pharmaceuticals, Ltd. (as further described and defined below) at all or on acceptable conditions that will not reduce the anticipated benefits of the Proposed Merger;
- our ability to obtain stockholder approvals required for the Proposed Merger;
- our ability to obtain required approvals by the Securities and Exchange Commission ("SEC") or any other governmental or quasi-governmental entity necessary to consummate the Proposed Merger, including our ability to file an effective proxy statement in connection with the Proposed Merger, which may also result in unexpected additional transaction expenses and operational cash expenditures on the parties;
- our ability to consummate the Proposed Merger on an acceptable time frame;
- the anticipated benefits of the Proposed Merger;
- liquidity and market for shares prior to and following the consummation of the Proposed Merger;
- our listing on the Nasdaq Global Market;
- costs and potential litigation associated with the Proposed Merger;
- our ability to issue our common stock in the Proposed Merger;
- our anticipated cash needs and our estimates regarding our capital requirements and our needs for additional financing;
- our expectations regarding the Proposed Merger, strategic alternatives or operations, licensing and acquisitions; and
- anticipated trends and challenges in our business and the markets in which we operate.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Inotek Pharmaceuticals Corporation

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Item 1. Consolidated Financial Statements

Inotek Pharmaceuticals Corporation
Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share amounts)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 49,146	$ 29,798
Short-term investments	53,979	96,675
Prepaid expenses and other current assets	747	1,876
Total current assets	103,872	128,349
Property and equipment, net	615	1,130
Other assets	168	168
Total assets	$ 104,655	$ 129,647
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 383	$ 1,592
Accrued expenses and other current liabilities	2,900	4,246
Accrued interest	484	1,204
Total current liabilities	3,767	7,042
2021 Convertible Notes, net of issuance costs	49,390	48,960
Other long-term liabilities	423	477
Total liabilities	53,580	56,479
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred Stock, $0.001 par value: 5,000,000 shares authorized and no shares issued or outstanding	—	—
Common stock, $0.01 par value: 120,000,000 shares authorized at September 30, 2017 and December 31, 2016; 27,222,745 and 26,986,318 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	272	270
Additional paid-in capital	314,332	311,829
Accumulated deficit	(263,504)	(238,877)
Accumulated other comprehensive loss	(25)	(54)
Total stockholders' equity	51,075	73,168
Total liabilities and stockholders' equity	$ 104,655	$ 129,647

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

Inotek Pharmaceuticals Corporation

Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating expenses:				
Research and development	$ (2,818)	$ (8,412)	$ (13,539)	$ (22,492)
General and administrative	(3,895)	(2,311)	(8,996)	(7,148)
Loss from operations	(6,713)	(10,723)	(22,535)	(29,640)
Interest expense	(901)	(525)	(2,666)	(525)
Interest income	219	120	574	285
Net loss	$ (7,395)	$ (11,128)	$ (24,627)	$ (29,880)
Net loss per share attributable to common stockholders—basic and diluted	$ (0.27)	$ (0.41)	$ (0.91)	$ (1.12)
Weighted-average number of shares outstanding—basic and diluted	27,041,324	26,930,730	27,007,567	26,660,126

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

Inotek Pharmaceuticals Corporation

Consolidated Statements of Comprehensive Loss
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$ (7,395)	$ (11,128)	$ (24,627)	$ (29,880)
Other comprehensive income:				
Net unrealized income (loss) on marketable securities	48	(15)	29	13
Total comprehensive loss	$ (7,347)	$ (11,143)	$ (24,598)	$ (29,867)

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

Inotek Pharmaceuticals Corporation

Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (24,627)	$ (29,880)
Adjustments to reconcile net loss to cash used in operating activities:		
Noncash interest expense	430	82
Noncash rent	(45)	(46)
Noncash asset impairment charge	423	—
Amortization of premium on marketable securities	184	164
Depreciation	162	111
Stock-based compensation	2,488	1,978
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,145	(340)
Accounts payable	(1,209)	144
Accrued expenses and other liabilities	(2,075)	1,659
Net cash used in operating activities	(23,124)	(26,128)
Cash flows from investing activities:		
Purchases of short-term investments	(27,204)	(69,070)
Proceeds from the maturities of short-term investments	69,727	45,636
Purchases of property and equipment	(70)	(344)
Net cash provided by (used in) investing activities	42,453	(23,778)
Cash flows from financing activities:		
Proceeds from issuance of 2021 Convertible Notes	—	52,000
Payments of 2021 Convertible Notes issuance costs	—	(3,262)
Net proceeds from issuance of common stock	—	3,997
Proceeds from issuance of common stock pursuant to stock option plans	—	88
Proceeds from issuance of common stock pursuant to employee stock purchase plan	35	45
Payments made for taxes of employees who surrendered shares related to unrestricted stock	(16)	—
Net cash provided by financing activities	19	52,868
Net change in cash and cash equivalents	19,348	2,962
Cash and cash equivalents, beginning of period	29,798	80,042
Cash and cash equivalents, end of period	$ 49,146	$ 83,004
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,957	$ —
Supplemental disclosure of noncash investing and financing activities:		
Net unrealized gain on marketable securities	$ 29	$ 13

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

1. Organization and Operations

Inotek Pharmaceuticals Corporation (the "Company" or "Inotek"), located in Lexington, MA, is a clinical-stage biopharmaceutical company which had been focused on the discovery, development and commercialization of therapies for ocular diseases, including glaucoma. The Company had been developing *trabodenoson* in a monotherapy and in a fixed-dose combination therapy ("FDC") to treat glaucoma. After failing to meet the primary endpoints in its first pivotal Phase 3 trial of *trabodenoson* monotherapy for the treatment of primary open-angle glaucoma or ocular hypertension in January 2017 and its Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost* for the treatment of glaucoma in July 2017, Inotek voluntarily discontinued its development of *trabodenoson.*

The Company engaged Perella Weinberg Partners, LP ("Perella Weinberg") as a financial advisor to assist in pursuing strategic alternatives. On September 12, 2017, the Company entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Rocket Pharmaceuticals, Ltd., a privately held biopharmaceutical company ("Rocket") and Rome Merger Sub, a wholly owned subsidiary of the Company ("Merger Subsidiary"), pursuant to which the Merger Subsidiary will be merged with and into Rocket (the "Proposed Merger") at the Effective Time of the Proposed Merger, as defined in the Merger Agreement, with Rocket continuing after the Proposed Merger as the surviving company and a wholly-owned subsidiary of the Company. The consummation of the Proposed Merger is subject to the satisfaction or waiver of customary closing conditions, including, among others, obtaining the requisite approvals of the Company's stockholders and Rocket, including the approval of the charter amendments by the Company's stockholders, and the preparation of a proxy statement. The preliminary proxy statement was filed on October 12, 2017.

Subject to the terms and conditions of the Merger Agreement, the percentage of the combined company that the Company's stockholders will own following the closing of the Proposed Merger is subject to an adjustment based on the amount of the Company's net cash at the closing. On a pro forma basis, based upon the number of shares of the Company's common stock to be issued in the Proposed Merger, following the closing of the Proposed Merger, if it is approved and consummated, the Company's current stockholders would own approximately 19% of the combined company and current Rocket shareholders would own approximately 81% of the combined company if the Company has a valuation of at least $47,000, which is based on a projected net cash balance (or cash and cash equivalents minus outstanding liabilities) at the closing of $42,000, plus an additional $5,000 of enterprise value. Under the terms of the Merger Agreement, Rocket has a stipulated valuation of $200,000 which is not subject to any adjustments. Ten days prior to the closing, the Company's estimated net cash at closing will be mutually agreed upon and the final exchange ratio will be calculated based on the relative values of the parties as described in the Merger Agreement. If the Company's net cash at closing is within a range of $40,500 to $43,500, no adjustment will be made to the foregoing split. There can be no assurance as to the Company's level of net cash between now and the planned closing.

The Merger Agreement contains a customary "no-shop" provision under which neither the Company nor Rocket is permitted to (i) solicit any alternative acquisition proposals, (ii) participate in any negotiations or discussions with any person relating to any alternative acquisition proposal, (iii) approve, endorse or recommend any alternative acquisition proposal, or (iv) enter into any agreement relating to any alternative acquisition proposal. The Company's "no-shop" provision is subject to certain exceptions that permit the board of directors of the Company to comply with its fiduciary duties, which, under certain circumstances, would enable the Company to provide information to, and engage in discussions or negotiations with, third parties with respect to alternative acquisition proposals.

The Merger Agreement provides each of the Company and Rocket with specified termination rights. If the Merger Agreement is terminated by the Company to accept a superior acquisition proposal or under other circumstances specified in the Merger Agreement, the Company will be required to pay to Rocket or Rocket will be required to pay the Company, as the case may be, a termination fee of $2,000 (the "Termination Fee"). Further, in connection with the termination of the Merger Agreement if the Company's stockholders do not approve the Merger Agreement, the Company has agreed to reimburse Rocket for its out-of-pocket fees and expenses of up to $500.

The Merger Agreement provides that, immediately following the Effective Time, as defined in the Merger Agreement, the board of directors of the combined company will consist of up to seven individuals, two of whom shall be designated by the Company (and mutually agreeable to Rocket) and the other five of whom shall be designated by Rocket (until each of their respective successors are duly elected or appointed and qualified or their earlier death, resignation or removal). In connection with the Proposed Merger, the Company will seek to amend our certificate of incorporation to: (i) effect a reverse split of the Company's common stock at a ratio to be determined by the Company, which is intended to ensure that the listing requirements of the Nasdaq Global Market are satisfied,

and (ii) change the name of the Company to “Rocket Pharmaceuticals, Inc.” and (iii) declassify the Company’s Board of Directors, subject to the consummation of the Proposed Merger.

In September 2017, the Company entered into separation agreements with ten of its employees. Pursuant to the separation agreements, the Company agreed to provide severance payments and continued medical, dental and vision coverage pursuant to COBRA (of the employer’s portion of the premium cost) for up to six months, primarily depending on duration of service. The Company recorded a charge to operations for an aggregate of $783 in the three and nine months ended September 30, 2017 for these terminations, of which $745 and $38 was reflected in research and development and general and administrative expenses, respectively, in each such period. As of September 30, 2017, the Company had $719 of accrued severance and benefits related to these ten former employees.

In addition, for each of the ten terminated employees, the Company accelerated the vesting of all unvested Restricted Stock Units and stock options held by the employee and recorded an incremental charge of $158 in the three and nine months ended September 30, 2017, of which $142 and $16 was reflected in research and development and general and administrative expenses, respectively, in each such period (see Note 6).

In addition, the Company amended employment agreements with the remaining seven current employees (see Note 7).

In April 2016, the Company filed a registration statement on Form S-3 containing two prospectuses: (i) a base prospectus which covers the offering, issuance and sale of up to $200,000 in the aggregate of an indeterminate number of shares of common stock and preferred stock, such indeterminate principal amount of debt securities and such indeterminate number of warrants and units; and (ii) a sales agreement prospectus covering the offering, issuance and sale of up to a maximum aggregate offering price of $50,000 of the Company’s common stock that may be issued and sold under an at-the-market sales agreement with Cowen and Company, LLC (the “ATM”). The $50,000 of common stock that may be issued and sold under the ATM reduces the available balance under the base prospectus by the amount issued. The Company did not sell any shares of common stock pursuant to the ATM during the three and nine months ended September 30, 2017. At September 30, 2017, $45,599 was available for sale of common stock under the ATM. Additionally, in 2016 the Company issued $52,000 aggregate principal amount of 5.75% Convertible Senior Notes due 2021 pursuant to a Prospectus Supplement to its Form S-3, (the “2021 Convertible Notes”), which further reduces the balance available under the base prospectus to $98,000 as of September 30, 2017.

As of September 30, 2017, the Company had an accumulated deficit of $263,504 and $103,125 of cash and cash equivalents and short-term investments.

Although the Company has suspended its research and development activities, if the Company resumes the development of any product candidates, it will need to expend substantial resources for research and development, including costs associated with the clinical testing of its product candidates and will need to obtain additional financing to fund its operations and to conduct trials for its product candidates. If such products were to receive regulatory approval, the Company would need to prepare for the potential commercialization of its product candidates and fund the commercial launch and continued marketing of its products. The Company expects aggregate operating expenses will not increase in 2017 over 2016, but has incurred expenses related to strategic alternatives and the Proposed Merger and expects to continue to incur expenses related to the Proposed Merger.

2. Significant Accounting Policies

Basis of Presentation—The Company’s interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the Company has made all necessary adjustments, which include normal recurring adjustments necessary for a fair statement of the Company’s financial position and results of operations for the interim periods presented. Certain information and disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K. Certain reclassifications have been made to prior year amounts in the consolidated balance sheets to conform to the current period presentation. The results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for a full year, any other interim periods or any future year or period.

The accompanying consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Inotek Securities Corporation, Inotek Ltd and Rome Merger Sub. All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Reporting—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 views its operations and manages its business in one operating segment.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from these estimates. Significant items subject to such estimates and assumptions include the valuation of stock options used for the calculation of stock-based compensation and calculation of accruals related to research and clinical development.

Comprehensive loss—Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions, and other events and circumstances from non-owner sources, and currently consists of net loss and changes in unrealized gains and losses on short-term investments. Accumulated other comprehensive loss consists entirely of unrealized gains and losses from short-term investments as of September 30, 2017 and December 31, 2016.

Cash and Cash Equivalents—Cash and cash equivalents consist of bank deposits, certificates of deposit and money market accounts. Cash equivalents are carried at cost which approximates fair value due to their short-term nature and which the Company believes do not have a material exposure to credit risk. The Company considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

The Company maintains its cash and cash equivalent balances in the form of money market, savings or operating accounts with financial institutions that management believes are creditworthy. The Company's cash and cash equivalent accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Short-term Investments—Short-term investments consist of investments in certificates of deposit, agency bonds and United States Treasury securities. Management determines the appropriate classification of these securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. The Company classifies its short-term investments as available-for-sale pursuant to Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 320, *Investments—Debt and Equity Securities*. Short-term investments are recorded at fair value, with unrealized gains and losses included as a component of accumulated other comprehensive loss in stockholders' equity and a component of total comprehensive loss in the consolidated statements of comprehensive loss, until realized. Realized gains and losses are included in investment income on a specific-identification basis. There were no realized gains or losses on short-term investments for the three and nine months ended September 30, 2017 and 2016. There were $48 and $29 of net unrealized gains on short-term investments for the three and nine months ended September 30, 2017, respectively. There were $15 of net unrealized losses and $13 of net unrealized gains on short-term investments for the three and nine months ended September 30, 2016, respectively.

The Company reviews short-term investments for other-than-temporary impairment whenever the fair value of a short-term investment is less than the amortized cost and evidence indicates that a short-term investment's carrying amount is not recoverable within a reasonable period of time. Other-than-temporary impairments of investments are recognized in the consolidated statements of operations if the Company has experienced a credit loss, has the intent to sell the short-term investment, or if it is more likely than not that the Company will be required to sell the short-term investment before recovery of the amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, compliance with the Company's investment policy, the severity and the duration of the impairment and changes in value subsequent to the end of the period.

Short-term investments at September 30, 2017 consist of the following:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Current:				
Certificates of deposit	$ 11,284	$ —	$ —	$ 11,284
Agency bonds	2,005	—	—	2,005
United States Treasury securities	40,715	—	(25)	40,690
	$ 54,004	$ —	$ (25)	$ 53,979

Short-term investments at December 31, 2016 consist of the following:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Current:				
Certificates of deposit	$ 22,046	$ —	$ —	$ 22,046
Agency bonds	5,917	—	(4)	5,913
United States Treasury securities	68,766	1	(51)	68,716
	$ 96,729	$ 1	$ (55)	$ 96,675

At September 30, 2017 and December 31, 2016, all short-term investments held by the Company had contractual maturities of less than one year. The Company evaluated its securities for other-than-temporary impairment and determined that no such impairment existed at September 30, 2017 and December 31, 2016.

