

PROSPECTUS SUPPLEMENT NO. 2 DATED MAY 6, 2021
TO
PROSPECTUS DATED FEBRUARY 8, 2021
(AS SUPPLEMENTED)

ARCH THERAPEUTICS, INC.

PROSPECTUS

Up to 36,366,691 Shares of Common Stock
Underlying Warrants Previously Issued

This Prospectus Supplement No. 2 supplements the prospectus of Arch Therapeutics, Inc. (the “Company”, “we”, “us”, or “our”) dated February 8, 2021 (as supplemented to date, the “Prospectus”) with the following attached documents:

1. Our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2021.
2. Our Quarterly Report on Form 10-Q for the period ended March 31, 2021 filed with the Securities and Exchange Commission on May 6, 2021.

This Prospectus Supplement No. 2 should be read in conjunction with the Prospectus, which is required to be delivered with this Prospectus Supplement. This prospectus supplement updates, amends and supplements the information included in the Prospectus. If there is any inconsistency between the information in the Prospectus and this prospectus supplement, you should rely on the information in this Prospectus Supplement.

This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements to it.

Investing in our common stock involves a high degree of risk. Before making any investment in our common stock, you should carefully consider the risk factors for our common stock, which are described in the Prospectus, as amended or supplemented.

You should rely only on the information contained in the Prospectus, as supplemented or amended by this Prospectus Supplement No. 2 and any other prospectus supplement or amendment thereto. We have not authorized anyone to provide you with different information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 2 is May 6, 2021

INDEX TO FILINGS

	<u>Annex</u>
The Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2021	A
The Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2021 filed with the Securities and Exchange Commission on May 6, 2021	B

ANNEX A

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

FORM 8-K

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, 2021**

ARCH THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

000-54986
(Commission
File Number)

46-0524102
(I.R.S. Employer
Identification No.)

235 Walnut Street, Suite 6
Framingham, Massachusetts
(Address of principal executive offices)

01702
(Zip Code)

Registrant's telephone number, including area code: (617) 431-2313

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- 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
N/A	N/A	N/A

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). 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.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b): As previously disclosed, on December 31, 2020, Arch Therapeutics, Inc. (the "Company") and Richard Davis, the Company's current Chief Financial Officer, entered into a transition agreement (the "Transition Agreement"), under which Mr. Davis agreed to continue in his current role as the Company's Chief Financial Officer until the earlier of (i) when a successor is named and ready to perform the daily duties of Chief Financial Officer, and (ii) June 30, 2021 (such date, the "Transition End Date"), upon which date Mr. Davis will retire as Chief Financial Officer. Under the terms of the Transition Agreement, Mr. Davis agreed to continue to work as an employee of the Company in a non-executive role to provide support and ensure a smooth and successful transition for a period of six months following the Transition End Date (the "Post Executive Period"). On May 3, 2021, in connection with the appointment of Mr. Abrams as employee of the Company effective May 3, 2021, and then as the Company's new Chief Financial Officer effective as of May 10, 2021; (i) the Company and Mr. Davis mutually agreed to amend the Transition Agreement to provide that the Transition End Date will occur on June 30, 2021 and the Post Executive Period will commence on July 1, 2021 and end on December 31, 2021 (the "Amendment").

(c) and (e): Also effective May 3, 2021, the Company has appointed Mr. Michael S. Abrams as an employee and then, effective as of May 10, 2021, as its Chief Financial Officer and Treasurer. The Company issued a press release announcing the appointment of Mr. Abrams on May 3, 2021, which is attached hereto as Exhibit 99.1.

Mr. Abrams, age 51, brings over 25 years of experience as a Chief Financial Officer to numerous public and private companies, principal investor, investment banker, merchant banker, strategic advisor, financial advisor, and Board member. Mr. Abrams' experience and capabilities span a broad range of activities with a particular expertise in the areas of operational management, complex financial engineering, financial advisory, capital markets strategy, mergers and acquisitions and turnarounds primarily for companies in the technology and healthcare sectors. Mr. Abrams graduated with an MBA with Honors from the Booth School of Business at the University of Chicago and received his BBA with Honors from the University of Massachusetts at Amherst as a William F. Field Alumni scholar given annually to the top finance student in the class.

