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

FORM 8-K/A
(Amendment No.1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): **May 3, 2019**

Adynxx, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**001-36278**	**58-2349413**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 Pine Street, Suite 500
San Francisco, California 94111
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code): **(415) 512-7740**

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.001 per share	**ADYX**	**The Nasdaq Capital Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter):

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. ☐

Explanatory Note

On May 9, 2019, Adynxx, Inc., formerly known as "Alliqua BioMedical, Inc.," or Alliqua, filed a Current Report on Form 8-K, or the Original Form 8-K, reporting, among other items, that on May 3, 2019, Alliqua completed its merger with what was then known as Adynxx, Inc., or Private Adynxx. This Amendment No. 1 to Current Report on Form 8-K amends the Original Form 8-K to provide (i) the historical audited financial statements of Private Adynxx as of and for the years ended December 31, 2017 and 2018, as required by Item 9.01(a) of Form 8-K; (ii) the unaudited financial statements for Private Adynxx as of March 31, 2019 and for the three months ended March 31, 2019 and 2018, as required by Item 9.01(a) of Form 8-K; and (iii) the unaudited pro forma condensed combined balance sheet as of March 31, 2019 and unaudited combined condensed statements of operations for the three months ended March 31, 2019 and year ended December 31, 2018, as required by Item 9.01(b) of Form 8-K. Such financial information was excluded from the Original Form 8-K in reliance on the instructions to such Items.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The audited financial statements of Private Adynxx as of and for the years ended December 31, 2018 and 2017 and the unaudited financial statements of Private Adynxx as of March 31, 2019 and for the three months ended March 31, 2019 and 2018 are filed herewith as Exhibit 99.3 and are incorporated herein by reference. The consent of BDO USA, LLP, Private Adynxx's independent registered public accounting firm, is attached as Exhibit 23.1 to this Amendment No. 1 to Current Report on Form 8-K.

(b) Pro forma financial information.

Our unaudited pro forma condensed combined balance sheet as of March 31, 2019 and unaudited combined condensed statement of operations for the the three months ended March 31, 2019 and year ended December 31, 2018 are filed herewith as Exhibit 99.4 and are incorporated herein by reference.

(d) Exhibits

No.	Description
2.1(1)	Agreement and Plan of Merger and Reorganization, dated as of October 11, 2018, as amended and supplemented from time to time, by and among Alliqua BioMedical, Inc., Embark Merger Sub, Inc., and Adynxx, Inc.
3.1(2)	Certificate of Amendment to Certificate of Incorporation to Effect the Name Change.
3.2(2)	Certificate of Amendment to Certificate of Incorporation to Effect the Reverse Stock Split.
23.1	Consent of BDO USA, LLP, Private Adynxx's independent registered public accounting firm.
99.1(2)	Press Release dated May 6, 2019.
99.2(2)	Press Release dated May 9, 2019.
99.3	Audited financial statements of Private Adynxx as of and for the years ended December 31, 2018 and 2017 and unaudited financial statements of Private Adynxx for the three months ended March 31, 2019 and 2018.
99.4	Unaudited pro forma condensed combined balance sheet as of March 31, 2019 and unaudited combined condensed statement of operations for the year ended December 31, 2018 and the three months ended March 31, 2019.
101*	The following financial information of Private Adynxx, Inc. formatted in Extensible Business Reporting Language (XBRL) is filed herewith: (i) Balance sheets as of March 31, 2019 (unaudited), December 31, 2018 and December 31, 2017; (ii) Statements of operations for the three months ended March 31, 2019 (unaudited) and March 31, 2018 (unaudited), and years ended December 31, 2018 and 2017; (iii) Statements of redeemable convertible preferred stock and stockholders' deficit for the three months ended March 31, 2019 (unaudited) and March 31, 2018 (unaudited), and the years ended December 31, 2018 and 2017; (iv) Statements of cash flows for the three month ended March 31, 2019 (unaudited) and March 31, 2018 (unaudited), and the years ended December 31, 2018 and 2017; and (v) Notes to financial statements.

(1) Incorporated herein by reference to Annex A and B to our Definitive Proxy Statement on Schedule 14A (File No. 001-36278) filed with the SEC on January 24, 2019.
(2) Incorporated by reference from our current report on form 8-K (File No. 001-36278) filed with the SEC on May 9, 2019.
*- 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 hereunto duly authorized.

ADYNXX, INC.

Dated: June 10, 2019

By:	/S/ Rick Orr
Name:	Rick Orr
Title:	President and Chief Executive Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Adynxx, Inc.
San Francisco, California

We hereby consent to the use of our report dated June 7, 2019 with respect to the balance sheet of Adynxx, Inc. as of December 31, 2017 and 2018, and the related statements of operations and redeemable convertible preferred stock and stockholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements") included herein in this Current report on Form 8K/A (Amendment No.1) of Adynxx, Inc. (formerly Alliqua BioMedical, Inc.). Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ BDO USA, LLP

BDO USA, LLP
San Jose, California
June 7, 2019

Adynxx, Inc.

Index to Financial Statements
Years Ended December 31, 2018 and 2017
and Three Months Ended March 31, 2019 and 2018 (Unaudited)

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Adynxx, Inc.
San Francisco, California

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Adynxx, Inc. (the "Company") as of December 31, 2017 and 2018, the related statements of operations, redeemable convertible preferred stock and stockholders' deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company does not have a commercial product that can generate cash and accordingly will need to raise additional capital to fund its operations. These factors, among others, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2012.

San Jose, California

June 7, 2019

Adynxx, Inc.
Balance Sheets
(In thousands, except share and per share data)

	December 31, 2017	December 31, 2018	March 31, 2019 (unaudited)
Assets:			
Current assets			
Cash and cash equivalents	$ 4,301	$ 1,887	$ 1,581
Restricted cash	—	55	255
Prepaid expenses and other current assets	34	10	396
Total current assets	4,335	1,952	2,232
Property and equipment, net	13	10	8
Right of use asset, net	—	—	165
Restricted cash	55	—	—
Other assets	18	18	18
Total assets	$ 4,421	$ 1,980	$ 2,423
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit:			
Current liabilities			
Accounts payable	$ 703	$ 491	$ 1,201
Accrued liabilities	1,158	857	1,193
Operating lease liability	—	—	173
Convertible promissory notes - related party	—	4,500	6,000
Current portion of term loan, net of discount	1,711	3,812	3,820
Total current Liabilities	3,572	9,660	12,387
Term loan, net of current portion and discount	2,951	—	—
Warrant liability	42	140	234
Commitments and contingencies (Note 6)			
Redeemable convertible preferred stock:			
Series A redeemable convertible preferred stock, $0.001 par value; 57,002,183 shares authorized; 56,672,658 shares issued and outstanding as of December 31, 2017, December 31, 2018 and March 31, 2019 (unaudited) (liquidation value of $12,898,697 as of December 31, 2017, December 31, 2018 and March 31, 2019 (unaudited))	12,814	12,814	12,814
Series B redeemable convertible preferred stock, $0.001 par value; 51,069,262 shares authorized; 51,069,262 shares issued and outstanding as of December 31, 2017, December 31, 2018 and March 31, 2019 (unaudited) (liquidation value of $16,000,000 as of December 31, 2017, December 31, 2018 and March 31, 2019 (unaudited))	15,897	15,897	15,897
Stockholders' deficit:			
Common stock, $0.001 par value;148,000,000 shares authorized; 19,548,969 shares issued and outstanding as of December 31, 2017, December 31, 2018 and March 31, 2019 (unaudited)	20	20	20
Additional paid-in capital	419	728	812
Accumulated deficit	(31,294)	(37,279)	(39,741)
Total stockholders' deficit	(30,855)	(36,531)	(38,909)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	$ 4,421	$ 1,980	$ 2,423

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

Adynxx, Inc.
Statements of Operations
(In thousands)

	Years Ended December 31, 2017	Years Ended December 31, 2018	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2019 (unaudited)
Operating expenses				
Research and development	$ 8,722	$ 2,137	$ 686	$ 1,331
General and administrative	2,341	2,982	694	863
Grant reimbursements	—	—	—	(94)
Total operating expenses, net	11,063	5,119	1,380	2,100
Loss from operations	(11,063)	(5,119)	(1,380)	(2,100)
Interest expense, net	(515)	(992)	(143)	(268)
Other income (expense), net	17	126	—	(94)
Net loss	$ (11,561)	$ (5,985)	$ (1,523)	$ (2,462)

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

Adynxx, Inc.
Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit
(In thousands, except share data)

For the periods ended:	Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2016	56,321,165	$ 12,734	51,069,262	$ 15,897	19,548,969	$ 20	$ 118	$ (19,733)	$ (19,595)
Exercise of warrants	351,493	80		—		—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	301	—	301
Net loss	—	—	—	—	—	—	—	(11,561)	(11,561)
Balance, December 31, 2017	56,672,658	12,814	51,069,262	15,897	19,548,969	20	419	(31,294)	(30,855)
Stock-based compensation expense	—	—	—	—	—	—	309	—	309
Net loss	—	—	—	—	—	—	—	(5,985)	(5,985)
Balance, December 31, 2018	56,672,658	$ 12,814	51,069,262	$ 15,897	19,548,969	$ 20	$ 728	$ (37,279)	$ (36,531)
Stock-based compensation expense (unaudited)	—	—	—	—	—	—	84	—	84
Net loss (unaudited)	—	—	—	—	—	—	—	(2,462)	(2,462)
Balance, March 31, 2019 (unaudited)	56,672,658	$ 12,814	51,069,262	$ 15,897	19,548,969	$ 20	$ 812	$ (39,741)	$ (38,909)
For the three months ended March 31, 2018 (unaudited)									
Balance, December 31, 2017	56,672,658	$ 12,814	51,069,262	$ 15,897	19,548,969	$ 20	$ 419	$ (31,294)	$ (30,855)
Stock-based compensation expense (unaudited)	—	—	—	—	—	—	75	—	75
Net loss (unaudited)	—	—	—	—	—	—	—	(1,523)	(1,523)
Balance, March 31, 2018 (unaudited)	56,672,658	$ 12,814	51,069,262	$ 15,897	19,548,969	$ 20	$ 494	$ (32,817)	$ (32,303)

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

Adynxx, Inc.
Statements of Cash Flows
(In thousands)

	Years Ended December 31, 2017	Years Ended December 31, 2018	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2019 (unaudited)
Cash flows from operating activities:				
Net loss	$ (11,561)	$ (5,985)	$ (1,523)	$ (2,462)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation expense	10	8	2	2
Stock-based compensation expense	301	309	75	84
Changes in fair value of warrant liability	(12)	98	—	94
Accretion of final charge upon maturity of Oxford Term Loan A and B	106	224	27	80
Amortization of issuance cost and discounts for term loans and convertible notes	54	40	18	8
Non-cash interest expense on convertible promissory notes	—	126	1	89
Amortization of right-of-use asset	—	—	—	8
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	329	23	(19)	(386)
Other assets	1	—	—	—
Accounts payable	601	(212)	(629)	710
Accrued liabilities	(12)	(650)	(387)	167
Net Cash Used in Operating Activities	(10,183)	(6,019)	(2,435)	(1,606)
Cash flows from investing activities:				
Purchases of property and equipment	(3)	(5)	—	—
Net cash used in investing activities	(3)	(5)	—	—
Cash flows from financing activities:				
Payments on term loan	(139)	(890)	(616)	—
Proceeds from exercise of warrants	80	—	—	—
Proceeds from issuance of convertible promissory notes - related party	—	4,500	1,500	1,500
Net cash provided (used) by financing activities	(59)	3,610	884	1,500
Net decrease in cash and cash equivalents and restricted cash	(10,245)	(2,414)	(1,551)	(106)
Cash and cash equivalents and restricted cash at beginning of year	14,601	4,356	4,356	1,942
Cash and cash equivalents and restricted cash at end of year	$ 4,356	$ 1,942	$ 2,805	$ 1,836
Other supplemental disclosure:				
Cash paid for interest	$ 355	$ 376	$ 97	$ 91
Non-cash investing and financing activities				
Right-of-use assets obtained in exchange for operating lease obligations(1)	$ —	$ —	$ —	$ 227

(1) Amounts for the three months ended March 31, 2019 pertains to the transition adjustment for the adoption of ASC 842.