Property and Equipment—Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the consolidated statement of operations. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets.

Impairment of Long-Lived Assets—The Company assesses the recoverability of its long-lived assets, which include property and equipment, whenever significant events or changes in circumstances indicate impairment may have occurred. If indicators of impairment exist, projected future undiscounted cash flows associated with the asset are compared to its carrying amount to determine whether the asset's value is recoverable. Any resulting impairment is recorded as a reduction in the carrying value of the related asset in excess of fair value and charged to operating results (See Note 3).

Debt Issuance Costs—Debt issuance costs consist of underwriting discounts and offering-related costs incurred by the Company in connection with the closing of the 2021 Convertible Notes and are included as a direct deduction from the carrying amount of the 2021 Convertible Notes on the Company's consolidated balance sheets. The Company amortizes debt issuance costs to interest expense over the life of the 2021 Convertible Notes using the effective interest method. (See Note 5). Amortization of debt issuance costs was $147 and $430 in the three and nine months ended September 30, 2017, and $82 in the three and nine months ended September 30, 2016.

Research and Development Costs—Research and development costs are charged to expense as incurred and include, but are not limited to:

- employee-related expenses including salaries, benefits, travel and stock-based compensation expense for research and development personnel;
- expenses incurred under agreements with contract research organizations that conduct clinical and preclinical studies, contract manufacturing organizations and consultants;
- costs associated with preclinical and development activities; and
- costs associated with regulatory operations.

Costs for certain development activities, such as clinical studies, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, and information provided to the Company by its vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the patterns of costs incurred, and are reflected in the financial statements as accrued expenses, or prepaid expenses and other current assets, if the related services have not been provided.

Stock-Based Compensation—The Company measures the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date. That cost is recognized on a straight-line basis over the period during which the employee is required to provide service in exchange for the award. The fair value of options on the date of grant is calculated using the Black-Scholes option pricing model based on key assumptions such as stock price, expected volatility and expected term. The Company's estimates of these assumptions are primarily based on the trading price of the Company's stock, historical data, peer company data and judgment regarding future trends and factors. The fair value of restricted stock awards is based on the intrinsic value of such awards on the date of grant. Compensation cost for stock purchase rights under the employee stock

purchase plan is measured and recognized on the date the Company becomes obligated to issue shares of our common stock and is based on the difference between the fair value of the Company's common stock and the purchase price on such date.

The Company accounts for stock options issued to non-employees in accordance with the provisions of FASB ASC 505-50, *Equity-Based Payments to Non-employees*, which requires valuing the stock options on their grant date and measuring such stock options at their current fair value as they vest.

Fair Value Measurements—The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a hierarchy of inputs used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described below:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Valuations based on quoted prices for similar assets or liabilities in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations that require inputs that reflect the Company's own assumptions that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value of the Company's financial instruments, including cash and cash equivalents, prepaid expenses and other current assets and accounts payable approximate their respective carrying values due to the short-term nature of these instruments and amounts. The Company estimates the fair value of its 2021 Notes using quoted market prices obtained from third-party pricing services, which is classified as a Level 2 input due to limited market trading. As of September 30, 2017, the fair value of the 2021 Notes was approximately $40,690, which differed from its carrying value. The Company's assets and liabilities measured at fair value on a recurring basis include its short-term investments.

Net Loss Per Share—The Company calculates net loss per share in accordance with FASB ASC 260, *Earnings per Share*. Basic earnings (loss) per share ("EPS") is calculated by dividing the net income or loss applicable to common stockholders by the weighted average number of common shares outstanding for the period, without consideration of unissued common stock equivalents. The net loss applicable to common stockholders is determined by the reported net loss for the period and deducting dividends accrued and accretion of preferred stock. Diluted EPS is calculated by adjusting the weighted average common shares outstanding for the dilutive effect of common stock options, warrants, and convertible preferred stock and accrued but unpaid convertible preferred stock dividends. In periods where a net loss is recorded, no effect is given to potentially dilutive securities, as their effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted EPS attributable to the Company's common stockholders:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net loss applicable to common stockholders	$ (7,395)	$ (11,128)	$ (24,627)	$ (29,880)
Denominator:				
Weighted average common shares outstanding - basic and diluted	27,041,324	26,930,730	27,007,567	26,660,126
Net loss per share applicable to common stockholders - basic and diluted	$ (0.27)	$ (0.41)	$ (0.91)	$ (1.12)

The following common stock equivalents were excluded from the calculation of diluted net loss per share for the periods indicated as including them would have an anti-dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Shares issuable upon conversion of the 2021 Convertible Notes	6,483,791	6,483,791	6,483,791	6,483,791
Warrants exerciseable for common stock	56,408	56,408	56,408	56,408
Stock options	2,362,083	2,706,029	2,362,083	2,706,029
Restricted Stock Units	1,086,875	—	1,086,875	—
Total	9,989,157	9,246,228	9,989,157	9,246,228

Subsequent Events—The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The Company has completed an evaluation of all subsequent events through the date the financial statements were issued.

Recent Accounting Pronouncements— In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The standard, including subsequently issued amendments, will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The standard will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will be effective for annual and interim periods beginning after December 15, 2017. The Company has not yet selected a transition method and is evaluating the impact the adoption will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the current leasing guidance and upon adoption, will require lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. The new standard is effective for the Company for the annual period beginning after December 15, 2018, and can be early adopted by applying a modified retrospective approach for leases existing at, and entered into after, the beginning of the earliest comparable period presented in the financial statements. The Company is currently evaluating the impact of this accounting standard update on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends FASB ASC Topic 718, *Compensation – Stock Compensation* ("ASC 718"), and includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new standard is effective for the Company for the annual period beginning after December 15, 2016, and for annual and interim periods thereafter, with early adoption permitted. The Company adopted this standard on January 1, 2017.

The update revises requirements in the following areas: minimum statutory withholding, accounting for income taxes, and forfeitures. Prior to adoption, the Company applied a 0% forfeiture rate to share-based compensation, resulting in no cumulative effect adjustment to the opening period. Upon adoption of ASU 2016-09, the Company's accounting policy is to recognize forfeitures as they occur. The update also requires the Company to recognize the income tax effect of awards in the income statement when the awards vest or are settled. Finally, the update allows the Company to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering a liability. The income tax related items had no effect on the current period presentation and the Company maintains a full valuation allowance against its deferred tax assets.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, which clarifies the scope under which modification accounting should be applied to a share-based payment award under ASC 718. The standard will be effective for annual reporting periods and interim periods within those annual periods, beginning after December 15, 2017, and early adoption is permitted for interim or annual period beginning after January 1, 2017. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

3. Property and Equipment

At September 30, 2017 and December 31, 2016, the Company's property and equipment consisted of the following:

	Useful lives	September 30, 2017	December 31, 2016
Office equipment	5 years	$ 357	$ 407
Computer hardware and software	3 - 7 years	96	263
Laboratory equipment	5 years	—	446
Leasehold improvements	7 years	445	445
Assets held for sale		14	—
Total		912	1,561
Less: accumulated depreciation		(297)	(431)
Property and equipment, net		$ 615	$ 1,130

During the three and nine months ended September 30, 2017, the Company recognized $38 and $162 of depreciation expense, respectively, and wrote off $217 of fully depreciated net assets in the nine months ended September 30, 2017. During the three and nine months ended September 30, 2016, the Company recognized $39 and $111 of depreciation expense, respectively.

During the three months ended September 30, 2017, the Company voluntarily discontinued its development of *trabodenoson* and classified its equipment used in the production of *trabodenoson* as held for sale. The Company performed an impairment assessment of this equipment by comparing the equipment's carrying value to its estimated fair value, which was based on prices obtained for similar assets. The analysis resulted in an impairment of the Company's laboratory equipment of $423 which was charged to research and development expenses in the three and nine months ended September 30, 2017.

4. Accrued Expenses and Other Current Liabilities

At September 30, 2017 and December 31, 2016, the Company's accrued expenses and other current liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Severance and benefits	$ 930	$ 544
Compensation and benefits	706	1,627
Government payable	499	478
Professional fees	455	311
Research and development	209	1,148
Other	101	138
Total	$ 2,900	$ 4,246

5. Debt

2021 Convertible Notes

On August 5, 2016, the Company issued an aggregate of $50,000 of the 2021 Convertible Notes. On August 30, 2016, the Company issued an additional $2,000 of 2021 Convertible Notes pursuant to the exercise of the underwriters' overallotment option. The 2021 Convertible Notes have a maturity date of August 1, 2021 ("Maturity Date"), are unsecured and accrue interest at a rate of 5.75% per annum, payable semi-annually on February 1 and August 1 of each year, beginning February 1, 2017. In connection with the issuance of the 2021 Convertible Notes, the Company incurred $3,262 of debt issuance costs which were recorded as a discount on the 2021 Convertible Notes.

Each holder of a 2021 Convertible Note (the "Holder") has the option until the close of business on the second business day immediately preceding the Maturity Date to convert all, or any portion, of the 2021 Convertible Notes held by it at an initial conversion rate of 124.7505 shares of the Company's common stock per $1 principal amount of 2021 Convertible Notes (the "Conversion Rate"). The Conversion Rate is subject to adjustment from time to time upon the occurrence of certain events, including the issuance of stock dividends and payment of cash dividends. In addition, in certain circumstances, the Conversion Rate will be increased in respect of a Holder's conversion of 2021 Convertible Notes in connection with the occurrence of one or more corporate events specified in the indenture (as supplemented, the "Indenture") governing the 2021 Convertible Notes (each such specified corporate event, a "Make-Whole Fundamental Change") that occurs prior to the Maturity Date (a "Make-Whole Fundamental Change

Conversion") or in respect of a Holder's voluntary conversion of 2021 Convertible Notes other than in connection with a Make-Whole Fundamental Change (a "Voluntary Conversion"). In connection with a Make-Whole Fundamental Change Conversion or a Voluntary Conversion, the Company will increase the Conversion Rate for the 2021 Convertible Notes surrendered for conversion by a number of additional shares of the Company's common stock set forth in the Additional Shares Make-Whole Table in the Indenture, based on the applicable Stock Price (as defined in the Indenture) and Effective Date (as defined in the Indenture) for such conversion. The additional shares potentially issuable in connection with a Make-Whole Fundamental Change Conversion or a Voluntary Conversion range from 0 to 24.95 per $1 principal amount of 2021 Convertible Notes, subject to adjustment. If the Stock Price applicable to any conversion is greater than $40.00 per share, the Conversion Rate will not be increased. If the Stock Price applicable to any conversion is less than $6.68 per share, the Conversion Rate in connection with a Make-Whole Fundamental Change Conversion will not be increased but it will be increased by 24.95 shares in connection with a Voluntary Conversion. Upon conversion, Holders of the 2021 Convertible Notes will receive shares of the Company's common stock and cash in lieu of fractional shares.

Upon the occurrence of a Fundamental Change, the occurrence of certain change of control transactions or delisting events (as defined in the Indenture), each Holder may require the Company to repurchase for cash all or any portion of the 2021 Convertible Notes held by such Holder at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon.

The Company, at its option, may redeem for cash all or any portion of the 2021 Convertible Notes if the last reported sale price of a share of the Company's common stock is equal to or greater than 200% of the conversion price for the 2021 Convertible Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending within the five trading days immediately preceding the date on which the Company provides notice of redemption, at a redemption price equal to 100% of the principal amount of the 2021 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

If an Event of Default (as defined in the Indenture), other than certain events of bankruptcy, insolvency or reorganization involving the Company, occurs and is continuing, the trustee under the Indenture (the "Trustee") or the Holders of at least 25% in principal amount of the outstanding 2021 Convertible Notes may declare 100% of the principal of and accrued and unpaid interest, if any, on all of the 2021 Convertible Notes to be due and payable immediately. Upon the occurrence of an Event of Default relating to bankruptcy, insolvency or reorganization involving the Company, 100% of the principal of and accrued and unpaid interest, if any, on all of the 2021 Convertible Notes would become due and payable automatically.

Notwithstanding the foregoing, the Indenture provides that, to the extent the Company elects, the sole remedy for an Event of Default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture, will (i) for the first 90 days after the occurrence of such an Event of Default, consist exclusively of the right to receive additional interest on the 2021 Convertible Notes at a rate equal to 0.25% per annum of the principal amount of the 2021 Convertible Notes outstanding for each day during such 90-day period on which such an Event of Default is continuing and (ii) for the period from, and including, the 91st day after the occurrence of such an Event of Default to, and including, the 180th day after the occurrence of such an Event of Default, consist exclusively of the right to receive additional interest on the 2021 Convertible Notes at a rate equal to 0.50% per annum of the principal amount of the 2021 Convertible Notes outstanding for each day during such additional 90-day period on which such an Event of Default is continuing (such additional interest, "Additional Interest"). After 180 days, if such Event of Default is not cured or waived, the 2021 Convertible Notes would be subject to acceleration in accordance with the Indenture.

The 2021 Convertible Notes are considered a hybrid financial instrument consisting of a fixed interest rate "host" and various embedded features that required evaluation as potential embedded derivatives under FASB ASC 815, *Derivatives and Hedging* ("ASC 815"). Based on the nature of the host instrument and the embedded features, management concluded that none of the conversion, put and redemption features required bifurcation and separate accounting from the host instrument. The Company determined that the Additional Interest was an embedded derivative that contains non-credit related events of default. As a result, the Additional Interest feature required bifurcation and separate accounting under ASC 815. Based on the amount of Additional Interest that would be owed and the likelihood of occurrence, the Company estimated the fair value of the Additional Interest feature to be insignificant as of September 30, 2017 and December 31, 2016.

The issuance costs which were recorded as a discount on the debt are being amortized to interest expense over the life of the 2021 Convertible Notes using the effective interest method. As of September 30, 2017, the stated interest rate was 5.75%, and the effective interest rate was 7.3%. For the three months ended September 30, 2017, interest expense related to the 2021 Convertible Notes was $901, including $147 related to amortization of the debt discount. For the nine months ended September 30, 2017, interest expense related to the 2021 Convertible Notes was $2,666, including $430 related to amortization of the debt discount. For the three and nine months ended September 30, 2016, interest expense related to the 2021 Convertible Notes was $533, including $82 related to amortization of the debt discount.

The table below summarizes the carrying value of the 2021 Convertible Notes as of September 30, 2017:

	September 30, 2017
Gross proceeds	$ 52,000
Initial value of issuance costs recorded as debt discount	(3,262)
Amortization of debt discount	652
Carrying value	$ 49,390

6. Equity

Authorized Shares

As of September 30, 2017, the Company's authorized capital stock consisted of 120,000,000 shares of common stock, par value $0.01 per share, and 5,000,000 shares of undesignated preferred stock, par value $0.001 per share.

Common Stock

All preferences, voting powers, relative, participating, optional, or other specific rights and privileges, limitations, or restrictions of the common stock are expressly subject to those that may be fixed with respect to any shares of preferred stock. Common stockholders are entitled to one vote per share, and to receive dividends, when and if declared by the Company's board of directors. At September 30, 2017 and December 31, 2016, there were 27,222,745 and 26,986,318 shares of common stock outstanding, respectively.

Equity Plans

The Company maintains three equity compensation plans: the 2014 Stock Option and Incentive Plan (the "2014 Plan"), the 2004 Stock Option and Incentive Plan (the "2004 Plan") and the 2014 Employee Stock Purchase Plan ("ESPP").

2014 Stock Option and Incentive Plan

The 2014 Plan provides for the issuance of incentive and non-qualified stock options, restricted stock, and other equity awards, all for common stock, as determined by the board of directors to employees, officers, directors, consultants, and advisors of the Company and its subsidiaries. Pursuant to the provisions of the 2014 Plan and approval by the board of directors, on January 1, 2017 an additional 1,079,453 shares were added to the 2014 Plan representing 4% of total common shares issued and outstanding at December 31, 2016. There were 562,316 shares available for issuance under the 2014 Plan as of September 30, 2017. The 2014 Plan expires in August 2024.