There are no family relationships between Mr. Abrams and any of the Company's other officers or directors, and except as expressly described in this report the Company is not aware of any transaction relating to Mr. Abrams that would require disclosure under Item 404(a) of Regulation S-K promulgated under the Securities Act of 1933, as amended.

In connection with Mr. Abrams' appointment, the Company has entered into an executive employment agreement with Mr. Abrams. The agreement continues until terminated by the Company or by Mr. Abrams. Pursuant to the terms of the agreement, (a) Mr. Abrams is entitled to an initial annual base salary of \$325,000, (b) is eligible to receive an annual cash bonus in an amount of up to 30% of Mr. Abrams' then-current annual base salary, to be awarded at the sole discretion of the Company's Board of Directors, and (c) is eligible for benefits generally made available to similarly situated executives of the Company, including participation in equity compensation or other incentive plans subject to the discretion and approval of the Company's Board of Directors. In addition, the agreement provides that, on or as soon as practicable after the commencement date of his employment with the Company, Mr. Abrams will be granted a stock option award under the Company's 2013 Stock Incentive Plan (the "Plan") to purchase up to 500,000 shares of the Company's common stock, which award is to vest over a three-year period with 33.3% of the shares subject to the award to vest on the one-year anniversary of the start date, and 1/24th of the remaining unvested shares subject to the initial option shall vest commencing on each of the next twenty-three (23) monthly anniversaries thereafter, subject to Mr. Abrams' continued service for the Company through each vesting date. Such stock option award was approved by the Board of Directors with a date of grant of May 3, 2021 and an exercise price per share equal to the closing price on his first day of employment.

If the employment agreement is terminated by the Company at any time after June 2, 2021 other than "For Cause" (as defined in the agreement), or if the employment agreement is terminated by Mr. Abrams at any time for "Good Reason" (as defined in the agreement), then Mr. Abrams, upon signing a release in favor of the Company, would be entitled to severance in an amount equal to six (6) months of Mr. Abrams' then-current annual base salary payable in the form of salary continuation. In the event of a termination by the Company at any time after June 2, 2021 other than For Cause, Mr. Abrams will also be entitled to receive monthly payment of his health, dental and vision benefits coverage premiums until the earlier of (i) 12 months following the date of such termination, or (ii) the date Mr. Abrams becomes covered under another employer's health plan.

The employment agreement provides the following definitions of "For Cause" and "Good Reason": (a) "For Cause" is the executive's commission of a crime involving dishonesty, breach of trust, or physical harm to any person, the executive's willful engagement in conduct that is in bad faith and materially injurious to the Company, the executive's commission of a material breach of the employment agreement, the executive's willful refusal to implement or follow a lawful policy or directive of the Company, or the executive's engagement in misfeasance or malfeasance demonstrated by a pattern of failure to perform job duties diligently and professionally; and (b) "Good Reason" is a material and adverse change in the executive's authority, duties, or responsibilities with the Company or reporting relationship within the Company.

The foregoing description of the terms of the Amendment and] Mr. Abrams' employment agreement do not purport to be complete and are qualified in their entirety by reference to the full text of the applicable agreement, which are attached hereto as Exhibit 10.1 and Exhibit 10.2, respectively, and are incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

<u>Exhibit</u>	<u>Description</u>
10.1	Amendment No. 1 to Transition Agreement, dated December 31, 2020, by and between Arch Therapeutics, Inc. and Richard Davis
10.2	Executive Employment Agreement, effective May 3, 2021, by and between Arch Therapeutics, Inc. and Michael S. Abrams
99.1	Press Release issued by Arch Therapeutics, Inc. on May 3, 2021

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.

ARCH THERAPEUTICS, INC.