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

Adynxx, Inc.
Notes to Financial Statements

Note 1. Organization and Basis of Presentation

The Company

Adynxx, Inc. (the "Company") was incorporated on October 24, 2007, in the state of Delaware. The Company is a clinical-stage pharmaceutical entity that is developing a technology platform to address pain at its molecular roots. The Company is primarily engaged in developing initial product technology, recruiting personnel, and raising capital.

Basis of Presentation

The accompanying financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP").

Unaudited Interim Financial Information

The accompanying interim balance sheet as of March 31, 2019, the statements of operations, redeemable convertible preferred stock and stockholders' deficit and cash flows for the three months ended March 31, 2019 and 2018, and the related footnote disclosures are unaudited. In management's opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of March 31, 2019 and its results of operations and cash flows for the three months ended March 31, 2019 and 2018 in accordance with GAAP. The results for the three months ended March 31, 2019 are not necessarily indicative of the results expected for the full year of 2019 or any other interim period(s).

Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As of March 31, 2019, the Company had $1.6 million in cash and cash equivalents, had Oxford term loans, or Term Loans, including accrued interest outstanding of $4.3 million, and convertible promissory notes, or Notes, including accrued interest, outstanding to investors of $6.2 million. From inception through March 31, 2019 the Company had an accumulated deficit of approximately $39.7 million. The Company expects to incur substantial losses in future periods. The Company is subject to risks common to companies in the clinical stage, including, but not limited to, development of new products, development of markets and distribution channels, dependence on key personnel, and the ability to obtain additional capital as needed to fund its product development plans. The Company has a limited operating history and has yet to generate any revenues from customers. There is no guarantee that profitable operations, if ever achieved, could be sustained on a continuing basis.

In April 2019 and May 2019, the Company issued Notes to current investors and received an additional $2 million and $0.5 million, respectively. The Notes accrue interest at 8% per annum and mature on the first anniversary of the applicable issuance date.

The Company plans to finance its operations and capital funding needs through equity and/or debt financing. However, there can be no assurance that additional funding will be available to the Company on acceptable terms on a timely basis, if at all, or that the Company will generate sufficient cash from operations to adequately fund operating needs or ultimately achieve profitability. The conditions above, among others, raise substantial doubt about the ability of the Company to continue as a going concern within one year after the date of the issuance of the financial statements.

The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Note 2. Summary of Significant Accounting Policies

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 liabilities at the date of the financial statements, and the reported amounts of expenses incurred during the reporting period. Actual results could differ from those estimates and such differences could be material to the Company's financial position and results of operations.

Significant estimates and assumptions include the valuation of equity instruments and equity-linked instruments, including the valuation of the Company's common stock and the valuation of the Company's common stock options for purposes of accounting for stock-based compensation, and accruals for clinical trials and the valuation allowances on deferred tax assets.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. Cash and cash equivalents are deposited in demand and money market accounts with established financial institutions and, at times, such balances with any one financial institution may be in excess of the Federal Deposit Insurance Corporation insured limits. To date, the Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company operates in a dynamic and highly competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, or cash flows: ability to obtain future financing; advances and trends in new technologies and industry standards; results of clinical trials; regulatory approval and market acceptance of the Company's products; development of sales channels; certain strategic relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

The Company's postoperative pain reduction product candidate, brivoligide, is an oligonucleotide. The Company currently uses Avecia as a single supplier for the brivoligide drug substance. There are currently a limited number of oligonucleotide manufacturers with commercial scale capabilities globally. While the Company intends to develop secondary sources for manufacturing of its drug candidates in the future, there can be no assurance that it will be able to do so on commercially reasonable terms, or at all. Any interruption in the supply of this key material could significantly delay the research and development process or increase the expenses for development and commercialization of the Company's product candidates. The quality of materials can be critical to the performance of a drug delivery technology. Therefore, the lack of a reliable source that provides a consistent supply of high quality materials would harm the Company. At March 31, 2019, this vendor's activity was not material to total accounts payable.

At March 31, 2019, three vendors represented 37%, 31% and 14% of total accounts payable. Two of these vendors supported clinical study activities which accounted for 51% of the total accounts payable. The remaining vendor was related to general and administrative activities associated with the merger between Adynxx, Inc. and Alliqua BioMedical, Inc. that closed on May 3, 2019, or Merger. At December 31, 2018, three vendors represented 52%, 26% and 15% of total accounts payable. Two of these vendors supported general and administrative activities, primarily associated with the Merger and next round of equity financing, which accounted for 67% of the total accounts payable. The remaining vendor supported clinical study activities. At December 31, 2017, two vendors represented 56% and 31%, of total accounts payable. The vendor that represented 56% of the Company's accounts payable, supported manufacturing activities and the other vendor was associated with clinical study activities.

Clinical Trial Accruals

The Company's clinical trial accruals are based on patient enrollment and related costs at clinical investigator sites as well as for the services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical trials on the Company's behalf. The Company accrues expenses related to clinical trials based on contracted amounts applied to the level of patient enrollment and activity according to the clinical trial protocol. If timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, the Company modifies the estimates of accrued expenses accordingly. To date, the Company has had no significant adjustments to accrued clinical trial expenses.

In March 2018, the Company closed its contracts with Premier Research International LLC and CRF Health, Inc. ("Contract Research Organizations or CROs") upon completion of a Phase 2 clinical trial in March 2018. For the years ended December 31, 2018 and 2017, the Company incurred $95,000 and $6.2 million, respectively, of expenses in connection with this clinical study.

In November 2018, the Company entered into agreements with PRA Health, Inc. and CRF Health, Inc. ("Contract Research Organizations or CROs") pursuant to which the CROs agreed to assist the Company with the conduct of a Phase 2 clinical trial. To support additional clinical trial activities the Company also entered into agreements with Premier Research International LLC for biostatistical services, ICON Central Laboratories for laboratory services and Almac Clinical Services for storage and distribution services. In connection with this clinical study, the Company incurred expenses of $667,000 and $0 for the three months ended March 31, 2019 and 2018, respectively, and $185,000 and $0 for the years ended December 31, 2018 and 2017, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less on the date of acquisition to be cash and cash equivalents.

Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using a straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the lease.

Expenditures for repairs and maintenance are charged to expense as incurred. Upon disposition of an asset, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statements of operations.

Impairment of Long-Lived Assets

The Company's long-lived assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. As of March 31, 2019, December 31, 2018 and December 31, 2017, the Company had not experienced any impairment losses on its long-lived assets.

Restricted Cash

As of March 31, 2019, December 31, 2018 and December 31, 2017, cash of $255,000, $55,000 and $55,000 respectively, was restricted from withdrawal and held by a bank. At March 31, 2019, the Company had $200,000 restricted from withdrawal and held by a bank in the form of a secured money market account as collateral for Oxford Finance, LLC (“Oxford”) in conjunction with a debt amendment that occurred in January 2019. In addition, as of March 31, 2019, December 31, 2018 and December 31, 2017, the Company had $55,000 restricted and held by a bank as collateral for a letter of credit provided to the Company’s facility landlord.

Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the fair value of the award. The fair value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The Company recognizes forfeitures as they occur.

The Company uses the Black-Scholes option-pricing model (the "Black-Scholes model") as the method for determining the estimated fair value of stock options.

Expected Term - The expected term represents the period that the Company's stock-based awards are expected to be outstanding and is determined using the simplified method.

Expected Volatility - Expected volatility is estimated using comparable public companies’ volatility for similar terms.

Expected Dividend - The Black-Scholes model calls for a single expected dividend yield as an input. The Company has never paid dividends and has no plans to pay dividends.

Risk-Free Interest Rate - The risk-free interest rate used in the Black-Scholes model is based on the U.S. Treasury zero-coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

Research and Development

Research and development expenses consist of personnel costs, including salaries, benefits and stock-based compensation, preclinical studies, clinical studies performed by Contract Research Organizations (or “CROs”), materials and supplies, licenses and fees, and overhead allocations consisting of various administrative and facilities related costs. The Company charges research and development costs, including clinical study costs, to expense when incurred.

Collaboration Agreement

In June 2018, the Company entered into a collaboration agreement with twoXAR, an artificial intelligence-driven drug discovery company, in order to identify potential product candidates for the treatment of endometriosis. Through March 31, 2019, the Company was not obligated to make any payments under the terms of the collaboration agreement. In May 2019, the Company made a collaboration initiation payment of $75,000, which will be charged to research and development expenses for the three months ended June 30, 2019.

Grant Reimbursements

In December 2018, the Company received a Notice of Award from the National Institute on Drug Abuse ("NIDA"), part of the National Institutes of Health ("NIH"), to support the clinical development of its lead product candidate, brivoligide. NIH grants provide funds for certain types of expenditures in connection with research and development activities over a contractually defined period. The maximum funding expected to be available under this grant for qualified expenditures over the two year period through December 2020 is approximately $5.7 million.

On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." Based on this guidance, the Company determined that grant payments received met the definition of a 'conditional contribution' (versus an exchange contract) because (i) the Company has limited discretion in the way the funds may be spent, which creates a barrier to entitlement, and (ii) the grant contains provisions that release the awarding agency from the obligation to transfer funds that are not expended at the time the award is terminated. The Company recognizes grant reimbursements as a contra operating expense and reflects this as a component of its loss from operations in the period during which the qualifying expenses are incurred and the related services rendered, provided that the applicable performance obligations have been met.

For the three months ended March 31, 2019, the Company incurred qualified expenses and recognized $94,000 of grant reimbursements.

Income Taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

In evaluating the ability to recover its deferred income tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. In the event the Company determines that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, it would make an adjustment to the valuation allowance, which would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

The Company recognizes the tax benefit from uncertain tax positions in accordance with GAAP, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company's tax return.

Convertible Preferred Stock Warrants

Freestanding warrants to acquire shares of convertible preferred stock are classified as liabilities on the accompanying balance sheets. These warrants are subject to remeasurement at fair value at each balance sheet date, and any change in fair value is recognized as a component of other income or expense. The Company will continue to adjust the carrying values of freestanding warrants classified as liabilities for changes in fair value until the earlier of the exercise or expiration of the warrants or the completion of a liquidation event, including the completion of an initial public offering.

Debt Modifications and Extinguishments

When the Company modifies debt, it does so in accordance with Accounting Standards Codification ("ASC") 470-50, *Debt: Modifications and Extinguishments*, which requires modification to debt instruments to be evaluated to assess whether the modifications are considered "substantial modifications". A substantial modification of terms shall be accounted for like an extinguishment. Based on the guidance relied upon and the analysis performed, the Company determined that the October 2018 modification of the March 2018 and September 2018 Notes, to add an additional conversion option in the event of a reverse merger, was considered to be a "substantial modification". As a result, it treated this modification as an 'extinguishment' of those debts and recognized $11,000 of net gain from this debt extinguishment in other income. All other changes to debt provisions were not considered substantial and were treated as debt modifications.

Derivative Instruments

ASC 815-15, *Derivatives and Hedging: Embedded Derivatives*, generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as freestanding derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirement of ASC 815.