In December 2016, the board granted to certain executive officers an aggregate of 470,000 restricted stock units ("RSU's") pursuant to the 2014 Plan. Each restricted stock unit represents a contingent right to receive one share of Company common stock. Vesting for these RSU's was based equally on the achievement of two performance-based conditions, subject to continued service through such achievement dates. The intrinsic fair value of these RSU's as of the date of grant was $3,055 and no stock-based compensation expense was recorded in 2016 as the Company determined that the vesting conditions were not probable of occurring. In January 2017, these RSU's were modified such that instead of vesting based on the achievement of certain performance-based conditions, they will vest in equal annual installments over four years from the December 2016 date of grant, subject to continued service through such dates. This change in vesting criteria was accounted for as a modification under ASC 718 whereby the Company will recognize the $717 fair value of the grants as of the date of modification over the vesting term.

In September 2017, the Company accelerated the vesting of all unvested RSU's and stock options held by the ten terminated employees (see Note 1) and recorded an incremental charge related to these modifications of $158 in the three and nine months ended September 30, 2017, of which $142 and $16 was reflected in research and development and general and administrative expenses, respectively, in each such period. The Company also modified the employment agreements with certain of its current employees such that in the event of a change in control, if the employee experiences a qualifying termination by the Company any time prior to or within 12 months of the change in control, all outstanding stock options and RSU's will vest in full and become exercisable. The Company determined that the original awards were expected to vest under their original terms both prior to and after the modification. A comparison of the fair value of the outstanding stock awards immediately before and after the modification resulted in no incremental expense.

The following table summarizes stock option activity under the 2014 Plan:

	Number of Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 31, 2016	2,664,832	$ 6.16	
Granted	315,000	$ 1.80	
Exercised	—		
Cancelled	(624,248)	$ 6.42	
Outstanding at September 30, 2017	2,355,584	$ 5.51	$ —
Exercisable at September 30, 2017	1,424,501	$ 5.68	$ —
Weighted-average years remaining on contractual life	8.07		
Unrecognized compensation cost related to non-vested stock options	$ 3,568		

The weighted-average fair value of all stock options granted for the three and nine months ended September 30, 2017, was $1.43 per share. The exercise prices exceed the $1.78 per share closing price of common stock on September 30, 2017, therefore there is no intrinsic value of the outstanding 2014 Plan stock options.

The following table summarizes RSU activity under the 2014 Plan:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2016	470,000	$ 6.50
Granted	931,000	$ 1.60
Vested	(225,625)	$ 1.69
Cancelled	(88,500)	$ 1.70
Outstanding at September 30, 2017	1,086,875	$ 1.05

As noted above, all outstanding RSU's were modified in September 2017. Therefore, the weighted average grant date fair value per share of outstanding RSU's as of September 30, 2017, reflects the $1.05 per share fair value of the outstanding RSU's as of the date of modification.

Shares issued for RSU's that vested and settled during the three months ended September 30, 2017, included 13,082 shares of common stock surrendered by employees for payment of $16 of withholding taxes due.

2004 Stock Option and Incentive Plan

The following table summarizes stock option activity under the 2004 Plan:

	Number of Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 31, 2016	10,626	$ 40.58	
Exercised	—		
Expired	(2,281)	$ 40.58	
Cancelled	(1,846)	$ 40.58	
Outstanding at September 30, 2017	6,499	$ 40.58	$ —
Exercisable at September 30, 2017	6,499	$ 40.58	$ —
Weighted-average years remaining on contractual life	0.91		
Unrecognized compensation cost related to non-vested stock options	$ —		

The exercise prices exceed the $1.78 per share closing price of common stock on September 30, 2017, therefore there is no intrinsic value of the outstanding 2004 Plan stock options.

Employee Stock Purchase Plan

In November 2014, the Company's board of directors adopted and the stockholders approved the 2014 Employee Stock Purchase Plan ("ESPP"). The ESPP provides that the number of shares reserved and available for issuance under the ESPP shall be cumulatively increased each January 1, beginning on January 1, 2016, by the lesser of (i) 600,000 shares of common stock or (ii) the number of shares necessary to set the number of shares of Common Stock under the Plan at 1% percent of the outstanding number of shares as of January 1 of the applicable year. However, the board of directors reserves the right to determine that there will be no increase for any year or that any increase will be for a lesser number of shares. As of January 1, 2017, 31,555 shares were added to the ESPP. As of September 30, 2017, there were 245,979 shares available for issuance under the ESPP.

On May 31, 2017, 23,884 shares of common stock were purchased pursuant to the ESPP, resulting in proceeds to the Company of $35. The Company recorded $0 and $6 of stock-based compensation expense pursuant to the ESPP during the three and nine months ended September 30, 2017, respectively, and $23 and $43 of stock-based compensation expense pursuant to the ESPP during the three and nine months ended September 30, 2016, respectively.

Stock-Based Compensation

Stock-based compensation expense for options, RSU's and the ESPP is reflected in the consolidated statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Research and development	$ 352	$ 358	$ 946	$ 883
General and administrative	559	448	1,542	1,095
Total	$ 911	$ 806	$ 2,488	$ 1,978

7. Commitments and Contingencies

Operating Lease

In 2015, the Company entered into a lease agreement (the "Office Lease") for its headquarters in Lexington, Massachusetts. The Company recorded $445 as leasehold improvements for costs incurred to build out the space, and is amortizing those costs to facilities expense over the term of the lease. Rent expense is recognized on a straight-line basis at the average monthly rent over the term of the lease. Deferred rent is included in other current and long-term liabilities on the Company's consolidated balance sheets.

In 2016, the Company signed an amendment to the Office Lease, whereby it agreed to rent additional space (the "Lease Amendment"). The terms of the Lease Amendment follow the terms of the Office Lease. The lease term is 90 months and the Company has the right to extend the term for one period of five years.

The Company recorded rent expense of $84 and $253 for the three and nine months ended September 30, 2017, respectively, and $66 and $190 for the three and nine months ended September 30, 2016, respectively. As of September 30, 2017, the aggregate annual commitments pursuant to the Office Lease and the Lease Amendment are as follows:

Year	Amount
2017	$ 102
2018	411
2019	421
2020	430
2021	439
Thereafter	520
Total	$ 2,323

Securities Litigation

On January 6, 2017, a purported stockholder of the Company filed a putative class action in the U.S. District Court for the District of Massachusetts, captioned *Whitehead v. Inotek Pharmaceuticals Corporation, et al.*, No. 1:17-cv-10025. An amended complaint was filed on July 10, 2017, and a second amended complaint was filed on September 5, 2017. The second amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, David Southwell, and Rudolf Baumgartner based on allegedly false and misleading statements and omissions regarding our phase 2 and phase 3 clinical trials of *trabodenoson*. The lawsuit seeks, among other things, unspecified compensatory damages for

purchasers of the Company's common stock between July 23, 2015 and July 10, 2017, as well as interest and attorneys' fees and costs. On October 6, 2017, defendants filed a motion to dismiss the second amended complaint. The Company continues to vigorously defend itself against this claim.

From time to time, the Company may be subject to other various legal proceedings and claims that arise in the ordinary course of its business activities. Although the results of litigation and claims cannot be predicted with certainty, the Company does not believe it is party to any other claim or litigation the outcome of which, if determined adversely to the Company, would individually or in the aggregate be reasonably expected to have a material adverse effect on its business. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Change-in-Control

In September 2017, the Company modified the employment agreements with certain of its current employees such that in the event of termination in connection with a change in control ("CIC"), the Company will provide these employees severance payments at each employee's current monthly salary rate, and continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost) for up to six months primarily depending on duration of service. The Company also modified the employment agreements with certain of its named executive officers. In the event of a qualifying termination in connection with a CIC, for each of the Company's Chief Medical Officer and Vice President, Finance, the Company will pay (i) twelve and six months' severance, respectively, at each person's current monthly salary rate, and (ii) continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost), for twelve and six months, respectively. In the event of a qualifying termination in connection with a CIC, in addition to the severance benefits previously provided to the Company's Chief Executive Officer (consisting of a lump-sum payment equal to 18 months' base salary), the Company agreed to provide continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost), for eighteen months. In addition, the Company has committed to pay to all seven remaining employees, if they are employees on the date of a CIC, a retention bonus, with the aggregate of all such retention bonuses equal to approximately $642.

Also, upon a CIC, the Company will owe Perella Weinberg a fee of $2,000.

Indemnification Arrangements

As permitted under Delaware law, the Company's bylaws provide that the Company will indemnify any director, officer, employee or agent of the Company or anyone serving in these capacities. The maximum potential amount of future payments the Company could be required to pay is unlimited. The Company has insurance that reduces its monetary exposure and would enable it to recover a portion of any future amounts paid. As a result, the Company believes that the estimated fair value of these indemnification commitments is minimal.

Throughout the normal course of business, the Company has agreements with vendors that provide goods and services required by the Company to run its business. In some instances, vendor agreements include language that requires the Company to indemnify the vendor from certain damages caused by the Company's use of the vendor's goods and/or services. The Company has insurance that would allow it to recover a portion of any future amounts that could arise from these indemnifications. As a result, the Company believes that the estimated fair value of these indemnification commitments is minimal.

8. Fair Value of Financial Measurements

Items measured at fair value on a recurring basis are short-term investments. The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis by level within the fair value hierarchy:

	Fair Value Measurements at September 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market mutual funds (included in cash and cash equivalents)	$ 48,981	$ 48,981	$ —	$ —
Certificates of deposit	$ 11,284	$ —	$ 11,284	$ —
Agency bonds	2,005	—	2,005	—
United States Treasury securities	40,690	40,690	—	—
Short-term investments	$ 53,979	$ 40,690	$ 13,289	$ —

	Fair Value Measurements at December 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market mutual funds (included in cash and cash equivalents)	$ 20,698	$ 20,698	$ —	$ —
Certificates of deposit	$ 22,046	$ —	$ 22,046	$ —
Agency bonds	5,913	—	5,913	—
United States Treasury securities	68,716	68,716	—	—
Short-term investments	$ 96,675	$ 68,716	$ 27,959	$ —

Money market mutual funds

The Company classifies its money market mutual funds as Level 1 assets under the fair value hierarchy as these assets have been valued using quoted market prices in active markets without any valuation adjustment.

Short-term investments

The Company classifies its United States Treasury securities as Level 1 assets under the fair value hierarchy as these assets have been valued using quoted market prices in active markets without any valuation adjustment. The Company classifies its certificates of deposit as Level 2 assets under the fair value hierarchy, as there are no quoted market prices in active markets, and its agency bonds as Level 2 assets under the fair value hierarchy, as these assets are not always valued daily using quoted market prices in active markets.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Overview

We are a clinical-stage biopharmaceutical company which had been focused on the discovery, development and commercialization of therapies for ocular diseases, including glaucoma. We had been developing *trabodenoson* in a monotherapy and in a fixed-dose combination therapy ("FDC") to treat glaucoma. After failing to meet the primary endpoints in our first pivotal Phase 3 trial of *trabodenoson* monotherapy for the treatment of primary open-angle glaucoma or ocular hypertension and our Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost* for the treatment of glaucoma, we voluntarily discontinued our development of *trabodenoson.*

We have engaged Perella Weinberg Partners, LP ("Perella Weinberg") as a financial advisor to assist us in pursuing strategic alternatives with a goal to enhance stockholder value, including the Proposed Merger (as further described and defined below), or if the Proposed Merger is not approved and consummated, the possibility of another merger or sale of the Company. On September 12, 2017, we entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Rocket Pharmaceuticals, Ltd., a privately held biopharmaceutical company ("Rocket") and Rome Merger Sub, a wholly owned subsidiary of Inotek ("Merger Subsidiary"), pursuant to which the Merger Subsidiary will be merged with and into Rocket (the "Proposed Merger") at the Effective Time of the Proposed Merger, as defined in the Merger Agreement, with Rocket continuing after the Proposed Merger as the surviving company and a wholly-owned subsidiary of Inotek. We expect to devote significant time and resources to completion of the Proposed Merger, or, if the Proposed Merger is not approved and consummated, identifying and evaluating other strategic alternatives. However, there can be no assurance that such activities will result in the completion of the Proposed Merger or any other agreements or transactions that will enhance stockholder value. Further, the completion of the Proposed Merger, or of any other strategic transaction, ultimately may not deliver the anticipated benefits or enhance stockholder value. Further, the consummation of the Proposed Merger is subject to the satisfaction or waiver of customary closing conditions, including, among others, obtaining the requisite approvals of our stockholders and Rocket, including the approval of the charter amendments by our stockholders, and the preparation of a proxy statement. The preliminary proxy statement was filed on October 12, 2017.

Subject to the terms and conditions of the Merger Agreement, the percentage of the combined company that our stockholders will own following the closing of the Proposed Merger is subject to an adjustment based on the amount of our net cash at the closing. On a pro forma basis, based upon the number of shares of our common stock to be issued in the Proposed Merger, following the closing of the Proposed Merger, if it is approved and consummated, our current stockholders would own approximately 19% of the combined company and current Rocket shareholders would own approximately 81% of the combined company if we have a valuation of at least $47.0 million, which is based on a projected net cash balance (or cash and cash equivalents minus outstanding liabilities) at the closing of $42.0 million, plus an additional $5.0 million of enterprise value. Under the terms of the Merger Agreement, Rocket has a stipulated valuation of $200.0 million which is not subject to any adjustments. Ten days prior to the closing, our estimated net cash at closing will be mutually agreed upon and the final exchange ratio will be calculated based on the relative values of the parties as described in the Merger Agreement. If our net cash at closing is within a range of $40.5 million to $43.5 million, no adjustment will be made to the foregoing split. There can be no assurances as to our level of net cash between now and the planned closing.

The Merger Agreement contains a customary "no-shop" provision under which neither we nor Rocket is permitted to (i) solicit any alternative acquisition proposals, (ii) participate in any negotiations or discussions with any person relating to any alternative acquisition proposal, (iii) approve, endorse or recommend any alternative acquisition proposal, or (iv) enter into any agreement relating to any alternative acquisition proposal. Our "no-shop" provision is subject to certain exceptions that permit our board of directors to comply with its fiduciary duties, which, under certain circumstances, would enable us to provide information to, and engage in discussions or negotiations with, third parties with respect to alternative acquisition proposals.

The Merger Agreement provides each of us and Rocket with specified termination rights. If the Merger Agreement is terminated by us to accept a superior acquisition proposal or under other circumstances specified in the Merger Agreement, we will be required to pay to Rocket or Rocket will be required to pay us, as the case may be, a termination fee of $2 million (the "Termination Fee"). Further, in connection with the termination of the Merger Agreement if our stockholders do not approve the Merger Agreement, we have agreed to reimburse Rocket for its out-of-pocket fees and expenses of up to $0.5 million.

The Merger Agreement provides that, immediately following the Effective Time, as defined in the Merger Agreement, the board of directors of the combined company will consist of up to seven individuals, two of whom shall be designated by us (and mutually

agreeable to Rocket) and the other five of whom shall be designated by Rocket (until each of their respective successors are duly elected or appointed and qualified or their earlier death, resignation or removal). In connection with the Proposed Merger, we will seek to amend our certificate of incorporation to: (i) effect a reverse split of our common stock at a ratio to be determined by us, which is intended to ensure that the listing requirements of the Nasdaq Global Market are satisfied, (ii) change our name to "Rocket Pharmaceuticals, Inc." and (iii) declassify our board of directors, subject to the approval and consummation of the Proposed Merger.

In September 2017, we entered into separation agreements with ten of our employees. Pursuant to the separation agreements, we agreed to provide severance payments and continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost) for up to six months, primarily depending on duration of service.

In addition, we amended employment agreements with the remaining seven current employees (See Note 7 in the accompanying notes to the financial statements).