Dated: May 3, 2021

By: /s/ Terrence W. Norchi, M.D.
Name: Terrence W. Norchi, M.D.
Title: President, Chief Executive Officer

Exhibit 10.1



Arch Therapeutics, Inc.
235 Walnut Street, Suite 6
Framingham, MA 01702

May 3, 2021

Arch Therapeutics, Inc. (the "Company") and Mr. Richard Davis agree to Amend the Transition and General Release Agreement executed as of December 31, 2020 between the parties, and Mr. Davis will serve as the Chief Financial Officer until May 10, 2021; the Transition End Date will occur on June 30, 2021; and as of July 1, 2021, the Post Executive Period will commence and continue through December 31, 2021.

/s/ Terrence W. Norchi
Terrence W. Norchi, MD
President and Chief Executive Officer

/s/ Richard E. Davis
Richard E. Davis
Chief Financial Officer

Exhibit 10.2

**ARCH THERAPEUTICS, INC.
EXECUTIVE EMPLOYMENT AGREEMENT**

This EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is entered into by and between Arch Therapeutics, Inc., a Nevada corporation (the "Company"), and Michael S. Abrams ("Executive") as follows:

1. Duties.

(a) **Position.** Executive shall serve on an at-will basis effective May 3, 2021 initially as employee and then, effective May 10, 2021, as the Company's Chief Financial Officer and Treasurer and shall perform such duties and have such responsibilities of an executive nature as customarily performed by a person holding such office, it being recognized that the Executive's duties and responsibilities, consistent with his titles hereunder, may be changed from time to time by the Chief Executive and/or the Company's Board of Directors (the "Board") (or any committee thereof). Examples of such duties and responsibilities include, without limitation, overseeing activities of members of the Company's finance team and external finance partners; assisting the Chief Executive Officer and others with respect to financial transactions; assisting the Chief Executive Officer in managing activities related to investor relations, stock transfer agents, corporate and investor communications, administration, and human resources; and other activities as they arise. Executive shall perform faithfully, cooperatively and diligently all of his job duties and responsibilities and agrees to and shall devote his full business time, attention and effort to the business of the Company, its subsidiaries as directed, and other assignments as directed by the Chief Executive Officer. Executive will report to the Chief Executive Officer. The Executive shall work primarily from the Company's headquarters based in Framingham, Massachusetts. In addition, the Executive acknowledges and agrees that his Executive's duties and responsibilities may require significant travel, the amount and nature of which shall vary from time to time.

(b) **Best Efforts.** Executive will work full-time and expend his best efforts on behalf of the Company in connection with his employment and will abide by all of the Company's applicable employment policies and decisions made by Board (or any committee thereof), as well as all applicable federal, state and local laws, regulations or ordinances.

(c) **Start Date.** Executive agrees that he will commence his employment relationship with the Company on May 3, 2021, with such actual first day of employment referred to here as the (the "Start Date"), and that his at-will employment may end as set forth in Section 4.

(d) **Other Activities.** Except upon the prior written consent of the Company, Executive will not, during the term of this Agreement, (i) accept any other employment, or (ii) engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that interferes with or is inconsistent with Executive's performance of this Agreement or interferes with Executive's duties and responsibilities hereunder or creates a conflict of interest with the Company.

(e) **No Conflict.** Executive represents and warrants that Executive's execution of this Agreement, Executive's employment with the Company, and the performance of Executive's duties under this Agreement shall not violate any obligations Executive has to any other employer, person or entity, including any obligations with respect to proprietary or confidential information of any other person or entity.



2. Compensation.

(a) **Base Salary.** As compensation for Executive's performance of his duties hereunder, the Company shall pay to Executive an initial base salary of twenty-seven thousand, eighty-three dollars and thirty-three cents per month (\$27,083.33), which is equivalent to three-hundred twenty-five thousand dollars (\$325,000.00), if annualized, starting as of the Start Date (the "Base Salary"), payable in accordance with the normal payroll practices of Company, less required deductions for state and federal withholding tax, social security and all other employment taxes and payroll deductions.

(b) **Annual Bonus.** Executive shall be eligible at the sole discretion of the Board (or any committee thereof) to receive an annual cash bonus in an amount up to 30% of his then-current Base Salary, or such other amount as the Board (or a committee thereof) may periodically review and determine (the "Annual Bonus"). The actual amount of the Annual Bonus will be determined by the Board (or any committee thereof) based on Executive's achieving Company and personal goals established and mutually agreed in good faith between the Executive and the Company. The Annual Bonus will be paid as soon as practicable after the calendar year to which it relates and, if awarded, is anticipated to be paid within 30 days following the date the Board awards the Annual Bonus. The Executive must be actively employed on the payment date to have earned an Annual Bonus.