The Company issued certain Notes in March 2018, September 2018, December 2018 and March 2019, which contained various embedded derivative features. In particular, these Notes contained the following features:

1) A share settled redemption in a qualified preferred stock financing; and

2) The right to an accelerated cash repayment in the event of a change in control.

These embedded features were not considered clearly and closely related to the debt host, therefore, they were bifurcated and accounted for separately from the debt host as a derivative liability. Derivative financial liabilities are initially recorded at fair value, with gains and losses arising from changes in fair value recognized in the statement of operations at each period end while such instruments are outstanding.

In October 2018, the Company modified the March 2018 and September 2018 Notes to add an additional conversion feature. The Company determined this was a *"substantial modification"* as defined in ASC 470-50 *'Debt: Modifications and Extinguishments'*. As a result, these Notes were accounted for as an 'extinguishment' of the debt and related derivative liability.

As of March 31, 2019 and December 31, 2018, the Company determined that there was no fair value associated with the embedded derivatives that remained with the modified March 2018 the modified September 2018, December 2018 and March 2019 Notes. See *'Note 5 - Term Loans and Convertible Promissory Notes'* for further discussion of the Notes and the bifurcated derivative liability.

Fair Value of Financial Instruments

ASC 820-10, *Fair Value Measurement*, provides a framework for measuring fair value under GAAP and requires expanded disclosures regarding fair value measurements. The standard defines fair value as an exit price, representing the amount that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The standard also establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 - Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the use of observable market data when available and to minimize the use of unobservable inputs when determining fair value.

The following tables present the Company's fair value hierarchy for all of its financial instruments measured at fair value on a recurring basis as of March 31, 2019, December 31, 2018 and December 31, 2017 (in thousands):

	As of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities:				
Warrant liability	$ —	$ —	$ 42	$ 42
Total financial liabilities	$ —	$ —	$ 42	$ 42

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Warrant liability	$ —	$ —	$ 140	$ 140
Total financial liabilities	$ —	$ —	$ 140	$ 140

	As of March 31, 2019 (unaudited)			
	Level 1	Level 2	Level 3	Total
Financial liabilities				
Warrant liability	$ —	$ —	$ 234	$ 234
Total financial liabilities	$ —	$ —	$ 234	$ 234

The carrying amounts reported in the accompanying balance sheets for cash and cash equivalents, accounts payable and accrued liabilities approximate their fair value due to their short maturities. The fair value of the Company's term loan is based on the borrowing rate currently available to the Company for borrowings with similar terms and maturity and approximates its carrying value.

Derivative liability instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. Level 3 liability instruments consist of the preferred stock warrant liability and derivative liability, for both of which there is no observable market data for the determination of fair value and requires significant management judgment and estimation.

The fair value of the warrant liability was determined using the Black-Scholes model (see '*Note 8 - Warrants*' for a further discussion of the preferred stock warrants). The change in fair value of the preferred stock warrant liability is summarized below (in thousands):

	Years Ended December 31,		Three Months Ended March 31,	
	2017	2018	2018 (unaudited)	2019 (unaudited)
Fair value, beginning of period	$ 54	$ 42	$ 42	$ 140
Preferred stock warrants – exercised	(8)	—	—	—
Change in fair value of preferred stock warrants	(4)	98	—	94
Fair value at end of period	$ 42	$ 140	$ 42	$ 234

The fair value of the embedded derivative liability related to the Company's Notes was determined using a bond plus option model. As of March 31, 2019 and December 31, 2018, the Company determined that there was no fair value remaining for the embedded derivatives associated with the modified March 2018, modified September 2018, December 2018 and the March 2019 Notes. See '*Note 5 - Term Loans and Convertible Promissory Notes*' for further discussion on the derivative liability activity.

The change in fair value of the derivative liability relating to the Notes is summarized below (in thousands):

	Years Ended December 31,		Three Months Ended March 31,	
	2017	2018	2018	2019
			(unaudited)	(unaudited)
Fair value, beginning of period	$ —	—	$ —	$ —
Embedded derivative liability from the issuance of Notes	—	864	496	—
Change in value of embedded derivatives	—	(211)	—	—
Termination of the embedded derivative liability due to the extinguishment of the related Notes	—	(653)	—	—
Fair value at end of period	$ —	—	$ 496	$ —

Recently Adopted Accounting Pronouncements

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. This ASU requires changes in restricted cash during the period to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. If cash, cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the total in the statement of cash flows to the related captions in the balance sheet. This guidance is effective for fiscal periods beginning after December 15, 2017 and interim periods within that fiscal year, with early adoption permitted. The amendments in this ASU should be applied retrospectively to all periods presented. The Company adopted the guidance on a retrospective basis on January 1, 2018 and the beginning and ending of cash and cash equivalents for all periods presented in our statements of cash flows include restricted cash.

Non-employee Share-Based Payment Accounting

In June 2018, FASB issued ASU No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). This new guidance changes the accounting for non-employee share-based payments to align with the accounting for employee stock compensation. The Company early adopted the guidance as of January 1, 2018 and the impact to its financial statements was not material.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the balance sheet. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 for public business entities. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company adopted the new standard on January 1, 2019 and used the effective date as its date of initial application. Consequently, the Company has not adjusted prior period amounts.

The Company has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Company accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

The most significant impact from the adoption of this standard was the recognition of ROU assets and lease obligations on the balance sheet for operating leases. This standard did not have a material impact on the Company’s cash flows from operations and operating results. As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2019 (a) a lease liability of approximately $227,000, which represents the present value of the remaining lease payments of approximately $239,000, discounted using the Company’s incremental borrowing rate of 9.41%, and (b) a right-of-use asset of approximately $227,000 which represents the lease liability of $227,000. The ROU asset is being amortized over the remaining term of the lease of twelve months from January 1, 2019.

Recent Accounting Pronouncements Not Yet Effective

In August 2018, the FASB issued No. ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820). This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted. The Company is currently assessing whether these amendments will have a material effect on its financial statements.

Note 3. Property and Equipment, Net

Property and equipment, net, consist of the following (in thousands):

	As of December 31,		As of March 31,
	2017	2018	2019
			(unaudited)
Furniture and fixtures	$ 29	$ 29	$ 29
Office equipment	2	2	2
Computer equipment	24	18	18
Laboratory equipment	2	2	2
Total property and equipment	57	51	51
Less accumulated depreciation	(44)	(41)	(43)
Property and equipment, net	$ 13	$ 10	$ 8

Depreciation expense for the three months ended March 31, 2019 and 2018 was $2,300 and $2,000, respectively, and for the years ended December 31, 2018 and 2017, $8,000 and $10,000, respectively

Note 4. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	As of December 31,		As of March 31,
	2017	2018	2019
			(unaudited)
Payroll and related expenses	$ 273	$ 241	$ 390
Accrued term loan final payment	197	421	501
Accrued clinical trial expense	654	—	17
Professional fees and other costs	34	195	285
Total accrued liabilities	$ 1,158	$ 857	$ 1,193

Note 5. Term Loans and Convertible Promissory Notes

Term Loans

On November 24, 2015, the Company entered into a loan and security agreement ("Loan Agreement") with Oxford Finance, LLC ("Oxford"), pursuant to which Oxford agreed to lend the Company up to $10.0 million, issuable in three tranches of $3.0 million (the "Term Loan A"), $2.0 million (the "Term Loan B") and $5.0 million (the "Term Loan C"). Term Loan A, Term Loan B and Term Loan C will collectively be referred to as Term Loans. On November 24, 2015, the Company received $3.0 million in proceeds from Term Loan A and on January 29, 2016, the Company received $2.0 million in proceeds from Term Loan B. Warrants were issued in connection with Term Loan A and Term Loan B (See *Note 8 - Warrants*). Under the terms of the Loan Agreement, the Company may, at its sole discretion, borrow $5.0 million under the Term Loan C following the achievement of a defined milestone event until the earlier of 30 days thereafter or March 31, 2016. The Company did not draw on Term Loan C at March 31, 2016 and the availability of the $5.0 million under Term Loan C expired.

All outstanding Term Loans will mature on November 1, 2019 (the "Maturity Date") and the Company will have interest only payments through November 1, 2016, followed by 36 months of principal and interest payments. The term loans will bear interest at a floating per annum rate equal to (a) 7.06% plus (ii) the greater of (a) the 30 day U.S. Dollar LIBOR rate reported in the Wall Street Journal on the last business day of the month that immediately precedes the month in which the interest will accrue or (b) 0.19%.

The Company has the option to prepay all, but not less than all, of the borrowed amounts, provided that the Company will be obligated to pay a prepayment fee equal to (i) 3% of the outstanding principal balance of the applicable Term Loan if prepayment is made prior to the first anniversary of the applicable funding date of the Term Loan, provided, however, the prepayment fee will be reduced to 1% if the Company is acquired within six months from the Term Loan closing date, or (ii) 2% of the outstanding principal balance of the applicable Term Loan if prepayment is made prior to the second anniversary of the applicable funding date of the Term Loan, or (iii) 1% of the applicable Term Loan prepaid thereafter and prior to the Maturity Date. The Company will be required to make a final payment of 4.25% of the funded amount, payable on the earlier of (i) the Maturity Date or (ii) the prepayment of the Term Loan.

The Company may use the proceeds from the Term Loans solely for working capital and to fund its general business requirements. The Company's obligations under the Loan Agreement are secured by a perfected first priority lien in all of its assets with a negative pledge on owned intellectual property.

In January 2017, the Company and Oxford Finance agreed to amend the Loan Agreement. After the Company made principal payments on December 1, 2016 and January 1, 2017, Oxford agreed to an additional 12 months of interest-only payments followed by 23 months of amortization. The amendment fee amounted to $100,000. The amendment was accounted for as a debt modification.

In March 2018, the Company and Oxford Finance agreed to amend the Loan Agreement. After the Company made principal payments on January 1, 2018, February 1, 2018 and March 1, 2018 Oxford agreed to another 5 months of interest-only payments followed by 15 months of amortization. The amendment fee amounted to $200,000. This amendment was accounted for as a debt modification.

In September 2018, the Company and Oxford Finance agreed to amend the debt agreement. Oxford agreed to 1 month of interest-only payments upon closing a $1.5 million convertible promissory note with current investors followed by 2 months of interest-only payments upon entering into a merger followed by 11 months of repayments. The maturity date of the Term Loans remains unchanged. The amendment fee amounted to $25,000. The amendment was accounted for as a debt modification.

In December 2018, the Company and Oxford Finance agreed to amend the debt agreement. Oxford agreed to 1 month of interest-only payments upon closing a $1.5 million convertible promissory note with current investors by December 31, 2018, followed by 10 months of repayments. The maturity date of the loans remains unchanged. The amendment fee amounted to $35,000. The amendment was accounted for as a debt modification.

The amendment fees are due and payable upon the earlier of: (i) the Maturity Date, (ii) the acceleration of any Term Loan, or (iii) the prepayment of a Term Loan, and are being accrued over the expected term of the Term Loan as interest expense.

In January 2019, the Company and Oxford Finance agreed to amend the debt agreement. Oxford agreed to 2 months of interest-only payments followed by 8 months of repayments upon delivery by February 1, 2019 of an executed term sheet between the Company and Domain, the Company's majority investor and an affiliate thereof, that would result in aggregate proceeds to the Company of $20.0 million. The Company was also required to place $200,000 in a segregated bank account that is subject to a blocked control agreement in favor of Oxford. The funds in the segregated account were to be released upon the earlier of, the consummation of a merger by March 31, 2019 or the consummation of the equity financing. The Company recorded the $200,000 as restricted cash in its balance sheet at March 31, 2019. The maturity date of the loans remained unchanged. The amendment fee amounted to $50,000. The amendment was accounted for as a debt modification.