In April 2016, we filed a registration statement on Form S-3 containing two prospectuses: (i) a base prospectus which covers the offering, issuance and sale by us of up to $200.0 million in the aggregate of an indeterminate number of shares of common stock and preferred stock, such indeterminate principal amount of debt securities and such indeterminate number of warrants and; and (ii) a sales agreement prospectus covering the offering, issuance and sale by us of up to a maximum aggregate offering price of $50.0 million of our common stock that may be issued and sold under an at-the-market sales agreement with Cowen and Company, LLC (the "ATM"). The $50.0 million of common stock that may be issued and sold under the ATM reduces the available balance under the base prospectus by the amount issued. We did not sell any shares of common stock pursuant to the ATM during the nine months ended September 30, 2017. At September 30, 2017, $45.6 million was available for sale of common stock under the ATM. Additionally, in 2016 we issued $52.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2021 pursuant to a Prospectus Supplement to our Form S-3, (the "2021 Convertible Notes"), which further reduces the balance available under the base prospectus to $98.0 million as of September 30, 2017.

As of September 30, 2017, we had an accumulated deficit of $263.5 million and cash and cash equivalents and short-term investments aggregating $103.1 million. Based on current assumptions, we estimate we have sufficient funding to sustain operations into 2019. See "Liquidity and Capital Resources."

Since our inception on July 7, 1999, we have devoted substantially all of our resources to business planning, raising capital, product research and development, applying for and obtaining government and private grants, recruiting management, research and technical staff and other personnel, acquiring operating assets, and undertaking preclinical studies and clinical trials of our lead product candidates. We have not completed development of any product candidate and we have therefore not generated any revenues from product sales.

Factors Affecting our Results of Operations

We are not currently developing *trabodenoson.* Based upon our current operating assumptions, we do not expect our aggregate operating expenses, excluding strategic transaction-specific expenses, to increase in 2017 over 2016. We may incur significant additional costs related to finalizing and closing the Proposed Merger.

We may need to obtain additional funding, if the Proposed Merger is not approved or consummated, in connection with our continuing operations or other strategic review processes. Adequate additional financing may not be available to us on acceptable terms, or at all.

Financial Overview

Revenue

We have not generated any revenue from product sales since our inception and do not expect to generate any revenue from the sale of products.

Research and Development Expenses

Research and development expenses consist primarily of the costs associated with our research and development activities, conducting preclinical studies and clinical trials and activities related to regulatory filings. Our research and development expenses consist of:

- direct clinical and non-clinical expenses which include expenses incurred under agreements with contract research organizations ("CROs"), contract manufacturing organizations, clinical sites and costs associated with preclinical activities and development activities and costs associated with regulatory activities;
- employee and consultant-related expenses, including compensation, benefits, travel and stock-based compensation expense for research and development personnel as well as consultants that conduct and support clinical trials and preclinical studies; and
- facilities and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies used in research and development activities.

We expense research and development costs as incurred. We record costs for some development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or other information our vendors provide to us. We expect research and development expenses to decrease in the second half of 2017 compared to the first half of 2017 due to our decision in July 2017 to discontinue development of *trabodenoson*, and the termination of nine research and development employees in September 2017.

The following table summarizes our research and development expenses by type of activity for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Trabodenoson - direct clinical and non-clinical	$ 1,161	$ 5,753	$ 8,110	$ 16,332
Personnel and other expenses				
Employee and consultant-related expenses	1,499	1,959	4,340	5,095
Facility expenses	113	137	392	371
Target validation expenses	25	480	593	516
Other expenses	20	83	104	178
Total personnel and other expenses	1,657	2,659	5,429	6,160
Total research and development expenses	$ 2,818	$ 8,412	$ 13,539	$ 22,492

We do not track *trabodenoson*-related expenses by product candidate. All expenses related to *trabodenoson* as a monotherapy also benefit the FDC product candidate *trabodenoson* with *latanoprost*. We have expended approximately $83 million for external development costs related to *trabodenoson* from inception through September 30, 2017.

The process of conducting the necessary clinical research to obtain regulatory approval is costly and time consuming and the successful development of our product candidates is highly uncertain. For example, we are not currently developing *trabodenoson* in view of the results of our MATrX-1 Phase 3 clinical trial and Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost*. We expect to incur minimal external research and development expenses in the future, subject to the approval and consummation of the Proposed Merger.

General and Administrative Expenses

General and administrative expenses consist of compensation and related benefit costs, including stock-based compensation for administrative personnel. Other significant general and administrative expenses include travel costs, professional fees for legal, patents, consulting, investor and public relations, auditing and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies used in general and administrative activities. General and administrative expense increased in the third quarter of 2017 as compared to the second quarter of 2017 and may increase further in the fourth quarter of 2017 as we continue to incur costs related to the Proposed Merger and our defense of the putative class action filed against us on January 6, 2017, amended on July 10, 2017, and September 5, 2017 (see Part II – Other Information, Item 1. Legal Proceedings).

Interest Expense

Interest expense relates to our 2021 Convertible Notes which are due in August 2021.

Interest Income

Interest income relates to interest earned from invested funds.

Results of Operations

Comparison of the Three Months Ended September 30, 2017 and 2016

The following table summarizes the results of our operations for the three months ended September 30, 2017 and 2016:

(in thousands)	Three Months Ended September 30, 2017	2016	Increase (Decrease)
Operating expenses:			
Research and development	$ (2,818)	$ (8,412)	$ (5,594)
General and administrative	(3,895)	(2,311)	1,584
Loss from operations	(6,713)	(10,723)	(4,010)
Interest expense	(901)	(525)	376
Interest income	219	120	(99)
Net loss	$ (7,395)	$ (11,128)	$ (3,733)

Research and development expenses

Research and development expenses decreased $5.6 million to $2.8 million for the three months ended September 30, 2017, as compared to $8.4 million for the three months ended September 30, 2016. This decrease primarily reflects $1.9 million of decreased clinical expenses related to our Phase 3 trial, MATrX-1, for which top-line results were announced in January of 2017 and $1.6 million of decreased clinical expenses related to our Phase 2 FDC clinical trial that commenced in October of 2016, for which top-line results were announced in July 2017. In addition, preclinical expense decreased $2.0 million due to reduced activity, employee-related expenses decreased $0.9 million due to reduced headcount and a reduction of the bonus accrual related to the employees terminated in September 2017 and consulting costs decreased $0.3 million. These decreases are partially offset by $0.7 million of severance expense related to employees terminated during the three months ended September 30, 2017, and an impairment charge of $0.4 million to write-down our laboratory equipment used in the production of *trabodenoson* to net realizable value, as we voluntarily discontinued our development of *trabodenoson* in July 2017.

General and administrative expenses

General and administrative expenses increased $1.6 million to $3.9 million for the three months ended September 30 , 2017, as compared to $2.3 million for the three months ended September 30, 2016. This increase primarily reflects $1.5 million of increased professional services fees related to the Proposed Merger and $0.4 million of increased legal expenses primarily related to our ongoing securities litigation that commenced in January of 2017 and patents. These increases are partially offset by decreased employee-related expenses of $0.2 million due to decreased headcount.

Interest expense

Interest expense consists of coupon interest and amortization of debt issuance costs related to our 2021 Convertible Notes which we issued in August 2016 and which are due in August 2021.

Interest income

Interest income increased $0.1 million to $0.2 million for the three months ended September 30, 2017, as compared to $0.1 million for the three months ended September 30, 2016, primarily due to higher interest rates.

Comparison of the Nine Months Ended September 30, 2017 and 2016

The following table summarizes the results of our operations for the nine months ended September 30, 2017 and 2016:

(in thousands)	Nine Months Ended September 30, 2017	2016	Increase (Decrease)
Operating expenses:			
Research and development	$ (13,539)	$ (22,492)	$ (8,953)
General and administrative	(8,996)	(7,148)	1,848
Loss from operations	(22,535)	(29,640)	(7,105)
Interest expense	(2,666)	(525)	2,141
Interest income	574	285	(289)
Net loss	$ (24,627)	$ (29,880)	$ (5,253)

Research and development expenses

Research and development expenses decreased $9.0 million to $13.5 million for the nine months ended September 30, 2017, as compared to $22.5 million for the nine months ended September 30, 2016. This decrease primarily reflects $6.9 million of decreased clinical expenses related to our Phase 3 trial, MATrX-1, for which top-line results were announced in January of 2017, partially offset by $1.0 million of increased clinical expenses and supplies related to our Phase 2 FDC clinical trial, which was not enrolling patients in the 2016 period. In addition, preclinical expense decreased $2.8 million due to reduced activity, employee-related expenses decreased $1.0 million due to reduced headcount and consulting costs decreased $0.6 million. These decreases are partially offset by $0.8 million of severance expense related to employees terminated during the nine months ended September 30, 2017, and an impairment charge of $0.4 million to write-down our laboratory equipment used in the production of *trabodenoson* to net realizable value, as we voluntarily discontinued our development of *trabodenoson* in July of 2017.

General and administrative expenses

General and administrative expenses increased $1.8 million to $9.0 million for the nine months ended September 30, 2017, as compared to $7.1 million for the nine months ended September 30, 2016. This increase primarily reflects $1.5 million of increased professional services fees related to the Proposed Merger, $0.5 million of increased legal expenses primarily related to our ongoing securities litigation that commenced in January of 2017 and patents, and $0.4 million of increased stock-based compensation expense primarily related to restricted stock units granted during the fourth quarter of 2016 and the first quarter of 2017. These increases are partially offset by decreased employee-related expenses of $0.3 million due to decreased headcount and $0.3 million of decreased consulting costs.

Interest expense

Interest expense consists of coupon interest and amortization of debt issuance costs related to our 2021 Convertible Notes which we issued in August 2016 and which are due in August 2021.

Interest income

Interest income increased $0.3 million to $0.6 million for the nine months ended September 30, 2017, as compared to $0.3 million for the nine months ended September 30, 2016, primarily due to higher interest rates.

Liquidity and Capital Resources

Since inception, we have incurred accumulated net losses and negative cash flows from our operations. We incurred a net loss of $24.6 million for the nine months ended September 30, 2017. As of September 30, 2017, we had an accumulated deficit of $263.5 million and $103.1 million of cash and cash equivalents and short-term investments. We are obligated to pay approximately $1.5 million of interest on the 2021 Convertible Notes on each February 1 and August 1 of 2017 through 2021, and on August 1, 2021 the full outstanding principal, currently $52.0 million, is due and payable.

The following table summarizes our sources and uses of cash for each of the periods presented:

	Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Cash used in operating activities	$ (23,124)	$ (26,128)
Cash provided by (used in) investing activities	42,453	(23,778)
Cash provided by financing activities	19	52,868
Net increase in cash and cash equivalents	$ 19,348	$ 2,962

Net cash used in operating activities

Net cash used in operating activities was $23.1 million for the nine months ended September 30, 2017 and principally resulted from our net loss of $24.6 million and a $2.1 million net decrease in operating assets and liabilities, partially offset by $2.5 million in noncash stock-based compensation, $0.4 million of noncash interest expense and an impairment charge of $0.4 million related to the write-down of our laboratory equipment used in the production of *trabodenoson* to net realizable value, as we voluntarily discontinued our development of *trabodenoson* in July of 2017.

Net cash used in operating activities was $26.1 million for the nine months ended September 30, 2016, and principally resulted from our net loss of $29.9 million, partially offset by $2.0 million in noncash stock-based compensation and a $1.5 million net increase in operating assets and liabilities.

Net cash provided by (used in) investing activities

Net cash provided by investing activities was $42.5 million for the nine months ended September 30, 2017, and related primarily to $69.7 million of proceeds from the maturity of short-term investments, partially offset by the purchase of $27.2 million of short-term investments.

Net cash used in investing activities was $23.8 million for the nine months ended September 30, 2016, and related primarily to the purchase of $69.1 million of short-term investments and $45.6 million of proceeds from the maturity of short-term investments. Additionally, we purchased $0.3 million of property and equipment in the nine months ended September 30, 2016.

Net cash provided by financing activities

Net cash provided by financing activities was $52.9 million for the nine months ended September 30, 2016, and reflects net proceeds of $48.7 million from the issuance of our 2021 Convertible Notes and net proceeds of $4.0 million from the issuance of common stock pursuant to our ATM.

Operating Capital Requirements

To date, we have not generated any revenue from product sales. We have discontinued development of *trabodenoson* and have entered into the Merger Agreement. We expect to continue to generate losses until the approval and consummation of the Proposed Merger, which is expected to occur in the first quarter of 2018, and thereafter if the Proposed Merger is not approved and consummated.

Contractual Obligations and Commitments

The following summarizes our significant contractual obligations as of September 30, 2017:

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
			(in thousands)		
Operating facilities lease (1)	$ 2,323	$ 409	$ 846	$ 882	$ 186
2021 Convertible Notes (2)	63,960	2,990	5,980	54,990	—
Total	$ 66,283	$ 3,399	$ 6,826	$ 55,872	$ 186

(1) Represents lease payments for our headquarters in Lexington, Massachusetts.
(2) Represents principal and interest payments on our 2021 Convertible Notes.

We enter into contracts in the normal course of business with CROs and contract manufacturers to assist in the performance of our research and development activities and other services and products for operating purposes. To the extent that these contracts

provide for termination on notice, and therefore are cancelable contracts, they are not included in the table of contractual obligations and commitments.

In September 2017, we modified the employment agreements with certain of our current employees such that in the event of termination in connection with a CIC, we agreed to provide these employees severance payments, at each employee's current monthly salary rate, and continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost), for up to six months, primarily depending on duration of service. In the event of a qualifying termination in connection with a CIC, we will pay severance costs to our Chief Executive Officer, Chief Medical Officer and Vice President, Finance, consisting of the following: (i) eighteen months, twelve months and six months of salary, respectively, at each person's then-current monthly salary rate and (ii) continued medical, dental and vision coverage pursuant to COBRA (of the employer's portion of the premium cost), for eighteen, twelve and six months, respectively. In addition, we have committed to pay to all seven remaining employees, if they are employees on the date of a CIC, a retention bonus, with the aggregate of all such retention bonuses equal to approximately $0.6 million.

JOBS Act

Under Section 107(b) of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), an "emerging growth company" can delay the adoption of new or revised accounting standards until such time as those standards would apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, as a result, we will adopt new or revised accounting standards at the same time as other public companies that are not emerging growth companies. There are other exemptions and reduced reporting requirements provided by the JOBS Act that we are currently evaluating. For example, as an emerging growth company, we are exempt from Sections 14A(a) and (b) of the Securities Exchange Act of 1934 (the "Exchange Act") which would otherwise require us to (i) submit certain executive compensation matters to stockholder advisory votes, such as "say-on-pay," "say-on-frequency" and "golden parachutes" and (ii) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of our Chief Executive Officer's compensation to our median employee compensation. We also intend to rely on an exemption from the rule requiring us to provide an auditor's attestation report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and the rule requiring us to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board ("PCAOB") regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements as the auditor discussion and analysis. We will continue to remain an "emerging growth company" until the earliest of the following: December 31, 2020; the last day of the fiscal year in which our total annual gross revenue is equal to or more than $1.07 billion; the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations. We had cash and cash equivalents of $49.1 million at September 30, 2017, consisting primarily of funds in money market accounts. We also had $54.0 million in short-term investments consisting of certificates of deposit, agency bonds and United States Treasury securities. The primary objective of our investment activities is to preserve principal and liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of our investment portfolio, we do not believe a sudden change in market interest rates would have a material effect on the fair market value of our portfolio.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures. Based on that evaluation of our disclosure controls and procedures as of September 30, 2017, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures as of such date are effective at the reasonable assurance level. 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 are 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 us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, 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 our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Inherent Limitations of Internal Controls

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On January 6, 2017, a purported stockholder of the Company filed a putative class action in the U.S. District Court for the District of Massachusetts, captioned *Whitehead v. Inotek Pharmaceuticals Corporation, et al.*, No. 1:17-cv-10025. An amended complaint was filed on July 10, 2017, and a second amended complaint was filed on September 5, 2017. The second amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, David Southwell, and Rudolf Baumgartner based on allegedly false and misleading statements and omissions regarding our phase 2 and phase 3 clinical trials of *trabodenoson*. The lawsuit seeks, among other things, unspecified compensatory damages for purchasers of the Company's common stock between July 23, 2015 and July 10, 2017, as well as interest and attorneys' fees and costs. On October 6, 2017, defendants filed a motion to dismiss the second amended complaint.