(c) **Annual Review of Base Salary.** Executive's Base Salary will be reviewed by the Board (or any committee thereof), with such input as it may request from the Company's Chief Executive Officer, from time to time but at least on an annual basis, in accordance with the established procedures of the Company for adjusting salaries for similarly situated employees.

(d) **Equity Grants.** Subject to approval by the Board, Executive shall be eligible to receive a non-qualified stock option (the "Initial Option") for 500,000 shares of the Company's common stock (the "Shares"), to be granted on or as soon as practicable after the Start Date and to be granted under and in accordance with the terms, definitions and provisions of the Arch Therapeutics, Inc. 2013 Stock Incentive Plan (the "Plan") and the applicable stock option agreement executed and delivered by Executive and the Company; provided, however, that in the event of any conflict between the terms of the Plan or such stock option agreement and this Agreement, the terms of this Agreement shall prevail and govern. The Initial Option will vest over a period of three (3) years, with a vesting schedule as follows: 33.3% of the Shares subject to the Initial Option shall vest on the one-year anniversary of the Start Date, and 1/24th of the remaining unvested Shares subject to the Initial Option shall vest commencing on each of the next twenty-three (23) monthly anniversaries thereafter, subject to Executive's continued service for the Company through each vesting date. The exercise price of the Initial Option shall be equal to the "Fair Market Value" of the Company's common stock (as such term is defined in the Plan) on the date of grant of the Initial Option. In the event of a Change of Control (as such term is defined in the Plan), then, in any such case, 100% of the number of unvested Shares then subject to the Initial Option and then subject to any other then-outstanding stock option or other equity award that may have been granted to Executive under or outside of the Plan shall accelerate and become vested as of the date of such event.

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3. Benefits.

(a) **Health and Welfare Benefit Plans.** Executive shall be eligible to participate in health, dental and vision and other benefits on the same or substantially similar terms as those provided to the other executive officers of the Company.

(b) **Customary Benefits.** Executive shall be eligible to participate in the benefits made generally available by the Company to similarly-situated executives, in accordance with the benefit plans established by the Company, and as may be amended from time to time in the Company's sole discretion. Executive shall be eligible to participate in any equity compensation or incentive plans that the Company has adopted or may adopt in its sole discretion that are applicable to similarly-situated executives, subject in all cases to approval by the Board (or any committee thereof) of any grant thereunder.

(c) **Business Expenses.** The Company shall reimburse Executive for reasonable business expenses incurred in the performance of Executive's duties hereunder in accordance with the Company's expense reimbursement guidelines. Executive will use his best efforts to manage expenses for cost containment while traveling and will confer with the Chief Executive Officer or seek other input from the Company as required regarding travel and other business expenditures.

(d) **Paid Time Off.** Executive shall be permitted to take paid time off ("PTO") to be used for vacation, personal and sick days each calendar year, in accordance with the Company's plans, policies and programs then in effect. Initially, Executive will be eligible to accrue four (4) weeks of PTO per year (prorated for partial years of employment). The Executive shall not be permitted to rollover unused accrued PTO without prior approval from the Chief Executive Officer. Any severance paid under Section 4 is inclusive of unused PTO upon separation of employment; no additional PTO will be paid upon separation.

4. At-Will Employment; Termination of Employment.

(a) **At-Will Employment; Termination by Company.** Executive's employment with the Company shall be "at-will" at all times. Either party may terminate the employment relationship as provided herein. Upon and after such termination, all obligations of the Company under this Agreement shall cease, except as otherwise provided herein.