In May 2019, the Company and Oxford Finance agreed to a seventh amendment to provide consent to the Merger. This consent amended certain provisions of the term loan to protect Oxford's rights under the original Term Loan Agreement. The consent allowed Alliqua to be named as an additional borrower.

Upon the respective dates of the debt modifications, no gain or loss was recorded, and a new effective interest rate was established based on the carrying value of the debt and the revised cash flows.

The Term Loan A was recorded at its initial carrying value of $3.0 million less debt issuance costs of approximately $141,000, Term Loan B was recorded at its initial carrying value of $2.0 million, less debt issuance costs of approximately $3,000. The debt issuance costs are being amortized to interest expense over the life of the Term Loan using the effective interest method. The final payment is accrued over the life of the Term Loan through interest expense using the effective interest method. As of December 31, 2018, $2.3 million was outstanding under Term Loan A and $1.5 million was outstanding under Term Loan B. At December 31, 2017, $2.8 million was outstanding under Term Loan A and $1.9 million was outstanding under Term Loan B.

Interest expense recorded for the three months ended March 31, 2019 and 2018 was $179,000 and $139,000, respectively, and for the years ended December 31, 2018 and 2017 was $644,000 and $515,000, respectively.

As of March 31, 2019, the Company was in compliance with all covenants under the Loan Agreement.

Future principal payments for the Term Loans due under the Loan Agreement as of March 31, 2019, were as follows (in thousands):

	Year Ending, December 31, 2019
Total principal payments	$ 3,833

Convertible Promissory Notes

The table below reflects the principal amount of the Notes issued by the Company to current investors (in thousands):

	As of December 31,		As of March 31,
	2017	2018	2019
			(unaudited)
Convertible note payable, due on March 29, 2019 interest at 8.0% p.a.	$ —	$ 1,500	$ 1,500
Convertible note payable, due on September 27, 2019 interest at 8.0% p.a.	—	1,500	1,500
Convertible note payable, due on December 21, 2019 interest at 8.0% p.a.	—	1,500	1,500
Convertible note payable, due on March 29, 2020 interest at 8.0% p.a.	—	—	1,500
Total	$ —	$ 4,500	$ 6,000

Conversion rights

The March 2019 and December 2018 Notes were issued with the same conversion and repayment rights, which are as follows:

(a) in the event that the Company issues and sells shares of its preferred stock to the investors with proceeds to the Company of at least $5 million, on or before the maturity date, and prior to the closing of a reverse merger, then the outstanding principal amount of these Notes and any unpaid accrued interest will automatically convert in whole into equity securities sold in the preferred stock financing at a conversion price equal to the cash price paid per share for equity securities by the investors in the such preferred stock financing;

(b) in the event that the Company issues and sells shares of its common stock to the investors with proceeds to the Company of at least $5 million, on or before the maturity date, and after the closing of a reverse merger, then the outstanding principal amount of this convertible promissory note and any unpaid accrued interest will automatically convert in whole into equity securities sold in the common stock financing at a conversion price equal to the cash price paid per share for equity securities by the investors in the common stock financing,
(c) in the event of a preferred stock financing after the Company's Board of Directors (the "Board") has determined that the Company should not pursue the proposed reverse merger with Alliqua BioMedical, Inc. or that such reverse merger is not viable, then in connection with the preferred stock financing the conversion price shall equal eighty percent (80%) of the cash price paid per share for the preferred securities by the investors in the preferred stock financing;
(d) if the Company consummates a change of control while the Notes remain outstanding, the Company shall repay the holders in cash in an amount equal to 200% of the outstanding principal amount of the Notes; and
(e) in the event the Company consummates an IPO on or before the maturity date, then the outstanding principal amount of the Notes and any unpaid accrued interest will automatically convert into common stock at a conversion price equal to the per share offering price to the public for common stock in the IPO.

The Modified March 2018 and Modified September 2018 Notes were outstanding as of March 31, 2019, and had conversion and repayment rights as follows:

(a) in the event that the Company issues and sells shares of its preferred stock to the investors on or before the maturity date, in a preferred stock financing, then the outstanding principal amount of this convertible promissory note and any unpaid accrued interest will automatically convert in whole into equity securities sold in the qualified financing at a conversion price equal to 80% of the cash price paid per share for equity securities by the investors in the qualified financing;
(b) if the Company consummates a change of control while the Notes remain outstanding, the Company shall repay the holders in cash in an amount equal to 200% of the outstanding principal amount of the Notes, and
(c) in the event the Company consummates an IPO on or before the maturity date, then the outstanding principal amount of the Notes and any unpaid accrued interest will automatically convert into common stock at a conversion price equal to the per share offering price to the public for common stock in the IPO.
(d) In October 2018, the Company modified the terms of the March 2018 and September 2018 Notes to add an additional conversion option. The additional conversion option stipulated that if the Company consummates a reverse merger on or before the Maturity Date and prior to a Qualified Financing (as such terms are defined in the Notes Agreement), then the outstanding principal amount of the Notes and any unpaid accrued interest, shall automatically convert in whole without any further action by the Holder into shares of the Company's Series B convertible preferred stock at a conversion price equal to $0.3133 per share immediately prior to the closing of the reverse merger.

In October 2018, the Company determined that the modification of the March 2018 and September 2018 Notes adding the additional conversion right upon a reverse merger was a "substantial modification" as outlined in ASC 470-50 '*Debt: Modifications and Extinguishments'* and treated this modification as an extinguishment of the original Notes and recognized an $11,000 gain from debt extinguishment in its statement of operations.

In May 2019, the principal and accrued unpaid interest of the Modified March 2018 and Modified September 2018 Notes was converted into the Company's Series B convertible preferred stock. Upon consummation of the Merger, and subject to the terms and conditions of the Merger Agreement each outstanding share of capital stock of Adynxx, was converted into the right to receive the number of shares of the combined Company's common stock equal to the Exchange Ratio formula in the Merger Agreement

Derivative Liability

The Company evaluated its Notes and determined that embedded components relating to conversion and redemption features of those contracts qualified as derivatives, which need to be separately accounted for in accordance with ASC 815. The Notes contained embedded features that are required to be bifurcated as follows:

1.) On or before the maturity date of the March 2018 and September 2018 notes, the principal and accrued interest of the notes will automatically convert into equity securities issued and sold in the initial closing of the Company's next qualified equity financing with gross proceeds of at least $5.0 million, exclusive of the conversion of the notes. The number of shares to be issued to the note holders will be equal to dividing the outstanding principal and any unpaid accrued interest by 80% of the price paid per share of the next equity security sold to investors. The discount in share price to note holders is not considered clearly and closely related to the debt host and results in an embedded derivative that must be bifurcated and accounted for separately from the debt host.

2.) For all Notes, in the event of a change in control prior to repayment, the outstanding principal and unpaid accrued interest will be repaid in cash, plus a repayment premium equal to 100% of the outstanding principal at the time of the change in control. Change in control means (i) a merger, consolidation, or other capital reorganization or business combination transaction of the Company, with or into, another corporation after which the shares of the capital stock represent a minority after the close of the transaction, or (ii) any transaction or series of related transactions to which the Company is a party in which in excess of 50% of the Company's voting power is transferred, or (iii) the sale of all or substantially all of the Company's assets or the exclusive license of all or substantially all of the Company's material intellectual property. The premium to note holders is not considered clearly and closely related to the debt host and results in an embedded derivative that must be bifurcated and accounted for separately from the debt host.

3.) For the March 2019 and December 2018 Notes, in the event the Company's Board of Directors has determined the proposed reverse merger should not be pursued or is not viable, then in connection with the closing of a preferred stock financing with gross proceeds of at least $5.0 million exclusive of the conversion of the notes, the conversion price shall equal 80% of the cash price paid per share for the securities in the preferred stock financing. However, if any of the holder's shares of preferred stock of the Company are converted into common stock or any other equity security that is junior to the shares issued in the preferred stock financing, the notes shall not convert into equity securities sold in the preferred stock financing without the holder's prior written consent and instead shall remain outstanding. The discount in share price to note holders is not considered clearly and closely related to the debt host and results in an embedded derivative that must be bifurcated and accounted for separately from the debt host.

Accordingly, upon the issuance of the March 2018 Notes, the estimated fair value of the embedded derivative was determined using a bond plus option valuation model and assuming a probability of 30% that a qualified financing would occur and a probability of 15% that a change in control would occur. The Company recorded the estimated fair value of these embedded derivatives as a liability of $496,000 with an offsetting amount recorded as debt discount, which offsets the carrying amount of the debt. The debt discount is amortized over the debt's expected term of one year.

Upon the issuance of the September 2018 Notes, the estimated fair value of the embedded derivatives was determined using a bond plus option valuation model and assuming a probability of 40% that a qualified financing would occur and a zero probability that a change in control would occur. The Company recorded the estimated fair value of these embedded derivatives as a liability of $368,000 with an offsetting amount recorded as debt discount, which offsets the carrying amount of the debt. The debt discount is amortized over the debt expected term of one year.

In October 2018, the Company modified the March 2018 and September 2018 Notes by adding an additional conversion right upon a reverse merger. The Company deemed this modification to be a *"substantial modification"* as defined in ASC 470-50 *'Debt: Modifications and Extinguishments'* and treated it as an extinguishment of the original Notes and the termination of the related derivative liability. The extinguishment of the March 2018 and September 2018 Notes, resulted in a net gain of $11,000 being recorded in other income due to the expensing of the unamortized debt discount of $641,000 and the release of the then fair value of the derivative liabilities of $653,000.As of March 31, 2019 and December 31, 2018, the Company evaluated the fair value of the derivative liability associated with the modified March 2018, modified September 2018, December 2018 and March 2019 Notes. It determined that the bifurcated derivative liability had no value because the Company assumed a zero probability that a qualified financing would occur if the then planned reverse merger was not consummated and a zero probability that a change in control would occur. As a result, the Company estimated the fair value of the derivative liability to be $0 at December 31, 2018 and March 31, 2019.

For the three months ended March 31, 2019 and 2018, and the years ended December 31, 2018, and December 31, 2017, the Company had recorded interest expense for debt discount on these Notes of $0, $4,000, $223,000 and $0, respectively

Note 6. Commitments and Contingencies

Operating Leases

The Company leases office facilities under a non-cancelable operating lease agreement expiring on December 31, 2019. The total undiscounted future non-cancellable lease payments under the Company's operating lease as of March 31, 2019 are as follows (in thousands):

Year ending December 31	**Future Commitments (unaudited)**
2019 (remaining 9 months)	$ 180
Total	$ 180

Rent expense related to the Company's operating leases was $67,000 and $57,000 for the three months ended March 31, 2019 and 2018, respectively, and $232,000 and $225,000 for the years ended December 31, 2018 and December 31, 2017, respectively.

Indemnifications

The Company has agreed to indemnify its directors and officers for certain events or occurrences arising as a result of the officers or directors serving in such capacity. The Company has a directors' and officers' liability insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid resulting from the indemnification of its officers and directors.

The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. The Company's management believes the estimated fair value of these indemnification agreements is minimal and has not recorded a liability for these agreements as of March 31, 2019, December 31, 2018 and December 31, 2017.

Note 7. Stockholders' Deficit

Redeemable Convertible Preferred Stock

As of March 31, 2019, December 31, 2018 and December 31, 2017, the Company had 56,672,658 shares of Series A convertible preferred stock issued and outstanding, including 3,531,889 shares issued as a result of a conversion of notes to investors and accrued interest to Series A convertible preferred stock in 2010. As of March 31, 2019, December 31, 2018 and December 31, 2017, the Company had 51,069,262 shares of Series B convertible preferred stock issued and outstanding, including 6,469,356 shares issued as a result of a conversion of notes to investors and accrued interest to Series B convertible preferred stock in 2016.