From time to time, we may be subject to other various legal proceedings and claims that arise in the ordinary course of our business activities. Although the results of litigation and claims cannot be predicted with certainty, we do not believe we are party to any other claim or litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

We operate in an industry that involves numerous risks and uncertainties. You should carefully consider the following information about these risks, together with the other information appearing elsewhere in this Form 10-Q for the quarterly period ended September 30, 2017 and our Annual Report on Form 10-K for the year ended December 31, 2016, including our financial statements and related notes hereto. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition, results of operations and stockholder approval and consummation and success of the Proposed Merger with Rocket Pharmaceuticals or other potential strategic alternatives. The risks and uncertainties described below may change over time and other risks and uncertainties, including those that we do not currently consider material, may impair our business. In these circumstances, the market price of our common stock could decline.

Risks Related to the Proposed Merger

If the Proposed Merger with Rocket is not consummated, Inotek's business could suffer materially and Inotek's stock price could decline.

The consummation of the Proposed Merger with Rocket is subject to a number of closing conditions, including approval by Inotek's stockholders, approval by NASDAQ of Inotek's application for initial listing of Inotek's common stock in connection with the Proposed Merger, and other customary closing conditions. Inotek is targeting a closing of the transaction in the first quarter of 2018.

If the Proposed Merger is not consummated, Inotek may be subject to a number of material risks, and its business and stock price could be adversely affected, as follows:

- Inotek has incurred and expects to continue to incur significant expenses related to the Proposed Merger with Rocket even if the Proposed Merger is not consummated.
- The Merger Agreement contains covenants relating to Inotek's solicitation of competing acquisition proposals and the conduct of Inotek's business between the date of signing the Merger Agreement and the closing of the Proposed Merger. As a result, significant business decisions and transactions before the closing of the Proposed Merger require the consent of Rocket. Accordingly, Inotek may be unable to pursue business opportunities that would otherwise be in its best interest as a standalone company. If the Merger Agreement is terminated after Inotek has invested significant time and resources in the transaction process, Inotek will have a limited ability to continue its current operations without obtaining additional financing to fund its operations.
- Inotek could be obligated to pay Rocket a $2,000,000 termination fee in connection with the termination of the Merger Agreement, depending on the reason for the termination.
- Inotek's customers, prospective customers, collaborators and other business partners and investors in general may view the failure to consummate the Proposed Merger as a poor reflection on its business or prospects.
- Some of Inotek's suppliers, distributors, collaborators and other business partners may seek to change or terminate their relationships with Inotek as a result of the Proposed Merger.
- As a result of the Proposed Merger, current and prospective employees could experience uncertainty about their future roles within the combined company. This uncertainty may adversely affect Inotek's ability to retain its key employees, who may seek other employment opportunities.
- The market price of Inotek's common stock may decline to the extent that the current market price reflects a market assumption that the Proposed Merger will not be completed.

In addition, if the Merger Agreement is terminated and Inotek's board of directors determines to seek another business combination, it may not be able to find a third party willing to provide equivalent or more attractive consideration than the consideration to be provided by each party in the Proposed Merger. In such circumstances, Inotek's board of directors may elect to, among other things, divest all or a portion of Inotek's business, or take the steps necessary to liquidate all of Inotek's business and assets, and in either such case, the consideration that Inotek receives may be less attractive than the consideration to be received by Inotek pursuant to the Merger Agreement with Rocket.

Some of Inotek's officers and directors have different interests that may influence them to support or approve the Proposed Merger.

Officers and directors of Inotek participate in arrangements that provide them with interests in the Proposed Merger that are different from its stockholders, including, among others, their continued service as a director of the combined company, retention and severance benefits, the acceleration of restricted stock and option vesting and continued indemnification. These interests, among others, may influence the officers and directors of Inotek to support or approve the Proposed Merger.

The Proposed Merger may be completed even though material adverse changes may result from the announcement of the Proposed Merger, industry-wide changes and other causes.

In general, either party can refuse to complete the Proposed Merger if there is a material adverse change affecting the other party between September 12, 2017, the date of the Merger Agreement, and the closing. However, some types of changes do not permit either party to refuse to complete the Proposed Merger, even if such changes would have a material adverse effect on Inotek or Rocket, to the extent they resulted from the following and do not have a materially disproportionate effect on Inotek or Rocket, as the case may be:

- changes in general economic, business, financial or market conditions;
- changes or events affecting the industries or industry sectors in which the parties operate generally;
- changes in generally accepted accounting principles;

- changes in laws, rules, regulations, decrees, rulings, ordinances, codes or requirements issued, enacted, adopted or otherwise put into effect by or under the authority of any governmental body;
- changes caused by the announcement or pendency of the Proposed Merger;
- changes caused by any action taken by either party with the prior written consent of the other party;
- changes caused by any decision, action, or inaction by the U.S. Federal Drug Administration, which we refer to as the FDA, or another comparable foreign governmental body, with respect to any product candidate of either party;
- changes caused by any act of war, terrorism, national or international calamity or any other similar event;
- with respect to Inotek, a decline in Inotek's stock price; or
- with respect to Inotek, a change in the listing status of Inotek's common stock on the NASDAQ Global Market.

If adverse changes occur but Inotek and Rocket must still complete the Proposed Merger, the combined company's stock price may suffer.

The market price of the combined company's common stock may decline as a result of the Proposed Merger.

The market price of the combined company's common stock may decline as a result of the Proposed Merger for a number of reasons including if:

- the combined company does not achieve the perceived benefits of the Proposed Merger as rapidly or to the extent anticipated by financial or industry analysts;
- the effect of the Proposed Merger on the combined company's business and prospects is not consistent with the expectations of financial or industry analysts; or
- investors react negatively to the effect on the combined company's business and prospects from the Proposed Merger.

Inotek's stockholders may not realize a benefit from the Proposed Merger commensurate with the ownership dilution they will experience in connection with the Proposed Merger.

If the combined company is unable to realize the strategic and financial benefits currently anticipated from the Proposed Merger, Inotek's stockholders will have experienced substantial dilution of their ownership interest without receiving any commensurate benefit. Significant management attention and resources will be required to integrate the two companies. Delays in this process could adversely affect the combined company's business, financial results, financial condition and stock price following the Proposed Merger. Even if the combined company were able to integrate the business operations successfully, there can be no assurance that this integration will result in the realization of the full benefits of synergies, innovation and operational efficiencies that may be possible from this integration and that these benefits will be achieved within a reasonable period of time.

During the pendency of the Proposed Merger, Inotek may not be able to enter into a business combination with another party and will be subject to contractual limitations on certain actions because of restrictions in the Merger Agreement.

Covenants in the Merger Agreement impede the ability of Inotek or Rocket to make acquisitions or complete other transactions that are not in the ordinary course of business pending completion of the Proposed Merger. As a result, if the Proposed Merger is not completed, the parties may be at a disadvantage to their competitors. In addition, while the Merger Agreement is in effect and subject to limited exceptions, each party is prohibited from soliciting, initiating, encouraging or taking actions designed to facilitate any inquiries or the making of any proposal or offer that could lead to the entering into certain extraordinary transactions with any third party, such as a sale of assets, an acquisition of Inotek's common stock, a tender offer for Inotek's common stock, a merger or other business combination outside the ordinary course of business. Any such transactions could be favorable to such party's stockholders.

The amount of merger consideration is dependent on amount of net cash of Inotek as of a certain determination date prior to closing.

Subject to the terms of the Merger Agreement, the percentage of the combined company that Inotek stockholders will own as of the closing of the Proposed Merger is subject to adjustment at the closing based on the level of Inotek's net cash as of a certain

determination date prior to closing. The level of net cash as of that determination date will be reduced by certain specified liabilities, as defined further in the Merger Agreement, including out-of-pocket costs in connection with any stockholder litigation filed against Inotek and related parties related to the Merger Agreement, including amounts payable to financial advisors and attorneys that are paid, incurred or expected to be incurred, payable or subject to reimbursement by Inotek. Thus, Inotek's liabilities, including costs in defending against litigation, insofar as these liabilities reduce net cash, may reduce the percentage of the combined company that Inotek stockholders will own as of the closing of the Proposed Merger. Based on Inotek's current level of net cash and taking into account Inotek's projected expenses in connection with the proposed transaction, if the Proposed Merger were to close today, the stockholders of Inotek would own approximately 19% of the combined company on a fully-diluted basis and current Rocket shareholders would own approximately 81% of the combined company on a fully-diluted basis. However, in addition to the specified liabilities referenced above, any reductions in Inotek's net cash balance caused by unexpected liabilities may also reduce the ownership percentage held by Inotek stockholders as of the closing of the Proposed Merger. There can be no assurances as to Inotek's level of net cash between now and closing.

Because the lack of a public market for Rocket's ordinary shares makes it difficult to evaluate the fairness of the Proposed Merger, Rocket's shareholders may receive consideration in the Proposed Merger that is greater than or less than the fair market value of Rocket's ordinary shares.

The outstanding share capital of Rocket is privately held and is not traded in any public market. The lack of a public market makes it extremely difficult to determine the fair market value of Rocket. Since the percentage of Inotek's equity to be issued to Rocket's shareholders was determined based on negotiations between the parties, it is possible that the value of the Inotek's common stock to be issued in connection with the Proposed Merger will be greater than the fair market value of Rocket. Alternatively, it is possible that the value of the shares of Inotek's common stock to be issued in connection with the Proposed Merger will be less than the fair market value of Rocket.

The combined company will incur significant transaction costs as a result of the Proposed Merger, including investment banking, legal and accounting fees. In addition, the combined company will incur significant consolidation and integration expenses which cannot be accurately estimated at this time. These costs could include the possible relocation of certain operations from Massachusetts to other offices of the combined company as well as costs associated with terminating existing office leases and the loss of benefits of certain favorable office leases. Actual transaction costs may substantially exceed Rocket's estimates and may have an adverse effect on the combined company's financial condition and operating results.

The Proposed Merger is expected to result in a limitation on Inotek's ability to utilize our net operating loss carryforward.

Under Section 382 of the Code, use of Inotek's net operating loss carryforwards, which we refer to as NOLs, will be limited if Inotek experiences a cumulative change in ownership of greater than 50% in a moving three year period. Inotek will experience an ownership change as a result of the Proposed Merger and therefore its ability to utilize its NOLs and certain credit carryforwards remaining at the Effective Time will be limited. The limitation will be determined by the fair market value of Inotek's common stock outstanding prior to the ownership change, multiplied by the applicable federal rate. Limitations imposed on Inotek's ability to utilize NOLs could cause U.S. federal and state income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such NOLs to expire unused, in each case reducing or eliminating the benefit of such NOLs.

The opinion received by Inotek's board of directors from Perella Weinberg Partners has not been, and is not expected to be, updated to reflect changes in circumstances that may have occurred since the date of the opinion.

Perella Weinberg Partners delivered its opinion to the board of directors of Inotek that, as of September 12, 2017, and based upon and subject to the various assumptions made, procedures followed, matters considered and qualifications and limitations set forth in its opinion, the exchange ratio provided for in the Merger Agreement was fair, from a financial point of view, to Inotek. The opinion does not speak as of the time the Proposed Merger will be completed or any date other than the date of such opinion. The opinion does not reflect changes that may occur or may have occurred after the date of the opinion, including changes to the operations and prospects of Inotek or Rocket, changes in general market and economic conditions or regulatory or other factors. Any such changes may materially alter or affect the relative values of Inotek and Rocket. Perella Weinberg Partners does not have any obligation to update, revise or reaffirm its opinion to reflect subsequent developments and has not done so.

Certain stockholders could attempt to influence changes within Inotek which could adversely affect Inotek's operations, financial condition and the value of Inotek's common stock.

Inotek's stockholders may from time-to-time seek to acquire a controlling stake in Inotek, engage in proxy solicitations, advance stockholder proposals or otherwise attempt to effect changes. Campaigns by stockholders to effect changes at publicly-traded companies are sometimes led by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, and could disrupt Inotek's operations and divert the attention of the Inotek board of directors and senior management from the pursuit of the Proposed Merger. These actions could adversely affect Inotek's operations, financial condition, Inotek's ability to consummate the Proposed Merger and the value of Inotek common stock.

Inotek and Rocket may become involved in securities litigation and stockholder litigation in connection with the Proposed Merger, and this could divert the attention of Inotek and Rocket management and harm the combined company's business, and insurance coverage may not be sufficient to cover all related costs and damages.

Securities litigation or stockholder litigation frequently follows the announcement of certain significant business transactions, such as the sale of a business division or announcement of a business combination transaction. Inotek and Rocket may become involved in this type of litigation in connection with the Proposed Merger, and the combined company may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could adversely affect the business of Inotek, Rocket and the combined company.

If we do not successfully consummate the Proposed Merger with Rocket, our board of directors may decide to pursue a dissolution and liquidation of our company. In such an event, the amount of cash available for distribution to our stockholders will depend heavily on the timing of such liquidation as well as the amount of cash that will need to be reserved for commitments and contingent liabilities.

There can be no assurance that the Proposed Merger with Rocket will be successfully consummated. If not, our board of directors may decide to pursue a dissolution and liquidation of our company. In such an event, the amount of cash available for distribution to our stockholders will depend heavily on the timing of such decision and, ultimately, such liquidation, since the amount of cash available for distribution continues to decrease as we fund our operations while we evaluate our strategic alternatives. In addition, if our board of directors were to approve and recommend, and our stockholders were to approve, a dissolution and liquidation of our company, we would be required under Delaware corporate law to pay our outstanding obligations, as well as to make reasonable provision for contingent and unknown obligations, prior to making any distributions in liquidation to our stockholders. Our commitments and contingent liabilities may include (i) regulatory and clinical obligations; (ii) obligations under our employment and related agreements with certain employees that provide for severance and other payments following a termination of employment occurring for various reasons, including a change in control of our company; (iii) potential litigation against us, and other various claims and legal actions arising in the ordinary course of business; (iv) non-cancelable facility lease obligations and (v) obligations to holders of our 2021 Convertible Notes. As a result of this requirement, a portion of our assets may need to be reserved pending the resolution of such obligations. In addition, we may be subject to litigation or other claims related to a dissolution and liquidation of our company. If a dissolution and liquidation were pursued, our board of directors, in consultation with its advisors, would need to evaluate these matters and make a determination about a reasonable amount to reserve. Accordingly, holders of our common stock could lose all or a significant portion of their investment in the event of a liquidation, dissolution or winding up of our company.

Our business to date has been almost entirely dependent on the success of trabodenoson, and we have recently decided to discontinue further development of trabodenoson and devote significant time and resources to identifying and evaluating strategic alternatives, including the Proposed Merger, which may not be successful.

To date, we have invested substantially all of our efforts and financial resources in the research and development of *trabodenoson*, which was our only product candidate to enter clinical trials. In July 2017, we voluntarily discontinued our development of *trabodenoson* in view of the results of our MATrX-1 Phase 3 clinical trial and Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost*.

We are evaluating strategic alternatives with a goal to enhance stockholder value, including the Proposed Merger with Rocket, and have suspended further research and development activities to reduce operating expenses while we evaluate these opportunities.

There can be no assurance that the Proposed Merger with Rocket will be approved and close or that if it is consummated would enhance shareholder value. There also can be no assurance that we will conduct further drug research or development activities in the future.

We are substantially dependent on our remaining employees to facilitate the Proposed Merger with Rocket.