(b) **Severance Upon Termination By Company Other Than For Cause, By Death or By Disability.** Except in situations where the employment of Executive is

terminated For Cause, by death, or by Disability (as those terms are defined below), in the event that the Company terminates Executive's employment at any time after the thirty (30) calendar day anniversary of the Start Date and subject to Section 4(i) and Employee's continued compliance with all surviving obligations under this Agreement, Executive shall be eligible to receive an amount equal to six months of Executive's then-current Base Salary, payable in the form of salary continuation in accordance with the Company's regular payroll practices ("Severance"). In addition, if Executive elects to continue his group health coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Company will pay Executive's COBRA premiums for coverage until the earlier of (i) the end of the twelve (12) month period following the date of such termination; or (ii) the date Executive becomes covered under another employer's health plan; provided, however, that, in the event that the Company determines, in its sole discretion, that such payments are no longer exempt from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or may be subject to tax or penalty pursuant to Section 4980D of the Code, then the Company shall pay Executive an amount equal to each remaining COBRA premium as taxable compensation in monthly installments. Executive shall not be entitled to any Severance if Executive's employment is terminated For Cause, by death or by Disability or if Executive's employment is terminated by Executive (except as provided in Section 4(g) below).

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(c) **Termination By Company For Cause.** For purposes of this Agreement, "For Cause" shall mean the Company's determination that: (i) Executive commits a crime involving dishonesty, breach of trust, or physical harm to any person; (ii) Executive willfully engages in conduct that is in bad faith and materially injurious to the Company, including without limitation misappropriation of trade secrets, fraud or embezzlement; (iii) Executive commits a material breach of this Agreement or the Proprietary Information Agreement, which breach is not cured within twenty calendar days after written notice to Executive from the Company (to the extent curable); (iv) Executive willfully refuses to implement or follow a lawful policy or directive of the Company, which breach is not cured within twenty calendar days after written notice to Executive from the Company; or (v) Executive engages in misfeasance or malfeasance demonstrated by a pattern of failure to perform job duties diligently and professionally. The Company may terminate Executive's employment For Cause at any time, without any advance notice. The Company shall pay Executive all compensation to which Executive is entitled up through the date of termination, subject to any other rights or remedies of the Company under law, and thereafter all obligations of the Company under this Agreement shall cease.

(d) **Termination By Death.** Executive's employment shall terminate automatically upon Executive's death. The Company shall pay to Executive's beneficiaries or estate, as appropriate, any compensation to which Executive is entitled up through the date of termination. Thereafter all obligations of the Company under this Agreement shall cease. Nothing in this Section 4(d) shall affect any entitlement of Executive's heirs or devisees to the benefits of any life insurance plan or other applicable benefits.

(e) **Termination By Disability.** If Executive becomes eligible for the Company's long-term disability benefits, if any, or if Executive is unable to carry out the responsibilities and functions of the position held by Executive by reason of any physical or mental impairment for more than ninety (90) consecutive days or more than one hundred and twenty (120) days in any twelve (12)-month period ("Disability"), then, to the extent permitted by law, the Company may terminate Executive's employment. The Company shall pay to Executive all compensation to which Executive is entitled up through the date of termination, and thereafter all obligations of the Company under this Agreement shall cease. Nothing in this Section 4(e) shall affect Executive's rights under any disability plan in which Executive is a participant.

(f) **Termination By Executive Other Than for Good Reason.** Executive may terminate employment with the Company at any time, for any reason or no reason at all, with four (4) weeks' advance written notice of any termination by Executive other than for Good Reason (as defined below). During such notice period Executive shall continue to diligently perform all of Executive's duties hereunder. The Company shall have the option, in its sole discretion, to make Executive's termination effective at any time prior to the end of such notice period but not less than two (2) weeks after the date such notice is provided, in which case Executive would receive compensation only up through the effective date of termination of his employment; such accelerated resignation does not convert the Executive's separation to a termination without Cause. Thereafter all obligations of the Company shall cease.