The holders of preferred stock have various rights and preferences including the following:

Voting Rights - A holder of each share of Series A and Series B convertible preferred stock shall have the right to one vote for each share of common stock into which such preferred stock could be converted. Series A convertible preferred stock holders voting as a separate class are entitled to elect two directors to the Company's Board of Directors as long as shares of Series A convertible preferred stock remain outstanding. Series B convertible preferred stock holders voting as a separate class are entitled to elect one director to the Company's Board of Directors as long as at least 10,000,000 shares of Series B convertible preferred stock remain outstanding. Common stockholders voting as a separate class are entitled to elect two directors. The holders of preferred and common stock voting together as a single class on an as-if-converted basis are entitled to elect all remaining directors.

Dividends - Holders of Series B convertible preferred stock, in preference to the holders of Series A preferred and common stock, are entitled to receive noncumulative dividends at the annual rate of $0.0251 per share, when, as, and if declared by the Board of Directors. Holders of Series A convertible preferred stock are entitled to receive noncumulative dividends at the annual rate of $0.0182 per share, when, as, and if declared by the Board of Directors. No dividends on preferred stock have been declared by the Board of Directors during the three months ended March 31, 2019 and 2018 and years ended December 31, 2018 and 2017.

Liquidation Preference - In the event of any liquidation, dissolution, or winding up of the Company, including a merger, acquisition, or sale of assets, as defined, the holders of Series B convertible preferred stock are entitled to receive an amount of $0.3133 per share (as adjusted for recapitalizations, stock combinations, stock dividends, stock splits, and the like), plus any declared but unpaid dividends prior to and in preference to any distribution to the holders of Series A preferred or common stock.

After distributions have been made to all holders of Series B convertible preferred stock as described above, the remaining assets of the Company available for distribution to stockholders shall be distributed to all holders of Series A convertible preferred stock. The holders of Series A convertible preferred stock are entitled to receive an amount of $0.2276 per share (as adjusted for recapitalizations, stock combinations, stock dividends, stock splits, and the like), plus any declared but unpaid dividends prior to and in preference to any distribution to the holders of common stock. The remaining assets of the Company available for distribution to stockholders shall be distributed ratably among the holders of the common stock and preferred stock on an as-if-converted basis.

Conversion Rights - Each share of Series A and Series B convertible preferred stock is convertible, at the option of the holder, into shares of common stock on a one for one basis (subject to adjustment for certain events). The preferred stock will also be converted automatically into shares of common stock (1) immediately prior to an initial public offering with aggregate proceeds of at least $40 million and an offering price of not less than $1.00 per common share or (2) upon the date specified by written consent of holders of a majority of the outstanding preferred shares on an as-converted basis.

The Series A and Series B Preferred Stock were classified as temporary equity in the accompanying balance sheets as of the March 31, 2019, December 31, 2018 and 2017, as shares are subject to redemption upon the occurrence of uncertain events not solely within the Company's control. As of March 31, 2019, December 31, 2018, and 2017, the Series A and Series B Preferred Stock were not redeemable.

Common Stock

The Company's articles of incorporation, as amended, authorize the Company to issue 148,000,000 shares of $0.001 par value common stock. As of March 31, 2019, December 31, 2018 and December 31, 2017, the Company had 19,548,969 shares outstanding. Common stockholders are entitled to dividends when and if declared by the Board of Directors and after any Series B and Series A convertible preferred shares dividends are fully paid. The holder of each share of common stock is entitled to one vote. At March 31, 2019 and December 31, 2018, no dividends had been declared.

Shares Reserved for Future Issuance

The Company reserved shares of common stock for future issuances as follows (in thousands):

	As of December 31,		As of March 31,
	2017	2018	2019
			(unaudited)
Series A convertible preferred stock	56,673	56,673	56,673
Series B convertible preferred stock	51,069	51,069	51,069
Warrants for Series A convertible preferred stock	330	330	330
Common stock options issued and outstanding	19,222	19,222	19,222
Total	127,294	127,294	127,294

Note 8. Warrants

In connection with convertible notes agreements with investors issued between January 1, 2009 and July 1, 2010, the Company issued warrants to purchase such number of shares of Series A convertible preferred stock issued in the next round of equity financing equal to 20% of notes payable principal amounts divided by the price per share of such preferred stock. The warrants are exercisable after closing of each preferred stock financing for five years and expire seven years from the issuance date. At the issuance dates, the Company estimated the fair value of issued warrants as minimal due to the uncertainty of the Series A convertible preferred stock financing. The Company estimated the fair value of outstanding warrants at the date of closing of the Series A convertible preferred stock financing and used the Black-Scholes model with the following assumptions: expected lives equal to the remaining contractual life in a range of 3.92 to 7 years, risk-free interest rates in a range of 1.46% to 2.66%, expected dividend yield of zero, volatility in the range of 73.6% to 81.5%, and a fair value of Series A convertible preferred stock of $0.2276 per share. As of December 31, 2017, the outstanding warrants had been exercised.

In connection with the Oxford Loan Agreement signed in November 2015, the Company issued a warrant to purchase 197,715 shares of the Company's preferred stock at an exercise price equal to the Series A preferred stock price of $0.2276. The warrant is exercisable after closing and expires ten years from the issuance date. The Company estimated the fair value of the warrant at closing and used the Black-Scholes model with the following assumptions: expected life equal to the remaining contractual life of 10 years, risk-free interest rate of 2.07%, expected dividend yield of zero, volatility of 68.7%, and a fair value of Series A convertible preferred stock of $0.20 per share. The Company recorded the fair value of the warrant of $33,000 as a debt discount to be amortized to interest expense over the life of the Term Loan A.

In January 2016, in connection with the Oxford Loan Agreement signed in November 2015, the Company issued a warrant to purchase 131,810 shares of the Company's preferred stock at an exercise price equal to the Series A preferred stock price of $0.2276. The warrant is exercisable after closing and expires ten years from the issuance date. The Company estimated the fair value of the warrant at closing and used the Black-Scholes model with the following assumptions: expected life equal to the remaining contractual life of 10 years, risk-free interest rate of 2.09%, expected dividend yield of zero, volatility of 68.6%, and a fair value of Series A convertible preferred stock of $0.23 per share. The Company recorded the fair value of the warrant of $22,000 as a debt discount to be amortized to interest expense over the life of the Term Loan B.

The change in fair value of the warrants issued in connection with Term Loan A and B at March 31, 2019, December 31, 2018 and 2017 of $95,000, $98,000 and ($4,000) respectively, were recorded to other expense (income). As of March 31, 2019, the warrants remained outstanding and exercisable.

The above Black-Scholes model assumptions were determined as follows:

Term – The term represents the remaining contractual term of the warrants.

Risk-free interest rate – The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal the remaining term of the warrants.

Expected volatility – The expected volatility is derived from historical volatilities of several unrelated publicly listed peer companies over a period approximately equal to the remaining term of the warrants because the Company has limited information on the volatility of the preferred stock since there is currently no trading history. When making the selections of the Company's industry peer companies to be used in the volatility calculation, the Company considered the size and operational and economic similarities to the Company's principal business operations.

Expected dividend yield – The expected dividend yield is based on the Company's history of not paying dividends.

The warrants are classified as a liability as they are exercisable into shares that are potentially redeemable. The fair value of the warrant liability is re-measured at each balance sheet date with the change as other income recorded in the statements of operations.

The fair value of the Series A convertible preferred stock warrants outstanding at March 31, 2019, December 31, 2018 and December 31, 2017 was $234,000, $140,000 and $42,000 respectively, and the details of the warrants were as follows:

Issuance Date	Expiration Date	Exercise Price	Number of Shares (000's)
November, 2015	November, 2025	0.2276	198
June, 2016	January, 2026	0.2276	132
Total			330

The fair value of the Series A convertible preferred stock warrants was determined using the following assumptions:

	As of December 31,		As of March 31,
	2017	2018	2019
			(unaudited)
Risk-free interest rate	2.28%	2.56% - 2.59%	2.27% - 2.28
Remaining contractual life (in years)	7.92 - 8.08	6.92 - 7.08	6.67 - 6.83
Dividend yield	—	—	—
Expected volatility	71.00%	76.84%	84.44%

Note 9. Stock Option Plans

In December 2010, the Company adopted the 2010 Equity Incentive Plan (the "Plan"). The Plan provides for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options (“ISOs”) or non-qualified stock options (“NSOs”). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and consultants. The Company has 19,222,032 shares of common stock reserved for issuance under the Plan as of December 31, 2018.

Options under the Plan may be granted for periods of up to 10 years and at prices no less than 100% of the estimated fair value of the underlying shares of common stock on the date of grant as determined by the Board of Directors provided, however, that the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. The Plan requires that options be exercised no later than 10 years after the grant. Options granted to employees generally vest ratably on a monthly basis over four years.

The following table summarizes stock option activity under the Company’s stock plan and related information (in thousands, except exercise prices and years):

		Outstanding Options			
	Shares Available For Grant	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value(a)
Balance at December 31, 2016	5	19,222	$ 0.10	9.4	
Balance at December 31, 2017	5	19,222	$ 0.10	8.4	$ 6,639
Balance at December 31, 2018	5	19,222	$ 0.10	7.4	$ 6,956
Vested and expected to vest as of December 31, 2018		19,222	$ 0.10	7.4	$ 6,956
Exercisable at December 31, 2018		11,146	$ 0.09	7.4	$ 4,119

(a) *The aggregate intrinsic value is calculated as the difference between the stock option exercise price and the estimated fair value of the Company's common stock of $$0.46 amd $0.44 per share as of December 31, 2018 and 2017.*

The Company did not grant any common stock options to employees during the three months ended March 31, 2019 or the years ended December 31, 2018 and 2017. Stock-based compensation expense recorded in research and development and general and administrative expenses was $68,000 and $75,000 for the three months ended March 31, 2019 and 2018, respectively, and $293,000 and $301,000 for the years ended December 31, 2018 and 2017, respectively. As of March 31, 2019, unrecognized stock-based compensation expense related to employees totaled approximately $463,000, which is expected to be recognized over approximately 1.75 years.

Stock Options Granted to Non-Employees.

Stock-based compensation expense recorded in exchange for services related to non-employee options was $16,000 and $0 for the three months ended March 31, 2019 and 2018, and $16,000 and $0 for the years ended December 31, 2018 and 2017, respectively.

As of March 31, 2019, unrecognized stock-based compensation expense related to unvested non-employees stock options was approximately $32,000, which is expected to be recognized over a weighted-average period of six months.

Note 10. Income Taxes

The Company recorded no income tax benefit or expense for the three months ended March 31, 2019 and 2018, and the years ended December 31, 2018 and 2017. No tax benefit was recorded through March 31, 2019 because, given the history of operating losses, the Company believes it is more likely than not that the deferred tax asset will not be realized, and a full valuation allowance has been provided.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents significant components of the Company’s deferred tax assets (in thousands):

	As of December 31,	
	2017	2018
Net operating loss carry forward	$ 6,158	$ 7,051
Research and development credits	1,284	1,601
Accruals and reserves	99	142
Fixed assets	—	1
Total deferred tax asset	7,541	8,795
Valuation allowance	(7,541)	(8,795)
Net deferred tax asset	$ —	$ —

The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Based on the Company's history of operating losses, the Company has concluded that it is more likely than not that the benefit of its deferred tax assets will not be realized. Accordingly, the Company has provided a full valuation allowance for deferred tax assets as of December 31, 2018 and 2017. The valuation allowance increased approximately $1.2 million and decreased $964,000 during the years ended December 31, 2018 and 2017, respectively.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affect fiscal 2017, including, but not limited to requiring a one-time transition tax on certain un-repatriated earnings of foreign subsidiaries (the "Transition Tax"). The Tax Act also establishes new tax laws that will affect 2018 and later years, including, but not limited to, a reduction of the U.S. federal corporate tax rate from 35% to 21% and a transition of U.S. international taxation from a worldwide tax system to a territorial system. During the year ended December 31, 2017, the Company did not recognize an amount for the one-time transition tax, nor did the Company make any accounting policy elections on the treatment of the other international provisions of tax reform due to the fact the Company does not currently have any foreign subsidiaries.