Our ability to successfully complete the Proposed Merger with Rocket depends in large part on our ability to retain certain of our remaining personnel, particularly David P. Southwell, our President and Chief Executive Officer, Rudolf A. Baumgartner, M.D., our Executive Vice President and Chief Medical Officer, and Dale Ritter, our Vice President—Finance. Despite our efforts to retain these employees, one or more may terminate their employment with us on short notice. The loss of the services of any of these employees could potentially harm our ability to evaluate and pursue strategic alternatives, as well as fulfill our reporting obligations as a public company.

Risks Related to the Reverse Stock Split

The reverse stock split may not increase Inotek's stock price over the long-term.

The principal purpose of the reverse stock split is to increase the per-share market price of Inotek's common stock above the minimum bid price requirement under the NASDAQ Listing Rules so that the listing of the combined company and the shares of Inotek common stock being issued in the Proposed Merger on either NASDAQ Global Market or NASDAQ Capital Market will be approved. It cannot be assured, however, that the reverse stock split will accomplish this objective for any meaningful period of time. While it is expected that the reduction in the number of outstanding shares of common stock will proportionally increase the market price of Inotek's common stock, it cannot be assured that the reverse stock split will increase the market price of its common stock by a multiple of the reverse stock split ratio chosen by its board of directors in its sole discretion, or result in any permanent or sustained increase in the market price of Inotek's common stock, which is dependent upon many factors, including Inotek's business and financial performance, general market conditions, and prospects for future success. Thus, while the stock price of the combined company might meet the continued listing requirements for the NASDAQ Capital Market or the NASDAQ Global Market initially, it cannot be assured that it will continue to do so.

The reverse stock split may decrease the liquidity of Inotek's common stock.

Although the board of directors believes that the anticipated increase in the market price of Inotek's common stock could encourage interest in its common stock and possibly promote greater liquidity for its stockholders, such liquidity could also be adversely affected by the reduced number of shares outstanding after the reverse stock split. The reduction in the number of outstanding shares may lead to reduced trading and a smaller number of market makers for Inotek's common stock.

The reverse stock split may lead to a decrease in Inotek's overall market capitalization.

Should the market price of Inotek's common stock decline after the reverse stock split, the percentage decline may be greater, due to the smaller number of shares outstanding, than it would have been prior to the reverse stock split. A reverse stock split is often viewed negatively by the market and, consequently, can lead to a decrease in Inotek's overall market capitalization. If the per share market price does not increase in proportion to the reverse stock split ratio, then the value of the combined company, as measured by its stock capitalization, will be reduced. In some cases, the per-share stock price of companies that have effected reverse stock splits subsequently declined back to pre-reverse split levels, and accordingly, it cannot be assured that the total market value of Inotek's common stock will remain the same after the reverse stock split is effected, or that the reverse stock split will not have an adverse effect on Inotek's stock price due to the reduced number of shares outstanding after the reverse stock split.

Risks Related to Our Financial Position and Need for Additional Capital

We currently have no source of revenue and may never become profitable.

We are a clinical-stage biopharmaceutical company with a limited operating history. Our ability to generate revenue and become profitable has depended upon our ability to successfully complete the development of our product candidates for the treatment of ocular diseases, including glaucoma, and obtain the necessary regulatory approvals for our product candidates. We have never been profitable, have no products approved for commercial sale and to date, have not generated any revenues from product sales. In July 2017, we voluntarily discontinued our development of our product candidate, *trabodenoson*, in view of the results of our MATrX-1 Phase 3 clinical trial and Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost.* We have engaged Perella Weinberg as a financial advisor to assist us in pursuing the Proposed Merger. If the Proposed Merger is not approved and consummated, we plan to evaluate other strategic alternatives with a goal to enhance stockholder value. Even if we resume the development of product

candidates and receive regulatory approval for the sale of our product candidates, we do not know when such product candidates will generate revenue, if at all, especially considering the results of our MATrX-1 Phase 3 clinical trial and Phase 2 FDC clinical trial of *trabodenoson* and *latanoprost*.

In addition, because of the numerous risks and uncertainties associated with approval and consummation of the Proposed Merger and with product development, we are unable to predict the timing or amount of increased expenses, or when, or if, we will be able to achieve or maintain profitability.

We have a history of net losses and anticipate that we will continue to incur net losses for the foreseeable future.

We have a history of losses and anticipate that we will continue to incur net losses for the foreseeable future. Our net losses were $42.9 million and $68.0 million for the years ended December 31, 2016 and 2015, respectively. Our net losses were $24.6 million and $29.9 million for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, we had an accumulated deficit of $263.5 million.

We expect to continue to incur significant expenses and operating losses for the foreseeable future as we evaluate and pursue strategic alternatives with a goal to enhance stockholder value, including the Proposed Merger, or, if the Proposed Merger is not approved and consummated, another merger or sale of the Company. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and our working capital. If we are unable to achieve and sustain profitability, the market value of our common stock will likely decline. Because of the numerous risks and uncertainties associated with developing biopharmaceutical products, we are unable to predict the extent of any future losses or whether we will become profitable.

Our short operating history may make it difficult to evaluate the success of our business to date and to assess its future viability.

We are a biopharmaceutical company that was founded in 1999. Our operations to date have historically been limited to organizing and staffing the Company, business planning, raising capital, acquiring and developing its technology, identifying and evaluating potential product candidates and delivery technologies, undertaking nonclinical studies, and developing our product candidate *trabodenoson*. We have discontinued our research and development activities relating to our product candidate that was in development. We have not demonstrated our ability to initiate clinical trials for product candidates other than *trabodenoson*, or successfully completed any clinical trials, including large-scale, pivotal clinical trials, obtained marketing approvals, manufactured a commercial scale medicine, or arranged for a third party to do so on our behalf, or conducted sales and marketing activities necessary for successful commercialization. Typically, it takes many years to develop one new product candidate from the time it is discovered to when it is available for treating patients. Consequently, any predictions about our future success or viability, or any evaluation of our business or prospects, may not be as accurate as they could be if we had a longer operating history. In addition, as a new business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown challenges.

The indenture governing our 2021 Convertible Notes contain restrictions that will limit our operating flexibility, and we may incur additional debt in the future that may include similar or additional restrictions.

The indenture governing our 2021 Convertible Notes contain covenants that, among other things, restrict our and our subsidiaries' ability to take specific actions, even if we believe them to be in our best interest. These covenants include restrictions on our ability and the ability of our future subsidiaries to incur additional indebtedness and issue certain types of preferred stock, other than certain permitted indebtedness and preferred stock. In addition, the indenture governing our 2021 Convertible Notes includes a covenant that limits our ability to merge or consolidate with other entities in certain circumstances, and may impact our ability to enter into a strategic transaction. These covenants and restrictions limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively.

A breach of any of these covenants or other provisions in our future debt agreements could result in an event of default, which if not cured or waived, could result in the 2021 Convertible Notes or such debt becoming immediately due and payable. This, in turn, could cause any of our other debt existing at such time to become due and payable as a result of cross-default or cross-acceleration provisions contained in the agreements governing such other debt. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt.

Servicing our debt requires a significant amount of cash, and if the Proposed Merger with Rocket is not approved and consummated, we may not have sufficient cash flow from our business to pay our substantial debt.

We currently have no source of revenue. If the Proposed Merger with Rocket is not approved by our stockholders and consummated, we will be required to make scheduled payments of the principal and interest on or to refinance our indebtedness, including the 2021 Convertible Notes. We expect any continuing business would generate cash flow from operating activities sufficient to service our obligations under our 2021 Convertible Notes and any future indebtedness.

We may not have the ability to repurchase our 2021 Convertible Notes upon a fundamental change, and our future debt may contain limitations on our ability to repurchase the 2021 Convertible Notes.

Holders of our 2021 Convertible Notes have the right to require us to repurchase their 2021 Convertible Notes upon the occurrence of a fundamental change, the occurrence of certain change of control transactions or delisting events, at a fundamental change repurchase price equal to 100% of the principal amount of the 2021 Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of 2021 Convertible Notes surrendered therefor. In addition, our ability to repurchase the 2021 Convertible Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase 2021 Convertible Notes at a time when the repurchase is required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing any future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the 2021 Convertible Notes.

The fundamental change repurchase feature of our 2021 Convertible Notes may delay or prevent an otherwise beneficial attempt to take over our company.

The terms of our 2021 Convertible Notes require us to repurchase the 2021 Convertible Notes in cash in the event of a fundamental change. A takeover of our company, if such takeover constituted a "fundamental change," would trigger an option of the holders of the 2021 Convertible Notes to require us to repurchase the 2021 Convertible Notes. This may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to investors in the 2021 Convertible Notes.

Risks Related to Development, Potential Regulatory Approval and Commercialization

If we are found in violation of federal or state "fraud and abuse" laws or other healthcare laws, we may face penalties, which may adversely affect our business, financial condition and results of operation.

In the United States, we are subject to various federal and state healthcare "fraud and abuse" laws, including anti-kickback laws, false claims laws and other laws intended, among other things, to reduce fraud and abuse in federal and state healthcare programs. The Federal Anti-Kickback Statute makes it illegal for any person or entity, including a prescription drug manufacturer (or a party acting on its behalf), to knowingly and willfully solicit, receive, offer or pay any remuneration, directly or indirectly, in cash or in kind, that is intended to induce or reward the referral of business, including the purchase, lease, order or arranging for or recommending the purchase, lease or order of any good, facility, item or service for which payment may be made, in whole or in part, under a federal healthcare program, such as Medicare or Medicaid. Although we have sought to structure our business arrangements in compliance with all applicable requirements, many healthcare fraud and abuse laws are broadly written, and it may be difficult to determine precisely how the law will be applied in specific circumstances. Accordingly, it is possible that our practices may be challenged under the Federal Anti-Kickback Statute. The federal false claims and civil monetary penalties laws, including the civil False Claims Act prohibits any individual or entity from, among other things, knowingly presenting or causing to be presented for payment to the government, including the federal healthcare programs, claims for reimbursed drugs or services that are false or fraudulent, or making a false statement to avoid, decrease, or conceal an obligation to pay money to the federal government. The civil False Claims Act has been interpreted to prohibit presenting claims for items or services that were not provided as claimed, or claims for medically unnecessary items or services. Cases have been brought under false claims laws alleging that off-label promotion of pharmaceutical products or the provision of kickbacks have resulted in the submission of false claims to governmental healthcare programs. In addition, private individuals have the ability to bring actions on behalf of the government under the civil False Claims Act as well as under the false claims laws of several states. Under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, we are prohibited from, among other things, knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services to obtain money or property of any healthcare benefit program.

Additionally, the federal Physician Payments Sunshine Act within the Patient Protection and Affordable Care Act, as amended by the Health Care Education and Reconciliation Act, or collectively the ACA, and its implementing regulations, require that certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program, with specific exceptions, report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to certain payments or other transfers of value provided to physicians and teaching hospitals, and certain ownership and investment interests held by physicians and their immediate family members.

Many states have adopted laws similar to the aforementioned laws, including state anti-kickback and false claims laws, some of which apply to the referral of patients for healthcare services reimbursed by any source, not just governmental payors. In addition, some states have passed laws that require pharmaceutical companies to comply with the April 2003 U.S. Department of Health and Human Services Office of Inspector General Compliance Program Guidance for Pharmaceutical Manufacturers and/or the Pharmaceutical Research and Manufacturers of America's Code on Interactions with Healthcare Professionals. Several states also impose other marketing restrictions or require pharmaceutical companies to make marketing or price disclosures to the state. There may be ambiguities as to what is required to comply with these state requirements and if we fail to comply with an applicable state law requirement we could be subject to penalties.

In addition, we may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and their respective implementing regulations, including the Final Omnibus Rule published on January 25, 2013, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information on certain types of individuals and organizations. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to business associates, defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also created four new tiers of civil monetary penalties and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorneys' fees and costs associated with pursuing federal civil actions. In addition, many state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other and from HIPAA in significant ways and may not have the same effect, thus complicating compliance efforts.

Law enforcement authorities are increasingly focused on enforcing these laws, and it is possible that some of our practices may be challenged under these laws. Efforts to ensure that our business arrangements with third parties have complied and will in the future comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that the government could allege violations of, or convict us of violating, these laws. If we are found in violation of one of these laws, we could be subject to significant civil, criminal and administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from governmental funded federal or state healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and the curtailment or restructuring of our operations. Were this to occur, our business, financial condition and results of operations and cash flows may be materially adversely affected.

If we face allegations of noncompliance with the law and encounter sanctions, our reputation, revenues and liquidity may suffer, and our products, if we resume the development of any product candidates, could be subject to restrictions or withdrawal from the market.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response, and could generate negative publicity. If we resume development of any product candidate, any failure to comply with ongoing regulatory requirements may significantly and adversely affect our ability to commercialize and generate revenues from our products. If regulatory sanctions are applied or if regulatory approval is withdrawn, the value of our company and our operating results will be adversely affected.

If we reallocate our resources to acquire or develop one or more new product candidates, we may not be successful in developing such new product candidates and we will once again be subject to all the risks and uncertainties associated with research and development of products and technologies.

If the Proposed Merger is not approved and consummated, and we are unable to complete another strategic transaction, we may explore the possibility of reallocating our resources toward developing, acquiring, by acquisition or in-license, new product candidates. If we decide to acquire one or more new product candidates, we cannot guarantee that any such acquisition would result in the identification and successful development of one or more approved and commercially viable products. The development of products and technologies is subject to a number of risks and uncertainties, including:

- the time, costs and uncertainty associated with the clinical testing required to demonstrate the safety and effectiveness of a product candidate to obtain regulatory approvals;
- the ability to raise sufficient funds to fund the research and development of any one or more new product candidates;
- the ability to find third party strategic partners to assist or share in the costs of product development, and potential dependence on such strategic partners, to the extent we may rely on strategic partners for future sales, marketing or distribution;
- the ability to protect the intellectual property rights associated with any one or more new product candidates;
- litigation;
- competition;
- ability to comply with ongoing regulatory requirements;
- government restrictions on the pricing and profitability of products in the United States and elsewhere; and
- the extent to which third-party payers, including government agencies, private health care insurers and other health care payers, such as health maintenance organizations, and self-insured employee plans, will cover and pay for newly approved therapies.

Risks Related to Our Reliance on Third Parties

We have depended on third parties to conduct some of the operations of our clinical trials and other portions of our operations, and we may not have been able to, and my not in the future be able to, control their work as effectively as if we performed these functions ourselves.

We have relied on third parties, such as CROs, clinical data management organizations, medical institutions and clinical investigators, to oversee and conduct our clinical trials, and to perform data collection and analysis of our product candidates. We have expected in the past, and may in the future expect, if the Proposed Merger is not approved and consummated and we resume development of our product candidates, to rely on these third parties to conduct clinical trials of any other potential products that we develop. These parties are not our employees and we cannot control the amount or timing of resources that they devote to our program. In addition, any CRO that we have retained and may retain in the future will be subject to the FDA's regulatory requirements or similar foreign standards and we do not have control over compliance with these regulations by these providers. Our agreements with third-party service providers have been trial-by-trial and project-by-project bases. Typically, we have been able to terminate the agreements with notice and occasionally the third-party service provider have been able to terminate the agreement without notice. Typically, we have been responsible for the third party's incurred costs and occasionally we have to pay cancellation fees. If any of our relationships with our third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs or to do so on commercially reasonable terms. We also have relied on other third parties to store and distribute drug supplies for our clinical trials.

Our reliance on these third parties for clinical development activities reduces our control over these activities but does not relieve us of our responsibilities, and we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan, the protocols for the trial and the FDA's regulations and international standards, referred to as Good Clinical Practice, or GCP, requirements, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Preclinical studies must also be conducted in compliance with other requirements, such as Good Laboratory Practice, or GLP, and the Animal Welfare Act. Managing performance of third-party service providers can be difficult, time consuming and cause delays in our development programs. We have had and currently have a small number of employees only one of which is in research and development, which limits the internal resources we have available to identify and monitor our third-party providers.

Furthermore, these third parties may conduct clinical trials for competing drugs or may have relationships with other entities, some of which may be our competitors. As such, the ability of these third parties to provide services to us may be limited by their work with these other entities. The use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated.