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(g) **Severance Upon Termination By Executive for Good Reason.** For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following without Executive's prior written consent: (i) if during the first 365 days of employment, a reduction in Executive's then-current Base Salary, except for reductions that are comparable to reductions generally applicable to similarly-situated executives of the Company; (ii) the relocation of Executive to a facility or location that is more than seventy-five (75) miles from his primary place of employment and such relocation results in an increase in Executive's one-way driving distance by more than seventy-five (75) miles; provided that this clause (ii) shall not constitute Good Reason if Executive is permitted to perform his duties and responsibilities hereunder remotely from or near his home for approximately two weeks or more per month; or (iii) a material and adverse change in Executive's authority, duties, or responsibilities with the Company or a material and adverse change in Executive's reporting relationship; in each case other than any isolated, insubstantial and inadvertent failure by the Company that is not in bad faith and is cured within thirty (30) business days after Executive gives the Company notice of such event, which must be given within ninety (90) days after the event giving rise to the claim of Good Reason occurs. Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder; provided, however, that no such event described above shall constitute Good Reason unless: (A) Executive gives notice of termination to the Company specifying the condition or event relied upon for such termination within ninety (90) days of the initial existence of such event; and (B) the Company fails to cure the condition or event constituting Good Reason within thirty (30) days following receipt of Executive's notice of termination (the "Cure Period"). If the Company fails to remedy the condition constituting Good Reason during the applicable Cure Period, Executive's "separation from service" (within the meaning of Section 409A of the Code) must occur, if at all, within ninety (90) days following such Cure Period in order for such termination as a result of such condition to constitute a termination for Good Reason. Upon Executive's termination of his employment for Good Reason and subject to Section 4(i) and Employee's continued compliance with the surviving obligations in this Agreement, Employee will be eligible to receive Severance on the same terms and conditions set forth in Section 4(b) above.

(h) **Termination Obligations**

(i) **Return of Property.** Executive agrees that all property (including without limitation all equipment, tangible proprietary information, documents, records, notes, contracts and computer-generated materials) furnished to or created or prepared by Executive incident to Executive's employment belongs to the Company and shall be promptly returned to the Company upon termination of Executive's employment or at any time sooner upon demand.

(ii) **Resignation and Cooperation.** Upon termination of Executive's employment, Executive shall be deemed to have resigned from all offices and directorships then held with the Company. Following any termination of employment, Executive shall cooperate with the Company in the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees. Executive shall also cooperate with the Company in the defense of any action brought by any third party



(i) **Release.** The receipt of any payment pursuant to this Section 4 shall be subject to Executive timely signing and not revoking a standard release of all claims in a form satisfactory to the Company and attached hereto as Annex B (the "Severance Release"), or as such Severance Release form may be modified from time to time. To be timely, the Severance Release must become effective and irrevocable no later than sixty (60) days following the Severance Date (the "Severance Release Deadline"). If the Severance Release does not become effective and irrevocable by the Severance Release Deadline, Executive hereby forfeits any rights to the Severance benefits described in this Section 4. In no event will any Severance benefits be paid under this Section 4 until the Severance Release becomes effective and irrevocable. Subject to Annex A attached hereto, Severance benefits shall commence once the Severance Release becomes effective and irrevocable.

(j) **Exclusive Remedy.** Executive agrees that the payments and benefits contemplated by this Section 4 (and any applicable acceleration of vesting of an equity-based award in accordance with the terms of such award in connection with the termination of Executive's employment) shall constitute the exclusive and sole remedy for any termination of his employment, and Executive covenants not to assert or pursue any other remedies, at law or in equity, with respect to any termination of employment.

5. Inventions and Proprietary Information; Prohibition on Third Party Information

(a) **Proprietary Information Agreement.** Executive shall sign and be bound by the terms of the Company's Employee Proprietary Information, Inventions Assignment and Non-Competition Agreement (the "Proprietary Information Agreement") in the form attached hereto as Annex C.

(b) **Non-Disclosure of Third Party Information.** Executive represents, warrants and covenants that Executive shall not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others at any time, including without limitation any proprietary information or trade secrets of any former employer, if any; and Executive acknowledges and agrees that any violation of this provision shall be grounds for Executive's immediate termination and could subject Executive to substantial civil liabilities and criminal penalties. Executive further specifically and expressly acknowledges that no officer or other employee or representative of the Company has requested or instructed Executive to disclose or use any such third party proprietary information or trade secrets.