During 2017, the Company corrected the balance of Net Operating Losses and Research and Development Credits and the associated Valuation Allowances in connection with the Company's determination of nexus in an additional state which was previously not identified correctly. The correction of such error did not have any impact on the Company's financial position and results of operations for any period presented or any prior period results. The Company has corrected the gross amount of deferred tax assets and the valuation allowance for 2016 to correct the error.

As of December 31, 2018, the Company had federal net operating loss, or NOL, carry forwards of $33.5 million available to reduce future taxable income, if any. The NOL carry forwards prior to January 1, 2018 of $28.7 million will begin to expire in 2033. The NOL carry forwards incurred post December 31, 2017 of $4.8 million will carry forward indefinitely. As of December 31, 2018, the Company had federal and state research and development credits of $1.8 million and $0.7 million, respectively. The federal research and development credits will begin to expire in 2031. The state research and development credit will carry forward indefinitely.

Internal Revenue Code ("IRC") Section 382 and similar California rules place a limitation on the amount of taxable income that can be offset by NOL and credit carry forwards after a change in control. Generally, after a control change, a corporation cannot deduct NOL or credit carry forwards in excess of the Section 382 limitations. Although the Company has not completed an analysis under Section 382 of the Code since the year ended December 31, 2012, it believes that it is unlikely that the utilization of the NOLs and tax credit carry forwards will be substantially limited.

The tax return years 2014 through 2018 remain open to examination by the major domestic taxing jurisdictions to which the Company is subject. Net operations losses generated on a tax return basis by the Company for calendar years 2013 and 2015 to 2018 remain open to examination by the IRS. Net operating losses generated on state returns by the Company for calendar years 2007 to 2013 and 2015 to 2018 remain open to examination by state authorities.

ASC 740-10 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities. The following table summarizes the activity related to the Company's gross unrecognized tax benefits (in thousands):

	Years Ended December 31, 2018
Balance at December 31, 2017	$ 331
Changes related to prior year positions	330
Increases related to current year positions	42
Balance at December 31, 2018	$ 703

The Company's policy is to record interest related to uncertain tax positions as interest and any penalties as other expense in its statement of operations. As of the date of adoption and through December 31, 2018, the Company did not have any interest and penalties associated with unrecognized tax benefits.

Note 11. Related-Party Transactions

In March 2018, September 2018, December 2018 and March 2019, the Company issued Notes to the Company's majority investors totaling $6.0 million as of March 31, 2019. In addition, in April 2019 and May 2019, the Company issued an incremental $2.0 million and $0.5 million of Notes to the majority investors. These Notes accrue simple interest on the outstanding principal amount at the rate of 8% per annum. As of March 31, 2019, accrued interest on the Notes was $215,000 - for further details see the section above titled *'Note 5 - Term Loans and Convertible Promissory Notes'*

On May 3, 2019, prior to the closing of the Merger, the $3.0 million of Notes and $203,000 of cumulative accrued interest was converted into 10,223,996 shares of Series B convertible preferred stock.

Note 12. Employee Benefit Plan

The Company has established a 401(k) Plan (the "401(k) Plan") that permits participants to make contributions by salary deduction pursuant to Section 401(k) of the IRC. The Company may, at its discretion, make matching contributions to the 401(k) Plan. The Company has made no contributions to the 401(k) Plan since its inception. The Company makes a nonelective 401(k) safe harbor contribution on behalf of each employee equal to 3% of their annual salary. The Company's non-elective safe harbor contributions totaled $49,000 and $54,000 for the years ended December 31, 2018 and 2017, respectively. Beginning in January 2019, the Company amended the 401(k) Plan to discontinue the nonelective safe harbor contribution on behalf of each employee equal to 3% of their annual salary.

Note 13 Subsequent Events

In April 2019 and May 2019, the Company's primary investor agreed to provide the Company with $2.0 million and $0.5 million in the form of Notes to fund the Company's operations. These notes accrue simple interest on the outstanding principal amount at the rate of 8% per annum and mature on April 26, 2020 and May 29, 2020.

In May 2019, the Company and Oxford Finance agreed to a seventh amendment to provide consent to the Merger. This consent amended certain provisions of the term loan to protect Oxford's rights under the original term loan agreement. The consent allowed Alliqua to be named as an additional borrower.

On May 3, 2019 the Company completed its Merger into Alliqua Biomedical Inc. ("Alliqua"). Immediately following the Merger, the combined company's name was changed from "Alliqua BioMedical, Inc." to "Adynxx, Inc." The Merger is intended to qualify for federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended. Under the Exchange Ratio formula in the Merger Agreement, as of immediately following the Merger, but excluding the effect of certain financings (as further described in the Merger Agreement), Adynxx equity holders now own approximately 86% of the aggregate number of shares of the combined company and Alliqua equity holders own approximately 14% of the combined company.

Subject to the terms and conditions of the Merger Agreement (a) each outstanding share of capital stock of Adynxx, was converted into the right to receive the number of shares of Alliqua's common stock equal to the Exchange Ratio formula in the Merger Agreement and (b) each outstanding Adynxx stock option, whether vested or unvested, and warrant that has not previously been exercised, was assumed by the post merged company and converted into a stock option or warrant, as the case may be, to purchase shares of the post merged Adynxx Company's common stock at the Exchange Ratio formula in the Merger Agreement.

On May 3, 2019, prior to the closing of the Merger, the $3.0 million of Notes and $203,000 of cumulative accrued interest, was converted into 10,223,996 shares of Series B convertible preferred stock.

The Company has evaluated subsequent events through June 7, 2019, the date the financial statements were issued, for appropriate accounting and financial statement disclosures.

Exhibit 99.4

Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting under U.S. GAAP and gives effect to the merger transaction between Alliqua BioMedical, Inc. and Private Adynxx. The merger will be treated by Alliqua as a reverse merger and recapitalization effected by a share exchange for financial accounting and reporting purposes. The notes below titled "*Adynxx Transactions*" and "*Distribution of Cash*" provide additional information regarding this transaction. The pro forma condensed combined financial statements give effect to the spin-off of Alliqua's wholly owned subsidiary, AquaMed Technologies, Inc. ("AquaMed"), engaged in the custom hydrogel manufacturing business, in the form of a pro rata distribution of the common equity of the subsidiary to Alliqua's stockholders, or the Spin-off Transaction, see note below titled "*Planned Spin-Off.*" Since Alliqua will be deemed to have no operations upon consummation of the Spin-off, Alliqua is not considered to be a business for accounting purposes. Accordingly, no goodwill or intangible assets will be recorded as a result of the merger. Because Private Adynxx will be treated as the acquiring company, Private Adynxx's assets and liabilities will be recorded at their pre-combination carrying amounts and the historical operations that are reflected in the unaudited pro forma condensed combined financial information will be those of Private Adynxx.

Private Adynxx was determined to be the accounting acquirer based upon the terms of the Merger Agreement and other factors including: (i) Private Adynxx equity holders owned approximately 86% of the voting interests of the combined company immediately following the closing of the transaction and Alliqua equity holders owned approximately 14%; (ii) directors appointed by Private Adynxx hold a majority of board seats in the combined company; and (iii) Private Adynxx management held all key positions in the management of the combined company.

While Private Adynxx and Alliqua expect the Spin-off to occur, it is not certain the transaction will be consummated. In the event Alliqua cannot spin-off the AquaMed subsidiary, the accounting treatment of the transaction between Alliqua and Private Adynxx could change. In this event, the transaction would most likely be considered an acquisition of Alliqua by Private Adynxx and purchase accounting would be applied. The purchase consideration would be equal to the fair value of the post-merger shares retained by Alliqua shareholders and Alliqua's opening balance sheet would be recorded at fair value with the excess of the purchase price over the net assets recognized as goodwill.

Adynxx Transactions

On May 3, 2019, Adynxx, Inc., formerly known as "Alliqua Biomedical, Inc.," completed a business combination with privately-held "Adynxx, Inc.," or Private Adynxx, in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of October 11, 2018, as amended and supplemented from time to time, or the Merger Agreement, by and among us, Embark Merger Sub, Inc., or the Merger Sub, and Private Adynxx, pursuant to which Merger Sub merged with and into Private Adynxx, with Private Adynxx surviving as a wholly-owned subsidiary of the re-named Adynxx, Inc. which is referred to herein as the Merger. Also, on May 3, 2019, in connection with, and immediately prior to the completion of the Merger, we effected a reverse stock split at a ratio of one new share for every six shares of our common stock outstanding, or the Reverse Stock Split, and immediately following the Merger, we changed our name to "Adynxx, Inc." Following the completion of the Merger, the business conducted by Private Adynxx became primarily the business conducted by us, which is the development of novel, disease-modifying pharmaceutical product candidates for the treatment of pain and inflammation.

Under the terms of the Merger Agreement, we issued shares of our common stock to Private Adynxx's stockholders at an exchange rate of 0.0359 shares of common stock in exchange for each share of Private Adynxx common stock outstanding immediately prior to the Merger (which exchange rate reflects the Reverse Stock Split). The exchange rate was determined pursuant to the terms of the Merger Agreement. We also assumed all of the stock options outstanding under Private Adynxx's 2010 Equity Incentive Plan, or the Private Adynxx Plan, with such stock options representing the right to purchase a number of shares of our common stock equal to 0.0359 multiplied by the number of shares of Private Adynxx common stock previously represented by such options under the Private Adynxx Plan.

Immediately after the Merger, the former Private Adynxx stockholders, warrant holders and option holders owned approximately 86% of the fully-diluted common stock of the combined company, with our stockholders and option holders immediately prior to the Merger, whose shares of our common stock remain outstanding after the Merger, owning approximately 14% of the fully-diluted common stock of the combined company.

Distribution of Cash

On April 11, 2019, Alliqua announced that its board of directors has (i) declared a conditional special cash dividend (the "Special Dividend") of $1.05 for each share of common stock outstanding as of the close of business on April 22, 2019 (the "Record Date") and (ii) set the Record Date as the record date for determining stockholders entitled to receive shares of AquaMed in connection with Alliqua's spin-off of AquaMed (the "Distribution").

The payment of the Special Dividend is subject to the consummation of the Merger. In May 2019, we made a one-time special cash distribution to the pre-Merger holders of shares of Alliqua BioMedical, Inc. in the amount of $6.30 per share, post-split.

Spin-Off

On November 27, 2018, AquaMed, AQ TOP, LLC, a Delaware limited liability company and a wholly-owned subsidiary of AquaMed, or TOP Merger Sub, and TO Pharmaceuticals, LLC, a Delaware limited liability company, or TOP, entered into an Agreement and Plan of Merger, the TOP Merger Agreement, pursuant to which, among other things, subject to the satisfaction or waiver of the conditions set forth in the TOP Merger Agreement, TOP Merger Sub will merge with and into TOP, with TOP becoming a wholly-owned subsidiary of AquaMed and the surviving company of the merger, or the TOP Merger.