If these third parties do not successfully carry out their contractual duties or obligations and meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols according to regulatory requirements or for other reasons, our financial results and reputation could be harmed.

If we attempt to form collaborations in the future, we may not be able to do so.

If the Proposed Merger is not approved and consummated, and we are unable to complete another strategic transaction, we may attempt to form strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties with respect to programs that we believe may complement or augment our business. We may face significant competition in seeking appropriate strategic partners, and the negotiation process to secure appropriate terms is time-consuming and complex. We may not be successful in our efforts to establish such a strategic partnership for any future product candidates and programs on terms that are acceptable to us, or at all. This may be because our product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort, our research and development pipeline may be viewed as insufficient, the competitive or intellectual property landscape may be viewed as too intense or risky, and/or third parties may not view our product candidates and programs as having sufficient potential for commercialization, including the likelihood of an adequate safety and efficacy profile.

If we enter into a collaboration, we may be unable to realize the potential benefits of any collaboration.

If the Proposed Merger is not approved and consummated, and we are unable to complete another strategic transaction, we may enter into a collaboration with respect to the development and/or commercialization of one or more product candidates, and there is no guarantee that the collaboration would be successful. Collaborations may pose a number of risks, including:

- collaborators often have significant discretion in determining the efforts and resources that they will apply to the collaboration, and may not commit sufficient resources to the development, marketing or commercialization of the product or products that are subject to the collaboration;
- collaborators may not perform their obligations as expected;
- any such collaboration may require us to relinquish potentially valuable rights to its current product candidates, potential products or proprietary technologies or grant licenses on terms that are not favorable to us;
- collaborators may cease to devote resources to the development or commercialization of our product candidates if the collaborators view our product candidates as competitive with their own products or product candidates;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the course of development, might cause delays or termination of the development or commercialization of product candidates, and might result in legal proceedings, which would be time consuming, distracting and expensive;
- collaborators may be impacted by changes in their strategic focus or available funding, or business combinations involving them, which could cause them to divert resources away from the collaboration;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- the collaborations may not result in us achieving revenues to justify such transactions; and
- collaborations may be terminated and, if terminated, may result in a need for us to raise additional capital to resume further development or commercialization of the applicable product candidate.

As a result, a collaboration may not result in the successful development or commercialization of any potential future product candidates.

Risks Related to Intellectual Property

If we are sued for infringing the patent rights or misappropriating the trade secrets of third parties, such litigation could be costly and time consuming.

It is possible that we have failed, and may in the future fail, to identify relevant third-party patents or applications. For example, applications filed before November 29, 2000 and certain applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Moreover, it is difficult for industry participants, including us, to identify all third-party patent rights that may be relevant to their product candidates and technologies because patent searching is imperfect due to differences in terminology among patents, incomplete databases and the difficulty in assessing the meaning of patent claims. We may have failed to identify relevant patents or patent applications or may have identified pending patent applications of potential interest but incorrectly predicted the likelihood that such patent applications may issue with claims of relevance to our technology. In addition, we may have been unaware of one or more issued patents that would be infringed by our activities, or we may have incorrectly concluded that a third-party patent was invalid, unenforceable or not infringed by our activities. Additionally, pending patent applications that have been published can, subject to certain limitations, be later amended in a manner that could cover have covered our activities.

There is a substantial amount of intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding patent rights with respect to our technology or products candidates, including interferences, oppositions and inter partes review proceedings before the U.S. Patent and Trademark Office ("USPTO") and corresponding foreign patent offices. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that our past or future product candidates, to the extent we resume development of any, may be subject to claims of infringement of the patent rights of third parties, who may assert infringement claims against us based on existing or future patent rights. Third parties may assert that we have employed their proprietary technology without authorization. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of our past and future product candidates and third parties could allege that our technology infringes such claims. Further, because patent applications can take many years to issue, third parties may have currently pending patent applications that may later result in issued patents that our future product candidates may infringe, or that such third parties claim are infringed by the use of our technologies. The outcome of patent litigation is subject to uncertainties that cannot be adequately quantified in advance. The pharmaceutical and biotechnology industries have produced a significant number of patents, and it may not always be clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our product candidates, products or methods either did not and do not infringe the patent claims of the relevant patent or that the patent claims are invalid, and we may not be able to do this. Proving that a patent is invalid is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we are successful in these proceedings, we may incur substantial costs and the time and attention of our management and scientific personnel could be diverted in pursuing these proceedings, which could have a material adverse effect on it. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.

If we are found to infringe a third party's patent rights, we could be found liable for monetary damages and lose valuable intellectual property rights. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business. Parties making claims against us for infringement of their patent rights may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize any product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business.

We may be subject to claims that we or our employees have misappropriated the intellectual property, including trade secrets, of a third party, or claiming ownership of what we regard as our own intellectual property.

Many of our employees were previously employed at universities, biotechnology companies or other pharmaceutical companies, including our competitors or potential competitors. Some of these employees, including each member of our senior management, executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees do not use the intellectual property and other proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed such intellectual property, including trade secrets or other proprietary information. Litigation may be necessary to defend against these claims. We are not aware of any threatened or pending claims related to these matters or concerning the agreements with our senior management, but litigation may be necessary in the future to defend against such claims. If we fail in defending any such claims, in addition to paying monetary damages,

we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while we typically require our employees, consultants and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own, which may result in claims by or against us related to the ownership of such intellectual property. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to our management and scientific personnel.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We rely on trade secrets to protect our proprietary know-how and technological advances, especially where we have not filed a patent application or where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect our trade secrets and other proprietary information. However, any party with whom we have executed such an agreement may breach that agreement and disclose our proprietary information, including our trade secrets. Accordingly, these agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. In addition, others may independently discover our trade secrets and proprietary information. Further, the FDA, as part of its Transparency Initiative, a proposal by the FDA to increase disclosure and make data more accessible to the public, is currently considering whether to make additional information publicly available on a routine basis, including information that we may consider to be trade secrets or other proprietary information, and it is not clear at the present time how the FDA's disclosure policies may change in the future, if at all. Failure to obtain or maintain trade secret protection could enable competitors to use our proprietary information to develop products that may in the future compete with our products, if the Proposed Merger is not approved and consummated and we resume the development of any product candidates, or cause additional, material adverse effects upon our competitive business position and financial results.

Detecting the disclosure or misappropriation of a trade secret and enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

Intellectual property disputes could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and/or management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the market price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for other activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of such competitors' greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

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

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the U.S. PTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and/or applications. We have historically had systems in place to remind us to pay these fees, and we employed an outside firm and relied on our outside counsel and our annuity service provider to pay these fees due to non-U.S. patent agencies. However, since we have voluntarily discontinued development of trabodenoson, we have stopped maintaining the majority of our patents. The U.S. PTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. This non-compliance can result in

abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. The abandonment or lapse of our patents could have a material adverse effect on our business.

Risks Related to Our Business Operations and Industry

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, or SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

Our business is affected by macroeconomic conditions.

Various macroeconomic factors could adversely affect our business and the results of our operations and financial condition, including changes in inflation, interest rates and foreign currency exchange rates and overall economic conditions and uncertainties, including those resulting from current and future conditions in the global financial markets. For instance, if inflation or other factors were to significantly increase our business costs, it may not be feasible to pass through price increases to patients. Interest rates, the liquidity of the credit markets and the volatility of the capital markets could also affect the value of our investments and our ability to liquidate our investments in order to fund our operations.

If the Proposed Merger is not approved and consummated and we explore other strategic alternatives or resume research and development of product candidates, interest rates and the ability to access credit markets could also adversely affect our business and results of operations. Similarly, these macroeconomic factors could affect the ability of our potential future contract manufacturers, sole-source or single-source suppliers or licensees to remain in business or otherwise manufacture or supply product. Failure by any of them to remain in business could affect our ability to develop and manufacture products.

If product liability lawsuits are successfully brought against us, our insurance may be inadequate and we may incur substantial liability.

We face an inherent risk of product liability claims as a result of the clinical testing of our product candidates. We will face an even greater risk if we, in the future, commercially sell our product candidates or any other potential products that we may develop. We maintain product liability insurance with an aggregate limit of $10 million that covers our clinical trials and we may maintain insurance against product liability lawsuits for commercial sale of our product candidates. Historically, the potential liability associated with product liability lawsuits for pharmaceutical products or product candidates has been unpredictable. Although we believe that our current insurance is a reasonable estimate of our potential liability and represents a commercially reasonable balancing of the level of coverage as compared to the cost of the insurance, we may be subject to claims in connection with our clinical trials and product candidates and, potentially in the future, commercial use of our product candidates, for which our insurance coverage may not be adequate, and the cost of any product liability litigation or other proceeding, even if resolved in our favor, could be substantial.

For example, we may be sued if any product or product candidate we have developed or will develop allegedly causes injury or is found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or a breach of warranties. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated adverse effects. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of any future product candidates. Regardless of the merits or eventual outcome, liability claims may result in:

- reduced resources of our management to pursue our business strategy;
- decreased demand for our product candidates or potential products that we may develop;
- injury to our reputation and significant negative media attention;

- withdrawal of clinical trial participants;
- termination of clinical trial sites or entire trial programs;
- initiation of investigations by regulators;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- significant costs to defend resulting litigation;
- diversion of management and scientific resources from our business operations;
- substantial monetary awards to trial participants or patients;
- loss of revenue; and
- the inability to commercialize any products that we may develop.

Insurance coverage is becoming increasingly expensive. If we are unable to obtain or maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against product liability claims, it could materially adversely affect our business, financial condition, results of operations, cash flows and prospects.

Additionally, we do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include general liability, employment practices liability, auto, property, workers' compensation, products liability and directors' and officers' insurance. We do not know, however, if we will be able to maintain insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would materially adversely affect our financial position, cash flows and results of operations.

We may be adversely affected by natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Natural disasters could severely disrupt our operations, and have a material adverse effect on our business, financial condition and results of operations. If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place currently are limited and are unlikely to prove adequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which could have a material adverse effect on our business

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems, and those of our CROs and other third parties on which we rely, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our business. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability, damage our reputation and any potential further development of our product candidates could be delayed.

A breach of the Company's computer systems and networks could materially adversely affect the Company's business and financial condition.

Our business requires us, including some of our vendors, to use and store personally identifiable and other sensitive information, such as health and medical data, for employees and patients. The security measures put in place by the Company, and such vendors, cannot provide absolute security, and the Company and our vendors' information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee error, malfeasance, or other vulnerabilities. The techniques used by criminals to obtain unauthorized access to sensitive data are increasing in sophistication and are often novel, or change frequently. Such attacks now often take the form of phishing, spear-phishing, and other forms of human engineering and impersonation. These attacks could target not only personally identifiable information of the Company's employees and patients but the Company's intellectual property, trade secrets (such as drug formulations), and other proprietary information. The Company may be unable to anticipate these techniques or implement adequate preventative measures. As a result, there is no guarantee that despite the Company's best efforts, the Company will not become the victim of such an attack in the future, that unauthorized parties will not gain

access to sensitive data stored on the Company's systems or the systems of Company's vendors, or that any such incident will be discovered in a timely manner.

Any such incident could compromise the Company's or such vendors' networks, and the information stored by the Company or such vendors could be accessed, misused, shared publicly, corrupted, lost, held for ransom, or stolen, resulting in fraud, including wire fraud related to Company assets, corporate espionage, or other harm. Moreover, if a data security incident or breach affects the Company's systems or such vendors' systems or results in the unauthorized release of personally identifiable information, the Company's reputation could be materially harmed and the Company may be exposed to a risk of loss or litigation and possible liability, which could result in a material adverse effect on the Company's business, results of operations, and financial condition. In the event clinical or other medical data from patients that have been or may in the future be enrolled in clinical trials is exposed to unauthorized persons, either by the Company or the Company's vendors, the Company could face challenges enrolling patients in any potential future trials. The Company's insurance coverage may not cover or may be inadequate to cover the losses it could incur should the Company experience a major data security event.

Our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading, which could significantly harm our business.

We are exposed to the risk of fraud or other misconduct by employees and independent contractors, such as principal investigators, consultants, commercial partners and vendors. Misconduct by these parties could include failures to comply with the regulations of the FDA and comparable non-U.S. regulatory authorities, provide accurate information to the FDA and comparable non-U.S. regulatory authorities, comply with fraud and abuse and other healthcare laws in the United States and abroad, report financial information or data accurately or disclose unauthorized activities to us. In particular, sales, marketing and other business arrangements in the healthcare industry are subject to extensive laws intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws may restrict or prohibit a wide range of business activities, including, but not limited to, research, manufacturing, distribution, pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We adopted a code of ethics, but it is not always possible to identify and deter employee and other third-party misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws. If any such actions are instituted against us resulting from such misconduct those actions could have a significant impact on our business, including the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings and curtailment or restructuring of our operations, any of which could adversely affect our ability to operate.

We and our development partners, third-party manufacturers and suppliers use biological materials and may use hazardous materials, and any claims relating to improper handling, storage or disposal of these materials could be time consuming or costly.

We and our development partners, third-party manufacturers and suppliers may use hazardous materials, including chemicals and biological agents and compounds that could be dangerous to human health and safety or the environment. Our operations and the operations of our third-party manufacturers and suppliers also produce hazardous waste products. Federal, state and local laws and regulations govern the use, generation, manufacture, storage, handling and disposal of these materials and wastes. Compliance with applicable environmental laws and regulations may be expensive and current or future environmental laws and regulations may impair any potential product development efforts. In addition, we cannot entirely eliminate the risk of accidental injury or contamination from these materials or wastes. We do not carry specific biological or hazardous waste insurance coverage, and our property, casualty and general liability insurance policies specifically exclude coverage for damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be held liable for damages or be penalized with fines in an amount exceeding our resources, and our business and reputation could be substantially harmed and any potential clinical trials or regulatory approvals could be suspended.

Risks Related to Ownership of Our Common Stock

The availability of our common stock and securities linked to our common stock for sale in the future could reduce the market price of our common stock.

In the future, we may issue equity and equity-linked securities to raise cash for acquisitions or otherwise. We may also acquire interests in other companies by using a combination of cash and our common stock or just our common stock. We may also issue preferred stock or additional securities convertible into our common stock or preferred stock. Any of these events may dilute your ownership interest in our company and have an adverse effect on the price of our common stock.

Our common stock may be delisted from the NASDAQ Global Market if we are unable to maintain compliance with NASDAQ's continued listing standards.

NASDAQ imposes, among other requirements, continued listing standards including minimum bid and public float requirements. The price of our common stock must trade at or above $1.00 to comply with NASDAQ's minimum bid requirement for continued listing on the NASDAQ. If our stock trades at bid prices of less than $1.00 for a period in excess of 30 consecutive business days, the NASDAQ could send a deficiency notice to us for not remaining in compliance with the minimum bid listing standards. During the third quarter of fiscal year 2017, our common stock has traded below $1.00. If the closing bid price of our common stock fails to meet NASDAQ's minimum closing bid price requirement, or if we otherwise fail to meet any other applicable requirements of the NASDAQ and we are unable to regain compliance, NASDAQ may make a determination to delist our common stock.

If we fail to maintain the listing of our common stock with a U.S. national securities exchange, the liquidity of our common stock could be adversely affected and the delisting could constitute a fundamental change under the indenture governing our 2021 Convertible Notes.

If our common stock is delisted by NASDAQ, our common stock may be eligible to trade on the OTC Bulletin Board or another over-the-counter market. Any such alternative would likely result in it being more difficult for us to raise additional capital through the public or private sale of equity securities and for investors to dispose of, or obtain accurate quotations as to the market value of, our common stock. In addition, there can be no assurance that our common stock would be eligible for trading on any such alternative exchange or markets.