6. General Provisions.

(a) **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, personal representatives and successors, including any successor of the Company by reason of any dissolution, merger, consolidation, sale of assets or other reorganization of the Company.

(b) **Waiver.** The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power or privilege; and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by applicable law, (i) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (ii) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (iii) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.



(c) **Validity.** The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. The parties agree that any unenforceable provision shall be reformed and construed to the maximum extent permitted by law or if such provision or term is not reformable then it shall be deemed not to be a part of this Agreement. The parties agree that if any court of competent jurisdiction determines that any part or provision of this Agreement is void or unenforceable, such court may substitute therefore lawful and enforceable provisions that so far as possible result in the same effect and the parties agree to be bound by such determination.

(d) **Headings.** The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement.

(e) **Governing Law; Venue; Dispute Resolution.** Except as expressly provided otherwise in this Agreement, the validity, interpretation, enforceability, and performance of this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts. Except for actions for injunctive or other equitable relief, which may be brought in any court of competent jurisdiction, any legal suit, action or proceeding arising out of or relating to this Agreement shall be commenced in a federal court in the Commonwealth of Massachusetts or in state court in the Commonwealth of Massachusetts, and each party hereto irrevocably submits to the exclusive jurisdiction and venue of any such court in any such suit, action or proceeding. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THEREBY OR THE ACTIONS OF SUCH PARTY IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF. The parties agree that in any court action at law or equity that is brought by one of the parties to this Agreement to enforce or interpret the provisions of this Agreement, the prevailing party will be entitled to reasonable and documented attorneys' fees, in addition to any other relief to which that party may be entitled. If a claim, dispute or any other matter, other than a breach under the Proprietary Information Agreement, involving a difference between the parties arises in connection with this Agreement or in relation to the parties' performance or failure to perform their obligations hereunder (a "Disputed Matter"), the parties agree that they shall, prior to taking any legal action to enforce the parties' rights, meet to discuss the circumstances giving rise to the Disputed Matter and shall attempt in good faith to resolve the Disputed Matter without resorting to formal adjudication and enforcement mechanisms. A party desiring such a meeting shall give the other written notice of its request for a meeting, which notice shall include a description of the Disputed Matter and shall propose a place, date and time for the meeting. The party receiving that notice shall respond to it in writing, within seven (7) days of its receipt of such notice, confirming the place, date and time of the proposed meeting or proposing other arrangements for that meeting. The meeting will be held within ten (10) business days after the date on which the first notice was received by the party to whom that notice was directed. The party receiving such a notice may, in its response to the notice, describe other Disputed Matters that it wishes to address in such a meeting. In the case of any Disputed Matter that cannot be resolved as provided for hereinabove, parties agree to pursue resolution of the Disputed Matter through the courts with applicable law and jurisdiction as provided hereinabove.



(f) **Counterparts.** This Agreement may be executed in one or more counterparts, all of which when fully executed and delivered by all parties hereto and taken together shall constitute a single agreement, binding against each of the parties.

(g) **Survival.** Sections 4, 5 and 6 of this Agreement (including the terms and provisions of the Proprietary Information Agreement as set forth therein) shall survive Executive's employment by the Company.

(h) **Notices.** All notices, consents, waivers and other communications under this Agreement shall be in writing and will be deemed to have been duly given when (i) delivered by hand (with written confirmation of receipt); (ii) when received by the addressee, if sent by a nationally recognized overnight delivery service requiring the signature of recipient; or (iii) when received by the addressee, if sent by United States first class registered or certified mail, return receipt requested postage prepaid, to the principal address of the other party set forth below, or to such other address as either party shall have furnished to the other in writing in accordance herewith. An email or telefacsimile transmission shall not constitute a valid notice hereunder but may be sent to the other party merely as a courtesy.