The TOP Merger is expected to occur after our consummation of the following steps:

(1) Pursuant to an Asset Contribution and Separation Agreement to be entered into by and between us and AquaMed, or the Separation Agreement, prior to consummation of the TOP Merger, we will transfer certain assets and liabilities utilized primarily in connection with our custom hydrogels contract manufacturing business to AquaMed;

(2) AquaMed will issue a to be determined number of shares of its common stock to us in consideration of the contribution of assets pursuant to the Separation Agreement, or the Distribution Consideration; and

(3) We will distribute to the pre-Merger holders of shares of Alliqua as of April 22, 2019 all of the issued and outstanding shares of common stock, par value $0.001 per share, of AquaMed by way of a pro rata dividend.

The unaudited pro forma condensed combined balance sheet as of March 31, 2019 assumes that the transactions took place on March 31, 2019 and applies the impacts of "Adynxx Transactions", "Distribution of Cash" and "Planned Spin-off" to the historical balance sheets of Alliqua and Private Adynxx as of such date. The unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2019 and for the year ended December 31, 2018, assumes that the transactions took place as of January 1, 2018, and combines the historical results of Alliqua and Private Adynxx for each period. The historical financial statements of Alliqua and Private Adynxx have been adjusted to give pro forma effect to events that are (i) directly attributable to the transaction, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined company's results.

The following information also gives effect to the Reverse Stock Split as if such split occurred on the same date as the transactions.

The unaudited pro forma condensed combined financial statements are based on the assumptions and adjustments that are described in the accompanying notes. The pro forma adjustments are preliminary, subject to further revision as additional information becomes available and additional analyses are performed and have been made solely for the purpose of providing unaudited pro forma condensed combined financial statements. Differences between these preliminary estimates and the final amounts, expected to be completed after the closing of the transaction, will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company's future results of operations and financial position.

The unaudited pro forma condensed combined financial statements do not give effect to the potential impact of current financial conditions, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the integration of the two companies. The unaudited pro forma condensed combined financial statements are preliminary and have been prepared for illustrative purposes only and are not necessarily indicative of the financial position or results of operations in future periods or the results that actually would have been realized had Alliqua and Private Adynxx been a combined company during the specified periods. The actual results reported in periods following the transaction may differ significantly from those reflected in the unaudited pro forma condensed combined financial statements presented herein for a number of reasons, including, but not limited to, differences in the assumptions used to prepare this pro forma financial statement.

The unaudited pro forma condensed combined financial statements, including the notes thereto, should be read in conjunction with the Private Adynxx historical financial statements. Private Adynxx's historical unaudited financial statements for the three months ended March 31, 2019, and audited financial statements for the year ended December 31, 2018 December 31, 2017, are included elsewhere in this Current report on Form 8K/A (Amendment No.1).

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Adynxx, Inc.

Unaudited Pro Forma Condensed Combined Balance Sheets
As of March 31, 2019
(In thousands)

	Adynxx, Inc. (Accounting Acquirer) Historical	Alliqua BioMedical, Inc. (Accounting Acquiree) Historical	Distribution of Cash	Planned Spin-Off	Adynxx Transactions	Total Pro Forma Adjustments	Notes	Pro Forma Combined
ASSETS								
Current Assets:								
Cash and cash equivalents	$ 1,581	$ 7,731		$ —	$ —	$ —	(a)	
			(5,255)	—	—	(5,255)	(b)	
			(2,151)	—	—	(2,151)	(c)	
					(500)	(500)	(d)	
				(325)	—	(325)	(c)	$ 1,081
Accounts receivable, net	—	50	—	(50)	—	(50)	(e)	—
Inventory, net	—	110	—	(110)	—	(110)	(e)	—
Prepaid expenses and other current assets	669	183	—	(183)	—	(183)	(e)	669
Total current assets	2,250	8,074	(7,406)	(668)	(500)	(8,574)		1,750
Property and equipment, net	8	166	—	(166)	—	(166)	(e)	8
Operating lease - right of use asset, net	165	1,001	—	(1,001)	—	(1,001)	(e)	165
Other assets	—	178	—	(178)	—	(178)	(e)	—
Asset of discontinued operations - noncurrent	—	703		—	—	—	(f)	703
Total assets	$ 2,423	$ 10,122	$ (7,406)	$ (2,013)	$ (500)	$ (9,919)		$ 2,626
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)								
Current Liabilities:								
Accounts payable	$ 1,201	395		(287)	—	(287)	(e)	
			(108)			(108)	(c)	$ 1,201
Accrued expenses and other current liabilities	1,193	265		(175)	—	(175)	(e)	
			(90)			(90)	(c)	
	—	—	—	—	(181)	(181)	(g)	1,012
Convertible promissory notes, related party	6,000	—	—	—	(3,000)	(3,000)	(g)	3,000
Term loan, net of discount	3,820	—	—	—	—	—		3,820
Operating lease liability	173							173
Current liabilities of discontinued operations	—	24	(24)	—	—	(24)	(c)	—
Warrant liability	234	291	—	—	(234)	(234)	(h)	291
Total current liabilities	12,621	975	(222)	(462)	(3,415)	(4,099)		9,497
Operating lease liability - right of use		1,001	—	(1,001)	—	(1,001)	(e)	—
Long term liabilities of discontinued operations	—	760			—	—	(f)	760
Total liabilities	12,621	2,736	(222)	(1,463)	(3,415)	(5,100)		10,257
Commitments and contingencies								
Redeemable convertible preferred stock	28,711	—	—	—	(28,711)	(28,711)	(j)	
					3,000	3,000	(g)	
					181	181	(g)	
					(3,000)	(3,000)	(j)	
					(181)	(181)	(j)	—
STOCKHOLDERS' EQUITY (DEFICIT)								
Common stock	20	5	—	—	(19)	(19)	(m)	6
Additional paid-in capital	812	166,674	—	—	(160,869)	(160,869)	(k)	—
	—	—	(5,255)		—	(5,255)	(b)	—
	—	—		(550)	—	(550)	(l)	—
					(334)	(334)	(m)	—
	—	—	—	—	234	234	(h)	—
	—	—	—	—	3,000	3,000	(j)	—
	—	—	—	—	181	181	(j)	—
	—	—	—	—	2,101	2,101	(i)	
	—	—	—	—	(1,100)	(1,100)	(d)	—
	—	—	—	—	600	600	(d)	—
	—	—	—	—	28,711	28,711	(j)	34,205
Accumulated deficit	(39,741)	(159,293)	—	—	159,293	159,293	(k)	
	—	—	—	—	(2,101)	(2,101)	(i)	
	—	—	(1,929)	—	1,929	—	(c)	(41,842)
Total stockholders' equity (deficit)	(38,909)	7,386	(7,184)	(550)	31,626	23,892		(7,631)
Total liabilities and stockholders' equity (deficit)	$ 2,423	$ 10,122	$ (7,406)	$ (2,013)	$ (500)	$ (9,919)		$ 2,626

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Adynxx, Inc.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Three Months Ended March 31, 2019
(In thousands, except per share data)

	Adynxx, Inc. (Accounting Acquirer) Historical	Alliqua BioMedical, Inc. (Accounting Acquiree)	Planned Spin-off	Adynxx Transactions	Total Pro Forma Adjustments	Notes	Pro Forma Combined
Revenue, net	$ —	$ 129	$ (129)	—	$ (129)	(n)	$ —
Cost of revenues	—	237	(237)	—	(237)	(n)	—
Gross loss	—	(108)	108	—	108		—
Operating expenses:							
Selling, general and administrative	863	605	(504)		(504)	(n)	964
Research and product development	1,331	—	—	—	—		1,331
Grant reimbursement	(94)						(94)
Acquisition related expenses	—	270		(270)	(270)	(p)	—
Total operating expenses	2,100	875	(504)	(270)	(774)		2,201
Loss from operations	(2,100)	(983)	612	270	882		(2,201)
Interest and other income (expense):							
Interest income (expense)	(268)	12	—	59	59	(q)	(197)
Change in fair value of warrant liability	(94)	(135)	—	—	—		
	—	—	—	94	94	(o)	(135)
Loss from continuing operations	$ (2,462)	$ (1,106)	$ 612	$ 423	$ 1,035		$ (2,533)
Net loss per share basic and diluted common share							
Loss from continuing operations		$ (1.33)					$ (0.44)
Pro forma weighted average shares outstanding used in computing basic and diluted net loss per common share		830,820			4,987,870		5,818,690(s)
Reconciliation of pro forma weighted average shares outstanding:							
Weighted average number of shares held by Adynxx shareholders pre-merger							136,866,375(r)
Conversion ratio							0.0364(r)
Weighted average number of shares held by Adynxx shareholders post-merger							4,987,870
Weighted average number of shares held by Alliqua shareholders							830,820(r)
Total pro forma weighted average shares outstanding							5,818,690

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Adynxx, Inc.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2018
(In Thousands, Except Per Share Data)

	Adynxx, Inc. (Accounting Acquirer) Historical	Alliqua BioMedical, Inc. (Accounting Acquiree)	Planned Spin-Off	Adynxx Transactions	Total Pro Forma Adjustments	Notes	Pro Forma Combined
Revenue, net	$ —	$ 2,216	$ —	$ —	$ —		$ —
	—	—	(2,216)	—	(2,216)	(n)	—
Cost of revenues	—	1,720	—	—	—		—
	—	—	(1,720)	—	(1,720)	(n)	—
Gross profit	—	496	(496)	—	(496)		—
Operating expenses:							
Selling, general and administrative	2,982	4,778	—		—		—
	—	—	(2,502)	—	(2,502)	(n)	5,258
Acquisition related expenses	—	1,014	—	(1,014)	(1,014)	(p)	—
Research and development	2,137	—		—	—		2,137
Total operating expenses	5,119	5,792	(2,502)	(1,014)	(3,516)		7,395
Loss from operations	(5,119)	(5,296)	2,006	1,014	3,020		(7,395)
Interest and other income (expenses):							
Interest income (expense)	(980)	24	—	334	334	(q)	(622)
Change in fair value of warrant liability	(97)	(26)	—	—	—		
	—	—	—	97	97	(o)	(26)
Change in fair value of derivative liability	211	—	—	(211)	(211)	(q)	—
Loss on early extinguishment of debt, net	—	(1,706)	—	—	—		(1,706)
Net loss from continuing operations	$ (5,985)	$ (7,004)	$ 2,006	$ 1,234	$ 3,240		$ (9,749)
Net loss per share basic and diluted common share							
Loss from continuing operations		$ (8.54)					$ (1.68)
Pro forma weighted average shares outstanding used in computing basic and diluted net loss per common share		820,565			4,987,870		5,808,435(s)
Reconciliation of pro forma weighted average shares outstanding:							
Weighted average number of shares held by Adynxx shareholders pre-merger							136,866,375
Conversion ratio							0.0364(r)
Weighted average number of shares held by Adynxx shareholders post-merger							4,987,870
Weighted average number of shares held by Alliqua shareholders							820,565(r)
Total pro forma weighted average shares outstanding							5,808,435

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Adynxx, Inc.
Notes to the Unaudited Pro Forma Condensed Combined Financial Information

1. Description of Transaction and Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared pursuant to the rules and regulations of SEC Regulation S-X and presents the pro forma financial position and results of operations of the combined companies based upon the historical data of Alliqua BioMedical, Inc. and Private Adynxx. The merger will be treated by Alliqua as a reverse merger and recapitalization effected by a share exchange for financial accounting and reporting purposes. The pro forma condensed combined financial information also gives effect to the spin-off of Alliqua's wholly owned subsidiary, AquaMed Technologies, Inc. ("AquaMed"), engaged in the custom hydrogel manufacturing business, in the form of a pro rata distribution of the common equity of the subsidiary to Alliqua's stockholders, or the Spin-off Transaction, see note below titled "Planned Spin-Off." Since Alliqua will be deemed to have no operations upon consummation of the Spin-off, Alliqua is not considered to be a business for accounting purposes. Accordingly, no goodwill or intangible assets will be recorded as a result of the merger. Because Private Adynxx will be treated as the acquiring company, Private Adynxx's assets and liabilities will be recorded at their pre-combination carrying amounts and the historical operations that are reflected in the unaudited pro forma condensed combined financial information will be those of Private Adynxx.