If a delisting occurs and we are unable to list such shares on any of on any of The New York Stock Exchange, The NASDAQ Global Select Market, The NASDAQ Capital Market or other exchange such event would constitute a “fundamental change” under the indenture governing our 2021 Convertible Notes. If a fundamental change were to occur, we would be required to make an offer to purchase our convertible notes at a price equal to 100% of the aggregate principal amount outstanding plus accrued and unpaid interest, and complete such purchase within a couple of months after the effective date of the fundamental change. We cannot provide assurance that a delisting will not occur under the above-mentioned circumstances. The occurrence of delisting would have a material adverse effect upon our business, results of operations, financial condition and liquidity, and would substantially adversely impact the trading price of our common stock and other securities, and would require us to refinance our convertible notes which could result in a voluntary or involuntary bankruptcy proceeding if such a refinancing is unsuccessful.

The market price of our common stock may be highly volatile, and you may not be able to resell your shares at or above your purchase price of our shares.

Our initial public offering was completed in February 2015. Therefore, there has only been a public market for our common stock for a short period of time. Our common stock is listed on NASDAQ. Since shares of our common stock were sold in our initial public offering in February 2015 at $6.00 per share, our stock price has reached a high of $19.45 per share and a low of $0.85 per share through November 3, 2017.

The trading price of our common stock is likely to continue to be volatile, and you can lose all or part of your investment in us. In fact, following our announcement of the results of our Phase 3 monotherapy clinical trial on January 3, 2017, the price of our common stock dropped $4.35 per share, or 71%, from $6.10 per share as of the close of business on December 30, 2016, to $1.75 per share as of the close of business on January 3, 2017. Also, following our announcement of the results of our Phase 2 FDC clinical trial on July 7, 2017, the price of our common stock dropped $0.78 per share, or 45%, from $1.73 per share as of the close of business on July 7, 2017, to $0.95 per share as of the close of business on July 10, 2017. The closing price of our common stock was $2.40 on November 3, 2017. In addition to other factors described in this "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and this Report on Form 10-Q for the quarterly period ended September 30, 2017, the non-approval by our stockholders or non-consummation or termination of the Merger Agreement may have a significant impact on the market price of our common stock.

In addition, the stock market, in general, and small pharmaceutical and biotechnology companies have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. Further, a significant decline in the financial markets and other related factors beyond our control may cause our stock price to decline rapidly and unexpectedly.

We and our management are parties to a lawsuit which, if adversely decided against us, could adversely affect our business and cause the price of our common stock to continue to decrease. We may also be subject to other securities litigation in the future, which is expensive and could divert management attention.

Our share price has been and may continue to be volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. This risk is especially relevant for us because our stock price declined following our announcement of the results of our Phase 3 clinical trial of *trabodenoson* for the treatment of primary open-angle glaucoma or ocular hypertension and the results of our Phase 2 FDC clinical trial. On January 6, 2017, a purported stockholder of the Company filed a putative class action in the U.S. District Court for the District of Massachusetts, captioned *Whitehead v. Inotek Pharmaceuticals Corporation, et al.*, No. 1:17-cv-10025. An amended complaint was filed on July 10, 2017, and a second amended complaint was filed on September 5, 2017. The second amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, David Southwell, and Rudolf Baumgartner based on allegedly false and misleading statements and omissions regarding our Phase 2 and Phase 3 clinical trials of *trabodenoson*. The lawsuit seeks, among other things, unspecified compensatory damages for purchasers of the Company's common stock between July 23, 2015 and July 10, 2017, as well as interest and attorneys' fees and costs. On October 6, 2017, defendants filed a motion to dismiss the second amended complaint. The Company will continue to vigorously defend plaintiff's claims. This litigation or future litigation of this type could result in substantial costs and diversion of management's attention and resources, which could adversely impact our business. Any adverse determination in this or future litigation could also subject us to significant liabilities.

Our existing principal stockholders, executive officers and directors own a significant percentage of our common stock and will be able to exert a significant control over matters submitted to our stockholders for approval.

As of September 19, 2017, our officers and directors, and stockholders who individually own more than 5% of our outstanding common stock, in the aggregate, beneficially owned approximately 50% of our common stock.

This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. As a result, these stockholders, if they acted together, could significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of the Proposed Merger with Rocket or other mergers or other business combination transactions. These stockholders may be able to determine all matters requiring stockholder approval. The interests of these stockholders may not always coincide with our interests or the interests of other stockholders or noteholders. This may also prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as a stockholder or noteholder, and they may act in a manner that advances their best interests and not necessarily those of other stockholders or noteholders, including seeking a premium value for their common stock, and might affect the prevailing market price for our common stock and 2021 Convertible Notes.

A substantial number of shares of our common stock are eligible for future sale in the public market, and the issuance or sale of equity, convertible or exchangeable securities in the market, including shares issuable upon conversion of our convertible notes, or the perception of such future sales or issuances, could lead to a decline in the trading price of our common stock.

Any issuance of shares of our common stock or other securities, including for the purposes of raising capital to fund our operations, financing acquisitions and the expansion of our business, will have a dilutive effect on our existing stockholders. In addition, the perceived market risk associated with the possible issuance of a large number of shares of our common stock, including pursuant to the exercise of our currently outstanding stock options, or issuances of securities convertible or exchangeable into a large number of shares of our common stock could cause some of our stockholders to sell their common stock, thus causing the trading price of our common stock to decline. Subsequent sales of our common stock in the open market, exercises of our currently outstanding stock options and the subsequent sale of the shares acquired thereunder or the sale by us of shares of our common stock or securities convertible or exchangeable into our common stock for capital raising purposes could also have an adverse effect on the trading price of our common stock. If our common stock price declines, it will be more difficult for us to raise additional capital or we may be unable to raise additional capital at all.

In August 2016, we issued $52.0 million aggregate principal amount of our 5.75% Convertible Senior Notes due 2021, or the 2021 Convertible Notes. The 2021 Convertible Notes are convertible at the option of the holder at an initial conversion rate of approximately 124.7505 shares of our common stock per $1,000 principal amount of 2021 Convertible Notes, which is equivalent to an initial conversion price of approximately $8.02 per share of our common stock, and is subject to adjustment upon certain events and conditions, including the issuance of stock dividends and payment of cash dividends. In addition, in certain circumstances, the conversion rate will also be increased with respect to a holder's conversion of 2021 Convertible Notes in connection with the occurrence of one or more corporate events. A substantial number of shares of our common stock are reserved for issuance upon conversion of the 2021 Convertible Notes. The issuance of shares of our common stock upon conversion of the 2021 Convertible Notes would dilute the ownership interest of our common stockholders and may materially adversely affect the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

In connection with other collaborations, joint ventures, license agreements or future financings that we may enter into in the future, we may issue additional shares of common stock or other equity securities, and the value of the securities issued may be substantial and create additional dilution to our existing and future common stockholders.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations or publish negative reports regarding our business or our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. We do not have any control over these analysts and we cannot provide any assurance that analysts will cover us or provide favorable coverage. If any of the analysts who may cover us adversely change their recommendation regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price could decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Because we do not intend to declare cash dividends on our shares of common stock in the foreseeable future, stockholders must rely on appreciation of the value of our common stock for any return on their investment.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the foreseeable future. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, we expect that only appreciation of the price of our common stock, if any, will provide a return to holders of our common stock for the foreseeable future.

The requirements associated with being a public company require significant company resources and management attention.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, the listing requirements of the securities exchange on which our common stock is traded and other applicable securities rules and regulations. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition and maintain effective disclosure controls and procedures and internal control over financial reporting. In addition, subsequent rules implemented by the SEC and NASDAQ may also impose various additional requirements on public companies. As a result, we incur substantial legal, accounting and other expenses. Further, the corporate infrastructure demanded of a public company may divert management's attention from implementing our business strategy. We have made, and will

continue to make, changes to our corporate governance standards, disclosure controls and financial reporting and accounting systems to meet our reporting obligations. However, the measures we take may not be sufficient to satisfy our obligations as a public company, which could subject us to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

The JOBS Act will allow us to postpone the date by which we must comply with some of the laws and regulations intended to protect investors and to reduce the amount of information we provide in our reports filed with the SEC, which could undermine investor confidence in our company and adversely affect the market price of our common stock.

For so long as we remain an "emerging growth company" as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not "emerging growth companies" including:

- the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- the "say on pay" provisions (requiring a non-binding stockholder vote to approve compensation of certain executive officers) and the "say on golden parachute" provisions (requiring a non-binding stockholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, and some of the disclosure requirements of the Dodd-Frank Act relating to compensation of its chief executive officer;
- the requirement to provide detailed compensation discussion and analysis in proxy statements and reports filed under the Exchange Act, and instead provide a reduced level of disclosure concerning executive compensation; and
- any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report on the financial statements.

We may take advantage of these exemptions until we are no longer an "emerging growth company." We would cease to be an "emerging growth company" upon the earliest of: (i) December 31, 2020; (ii) the last day of the first fiscal year in which our annual gross revenues are $1.07 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt securities; or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year.

Although we are still evaluating the JOBS Act, we currently intend to take advantage of some, but not all, of the reduced regulatory and reporting requirements that will be available to us so long as we qualify as an "emerging growth company." For example, we have irrevocably elected under Section 107 of the JOBS Act not to take advantage of the extension of time to comply with new or revised financial accounting standards available under Section 102(b) of the JOBS Act. Our independent registered public accounting firm will not be required to provide an attestation report on the effectiveness of our internal control over financial reporting so long as we qualify as an "emerging growth company," which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected. Likewise, so long as we qualify as an "emerging growth company," we may elect not to provide you with certain information, including certain financial information and certain information regarding compensation of our executive officers, that we would otherwise have been required to provide in filings we make with the SEC, which may make it more difficult for investors and securities analysts to evaluate our company. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

Some provisions of our charter document, Delaware law and the indenture that governs our 2021 Convertible Notes may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and our bylaws as well as provisions of the Delaware General Corporation Law, or DGCL, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions include:

- establishing a classified board of directors such that not all members of the board are elected at one time;
- allowing the authorized number of our directors to be changed only by resolution of our board of directors;
- limiting the removal of directors by the stockholders;
- authorizing the issuance of "blank check" preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders;
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings; and
- requiring the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal our bylaws.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, we are subject to Section 203 of the DGCL, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our board of directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders.

In addition, the terms of our 2021 Convertible Notes require us to repurchase the 2021 Convertible Notes in cash in the event of a fundamental change. A takeover of our company, if such takeover constituted a "fundamental change," would trigger an option of the holders of the 2021 Convertible Notes to require us to repurchase the 2021 Convertible Notes. This may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to investors in the 2021 Convertible Notes.

Item 2. Unregistered Sales of Equity Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index below.

EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference to: Form or Schedule	Exhibit No.	Filing Date with SEC	SEC File Number
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 12, 2017, by and among Inotek Pharmaceuticals Corporation, Rocket Pharmaceuticals, Ltd. and Rome Merger Sub	8-K	2.1	9/13/2017	001-36829
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-K	3.1	3/31/2015	001-36829
3.2	Amended and Restated By-Laws of the Registrant.	10-K	3.2	3/31/2015	001-36829
4.1	Specimen Common Stock Certificate of the Registrant.	10-K	4.1	3/31/2015	001-36829
4.2	Base Indenture, dated as of August 5, 2016, by and between the Registrant and Wilmington Trust, National Association	8-K	4.1	8/5/2016	001-36829
4.3	First Supplemental Indenture, dated as of August 5, 2016, by and between the Registrant and Wilmington Trust, National Association	8-K	4.2	8/5/2016	001-36829
4.4	Form of 5.75% Convertible Senior Note due 2021	8-K	4.3	8/5/2016	001-36829
10.1	Amendment to Offer Letter, effective as of August 7, 2017, by and between Inotek and Rudolf A. Baumgartner, MD	8-K	10.1	8/8/2017	001-36829
10.2	Amendment to Offer Letter, effective as of September 1, 2017, by and between Inotek and Dale Ritter	8-K	10.1	9/1/2017	001-36829
10.3	Amendment to Offer Letter, effective as of September 1, 2017, by and between Inotek and David Southwell	8-K	10.2	9/1/2017	001-36829
10.4	Amendment to Offer Letter, effective as of September 12, 2017, by and between Inotek and Rudolf A. Baumgartner, MD	8-K	10.1	9/13/2017	001-36829
10.5*	Form of Retention Bonus Letter				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act rules 13a-14 or 15d-14.				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act rules 13a-14 or 15d-14.				
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Exchange Act rules 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Link Document.				

* Filed herewith.

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.

INOTEK PHARMACEUTICALS CORPORATION

November 8, 2017

By: /s/ David P. Southwell
David P. Southwell
President, Chief Executive Officer and Director
(Principal Executive Officer)

November 8, 2017

By: /s/ Dale Ritter
Dale Ritter
Vice President–Finance
(Principal Financial and Accounting Officer)

Exhibit 10.5

DATE

BY EMAIL

NAME

Re: Retention Bonus Opportunity

Dear ____:

At this time, Inotek Pharmaceuticals Corporation (the "Company") considers it essential to the best interests of its stockholders to promote and preserve the employment of certain employees (the "Specified Employees"). You are a Specified Employee and, therefore, the Company's Board of Directors (the "Board") has determined that appropriate steps should be taken to reinforce and encourage your continued attention and dedication to your duties and responsibilities during this important period. Accordingly, the Company is pleased to offer you the opportunity to receive a one-time Retention Bonus Amount, subject to the terms and conditions set forth below:

1.Retention Bonus Amount. If earned, your Retention Bonus Amount shall be $ [___], less applicable deductions and withholdings.

2.Retention Bonus Contingencies. To earn any part of the Retention Bonus Amount, all of the following Retention Bonus Contingencies must be met: (a) a Change in Control must be successfully completed (the "Closing Date"); (b) you must remain actively employed with the Company in a full-time capacity through the Closing Date; and (c) you must sign and return this letter agreement to Sharon Barker on or before September [_], 2017. If earned, the Company shall pay the Retention Bonus Amount within five (5) business days of the Closing Date. For purposes of this letter, "Change in Control" shall mean (i) the sale of the Company by merger in which the shareholders of the Company in their capacity as such no longer own a majority of the outstanding equity securities of the Company (or its successor); (ii) any sale of all or substantially all of the assets or capital stock of the Company (other than in a spin-off or similar transaction); or (iii) any other acquisition of the business of the Company, as determined by the Board.

3.At-Will Employment Your employment is and shall continue to be "at will," meaning you or the Company may terminate it at any time for any or no reason, subject to the terms of your Offer Letter, as amended.

4.Integration Clause; Acknowledgement. This letter agreement contains the entire agreement between you and the Company relating to the Retention Bonus opportunity and supersedes any and all prior agreements and understandings related to any bonus compensation. This Agreement cannot be changed or modified except by formal written instrument executed by you and the Chairman of the Board or another person authorized by the Board. By signing below where indicated, you acknowledge and agree that the Retention Bonus Amount is entirely separate

from your base compensation and any severance, and it is not a wage for purposes of the Massachusetts Wage Act or otherwise.

We hope that this incentive encourages your continued effective commitment to the Company during this important period.

IN WITNESS WHEREOF, the undersigned have executed this letter agreement as of the date first above written.

INOTEK PHARMACEUTICALS CORPORATION

By: _____

David P. Southwell
President and Chief Executive Officer

_____

[Name]

Exhibit 31.1

CERTIFICATIONS

I, David P. Southwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2017 of Inotek Pharmaceuticals Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2017

/s/ David P. Southwell
David P. Southwell
President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Dale Ritter, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2017 of Inotek Pharmaceuticals Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 8, 2017

/s/ Dale Ritter
Dale Ritter
Vice President–Finance
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the quarterly report on Form 10-Q of Inotek Pharmaceuticals Corporation (the "Company") for the period ended September 30, 2017, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to his knowledge:

1) the Report which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: November 8, 2017

/s/ David P. Southwell
David P. Southwell
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 8, 2017

/s/ Dale Ritter
Dale Ritter
Vice President–Finance
(Principal Financial Officer)