Description of Transaction

On May 3, 2019, Adynxx, Inc., formerly known as "Alliqua Biomedical, Inc.," completed a business combination with privately-held "Adynxx, Inc.," or Private Adynxx, in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of October 11, 2018, as amended and supplemented from time to time, or the Merger Agreement, by and among us, Embark Merger Sub, Inc., or the Merger Sub, and Private Adynxx, pursuant to which Merger Sub merged with and into Private Adynxx, with Private Adynxx surviving as a wholly-owned subsidiary of the re-named Adynxx, Inc. which is referred to herein as the Merger. Also, on May 3, 2019, in connection with, and immediately prior to the completion of the Merger, we effected a reverse stock split at a ratio of one new share for every six shares of our common stock outstanding, or the Reverse Stock Split, and immediately following the Merger, we changed our name to "Adynxx, Inc." Following the completion of the Merger, the business conducted by Private Adynxx became primarily the business conducted by us, which is the development of novel, disease-modifying pharmaceutical product candidates for the treatment of pain and inflammation.

Under the terms of the Merger Agreement, we issued shares of our common stock to Private Adynxx's stockholders at an exchange rate of 0.0359 shares of common stock in exchange for each share of Private Adynxx common stock outstanding immediately prior to the Merger (which exchange rate reflects the Reverse Stock Split). The exchange rate was determined pursuant to the terms of the Merger Agreement. We also assumed all of the stock options outstanding under Private Adynxx's 2010 Equity Incentive Plan, or the Private Adynxx Plan, with such stock options representing the right to purchase a number of shares of our common stock equal to 0.0359 multiplied by the number of shares of Private Adynxx common stock previously represented by such options under the Private Adynxx Plan.

Immediately after the Merger, the former Private Adynxx stockholders, warrant holders and option holders owned approximately 86% of the fully-diluted common stock of the combined company, with our stockholders and option holders immediately prior to the Merger, whose shares of our common stock remain outstanding after the Merger, owning approximately 14% of the fully-diluted common stock of the combined company.

Distribution of Cash

On April 11, 2019, Alliqua announced that its board of directors has (i) declared a conditional special cash dividend (the "Special Dividend") of $1.05 for each share of common stock outstanding as of the close of business on April 22, 2019 (the "Record Date") and (ii) set the Record Date as the record date for determining stockholders entitled to receive shares of AquaMed in connection with Alliqua's spin-off of AquaMed (the "Distribution").

The payment of the Special Dividend is subject to the consummation of the Merger. In May 2019, we made a one-time special cash distribution to the pre-Merger holders of shares of Alliqua BioMedical, Inc. in the amount of $6.30 per share, post-split.

Planned Spin-Off

On November 27, 2018, AquaMed, AQ TOP, LLC, a Delaware limited liability company and a wholly-owned subsidiary of AquaMed, or TOP Merger Sub, and TO Pharmaceuticals, LLC, a Delaware limited liability company, or TOP, entered into an Agreement and Plan of Merger, the TOP Merger Agreement, pursuant to which, among other things, subject to the satisfaction or waiver of the conditions set forth in the TOP Merger Agreement, TOP Merger Sub will merge with and into TOP, with TOP becoming a wholly-owned subsidiary of the AquaMed and the surviving company of the merger, or the TOP Merger.

The TOP Merger is expected to occur after the consummation of the following steps:

(1) Pursuant to an Asset Contribution and Separation Agreement to be entered into by and between us and AquaMed, or the Separation Agreement, prior to consummation of the TOP Merger, we will transfer certain assets and liabilities utilized primarily in connection with our custom hydrogels contract manufacturing business to AquaMed;

(2) AquaMed will issue a to be determined number of shares of its common stock to us in consideration of the contribution of assets pursuant to the Separation Agreement, or the Distribution Consideration; and

(3) We will distribute to the pre-Merger holders of shares of Alliqua as of April 22, 2019 all of the issued and outstanding shares of common stock, par value $0.001 per share, of AquaMed by way of a pro rata dividend.

While Adynxx and Alliqua expect the Spin-off to occur, it is not certain the transaction will be consummated. In the event Alliqua cannot spin-off the AquaMed subsidiary, the accounting treatment of the transaction between Alliqua and Adynxx could change. In this event, the transaction would most likely be considered an acquisition of Alliqua by Adynxx and purchase accounting would be applied. The purchase consideration would equal to the fair value of the post-merger shares retained by Alliqua shareholders and Alliqua's opening balance sheet would be recorded at fair value with the excess of the purchase price over the net assets recognized as goodwill.

The pro forma adjustments described in Note 2 were based on available information and certain assumptions made by management and may be revised as additional information becomes available. The historical financial information has been adjusted in the unaudited pro forma condensed combined financial information to give effect to events that are (1) directly attributable to the merger transaction, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results.

2. Pro Forma Adjustments

The unaudited pro forma condensed combined balance sheet has been prepared as if the acquisition was completed on March 31, 2019 and reflects the following pro forma adjustments:

(a) To reflect the distribution of 1) existing cash on hand and 2) certain assets and liabilities relating to discontinued operations that were held by Alliqua prior to the time of the Merger.

(b) Approximately $5,255,000 will be distributed to existing Alliqua shareholders shortly after the consummation of the Merger as a result of a cash dividend declared by Alliqua on April 22, 2019. The dividend is expected to be paid by May 31, 2019.

(c) The balance of existing cash on hand of approximately $2,151,000 will be used to settle all remaining current liabilities associated with the discontinued operations and all estimated Merger related costs. The spin off entity will also receive cash of $325,000 as part of this distribution.

(d) To reflect $1,100,000 of investment banking fees, an aggregate of $750,000 was incurred by Adynxx, of which $250,000 is payable in stock upon consummation of the Merger and $500,000 is payable in cash at a specified period after consummation of the Merger, but no later than July 31, 2019, and $350,000 was incurred by Alliqua, all of which is payable in stock upon consummation of the merger.

(e) To reflect the impacts of the Spin-off transaction, whereby Alliqua is expected to complete the Spin-off of its existing contract manufacturing operations by June 21, 2019. After this Spin-off transaction, Alliqua will no longer have any operating assets and liabilities and no operating activities. For the preparation of the pro forma balance sheet, Adynxx has assumed the Spin-off transaction will occur at March 31, 2019.

(f) The right of use asset and long-term liability related to discontinued operations consists of an operating lease that will be assumed by Adynxx upon consummation of the Merger. This right of use asset represents a lease that is not being consumed by Adynxx. The space was subleased in October 2018 and is fully guaranteed by Cellularity. Adynxx will receive sublease income as a result of this transaction which will be netted against the lease liability.

(g) To reflect the conversion of the Notes outstanding principal balance of $3,000,000 and unpaid accrued interest of $181,479 into shares of Adynxx Series B Preferred Stock and then exchanged for shares of common stock in Alliqua. In accordance with an amendment to the March 2018 and September 2018 Notes signed in October 2018, in the event Adynxx consummates a merger on or before the maturity date, the convertible notes will automatically convert into shares of Series B Preferred Stock at a conversion price of $0.3133 per share. The principal and unpaid accrued interest of the remaining Notes outstanding will convert to equity upon the consummation of a financing post-merger.

(h) To reflect the reclassification of the Adynxx warrant liability to additional paid in capital. This liability was historically recognized as the warrants held by Adynxx shareholders were exercisable into shares of stock that were potentially redeemable. In connection with the Merger, the outstanding warrants held by Adynxx shareholders were exchanged for warrants that are exercisable into shares of common stock and qualify for equity classification.

(i) The March 2018 and September 2018 notes were substantially modified, resulting in the extinguishment of the original notes and termination of the related derivative liabilities. As a result, the beneficial conversion features embedded within these notes were recognized at their intrinsic value on the modification date. The intrinsic value was calculated as the difference between the effective conversion price of $0.3133 per share and the fair value of the preferred stock into which the debt is convertible, multiplied by the number of shares of preferred stock into which the debt is convertible. The fair value was assumed to be $0.5278 per share.

(j) Upon consummation of the Merger, each share of Adynxx preferred stock outstanding is converted to Adynxx common stock, which shall have the right to receive a number of Alliqua common stock equal to the Exchange Ratio, and each share of Adynxx common stock outstanding shall be converted solely into the right to receive a number of shares of Alliqua common stock equal to such Exchange Ratio.

(k) The terms and conditions of the Merger gave rise to reverse merger accounting whereby Adynxx was deemed the accounting acquirer for accounting purposes. Under reverse merger accounting the assets and liabilities must reflect the historical cost basis of Adynxx (prior to consideration of the reverse stock split discussed in item (j) above). Consequently, this adjustment is to remove Alliqua's historical equity balances and retained earnings.

(l) The distribution of Alliqua's assets is treated as a dividend for purposes of the Planned Spin-Off Transaction. The distribution represents a return of capital.

(m) Upon consummation of the Merger and taking into effect the 1 for 6 reverse stock split there were 5,808,027 shares of common stock outstanding with a par value of $0.001 per share. The Adynxx capital account was adjusted to reflect this share structure post-merger.

The accompanying unaudited pro forma condensed combined statement of operations has been prepared as if the acquisition was completed on January 1, 2018 in each of the periods presented.

The calculation of the net loss per share in the unaudited pro forma condensed combined statement of operations assume the issuance of common shares to Alliqua stockholders in the Merger had occurred on January 1, 2018.

The unaudited pro forma condensed combined statements of operations reflect the following pro forma adjustments:

(n) To reflect the impacts of the Spin-off transaction whereby Alliqua is expected to spin-off its existing contract manufacturing operations prior to the Merger. After this Spin-off transaction, Alliqua will no longer have any operating assets and liabilities and no operating activities.

(o) To eliminate the changes in fair value of warrant liability. In connection with the Merger, the outstanding warrants held by Adynxx shareholders were exchanged for warrants that are exercisable into shares of common stock and qualify for equity classification. As such, mark-to-market adjustments are no longer applicable.

(p) To eliminate the impact of acquisition costs incurred by Alliqua prior and up-to the consummation of the Merger.

(q) To eliminate interest expense and changes in the fair value of the derivative liability as a result of the conversion of the associated Notes as described more fully in item (g) above.

(r) To compute the impacts of the Merger on the weighted average shares outstanding, computed as the sum of (1) the weighted average shares held by Adynxx shareholders prior to the Merger, adjusted for an estimated exchange ratio on January 1, 2018 of 0.0364 and (2) the weighted average shares outstanding held by Alliqua shareholders derived from the Alliqua Form 10-K for the years ended December 31, 2018 and the Alliqua Form 10-Q for the three months ended March 31, 2019, each adjusted for the 1 for 6 reverse stock split effected at the time of the Merger. The estimated exchange ratio will vary from the actual exchange ratio established on the closing date of the Merger due to difference in shares outstanding at January 1, 2018 and May 3, 2019.

(s) Because the pro forma combined statement of operations yields a net loss, pro forma weighted average shares outstanding, adjusted for the reverse stock split, excludes the impacts of 101,000 warrants outstanding, 3,266,269 options outstanding and 3,333 non-vested restricted stock at December 31, 2018 and 101,000 warrants outstanding, 3,261,685 options outstanding and 3,333 non-vested restricted stock at March 31, 2019, as the effects of such dilutive securities are anti-dilutive.