If to Executive to:

Michael S. Abrams

If to the Company to:

Arch Therapeutics, Inc.
Attn: President and Chief Executive Officer
235 Walnut Street, Suite 6
Framingham, MA 01702
Email: tnorchi@archtherapeutics.com
Facsimile No.: 617.431.2307

(i) **Entire Agreement.** This Agreement is intended to be the final, complete, and exclusive statement of the terms of Executive's employment by the Company or any of the Company's affiliates and may not be contradicted by evidence of any prior or contemporaneous statements or agreements, except for agreements specifically referenced herein (including the Proprietary Information Agreement and any agreement relating to any stock option or other equity award that may be granted to Executive). Without limiting the generality of the foregoing, this Agreement and the employment relationship governed hereby shall supersede and replace in its entirety any agreements relating to Executive's former independent contractor relationship with the Company. To the extent that the practices, policies or procedures of the Company, now or in the future, apply to Executive and are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control. Except as otherwise expressly provided herein, any subsequent change in Executive's duties, position, or compensation will not affect the validity or scope of this Agreement.



EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS HAD THE OPPORTUNITY TO CONSULT LEGAL COUNSEL CONCERNING THIS AGREEMENT, THAT EXECUTIVE HAS READ AND UNDERSTANDS THIS AGREEMENT IN FULL, THAT EXECUTIVE IS FULLY AWARE OF ITS LEGAL EFFECT, AND THAT EXECUTIVE HAS ENTERED INTO IT FREELY BASED ON EXECUTIVE'S OWN JUDGMENT AND NOT ON ANY REPRESENTATIONS OR PROMISES OTHER THAN THOSE CONTAINED IN THIS AGREEMENT.

[Remainder of Page Intentionally Left Blank]



IN WITNESS WHEREOF, the parties have duly executed this Agreement as of March 31, 2021.

EXECUTIVE

By: /s/ Michael S. Abrams

Name: Michael S. Abrams

ARCH THERAPEUTICS, INC.

By: /s/ Terrence W. Norchi
Name: Terrence W. Norchi, MD
Title: President and CEO

[Signature Page to Executive Employment Agreement]



ANNEX A

SECTION 409A ADDENDUM

Notwithstanding anything to the contrary in the Agreement, no Severance pay or benefits to be paid or provided to Executive, if any, pursuant to the Agreement that, when considered together with any other Severance payments or separation benefits, are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder ("Section 409A") (together, the "Deferred Payments") will be paid or otherwise provided until Executive has had a "separation from service" within the meaning of Section 409A. Similarly, no Severance payable to Executive, if any, that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has had a "separation from service" within the meaning of Section 409A. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

Any Severance payments or benefits under the Agreement that would be considered Deferred Payments will be paid or will commence on the sixtieth (60th) day following Executive's separation from service, or, if later, such time as required by the next paragraph.

Notwithstanding anything to the contrary in the Agreement, if Executive is a "specified Executive" within the meaning of Section 409A at the time of Executive's termination (other than due to death), then the Deferred Payments that would otherwise have been payable within the first six (6) months following Executive's separation from service, will be paid on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service, but in no event later than seven (7) months after the date of such separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but prior to the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit.

Any amount paid under the Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments. Any amount paid under the Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute Deferred Payments. For this purpose, the "Section 409A Limit" will mean two (2) times the lesser of: (i) Executive's annualized compensation based upon the annual rate of pay paid to him during Executive's taxable year preceding his taxable year of his separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code for the year in which Executive's separation from service occurred.

The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the Severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.



ANNEX B

FORM OF RELEASE AGREEMENT

In connection with the termination of that certain Executive Employment Agreement, dated March 31, 2021, by and between the parties hereto (the "Employment Agreement") and the termination of the employment relationship governed thereby, in consideration of the mutual covenants set forth herein and therein, Arch Therapeutics, Inc., a Nevada corporation (the "Company"), and Michael S. Abrams ("Executive") hereby agree to the terms and conditions set forth in this Release Agreement (this "Agreement").

1. **Release.** Executive, on his own behalf, on behalf of any entities he controls and on behalf of his descendants, dependents, heirs, executors, administrators, assigns and successors, and each of them, hereby acknowledges full and complete satisfaction of and forever and fully, generally and specifically, and separately and collectively, releases and discharges and covenants not to sue the Company, its divisions, subsidiaries, parents, affiliated companies, officers, directors, agents, stockholders, insurers, executors, attorneys, administrators, predecessors, successors, assigns, past and present, and each of them, as well as its and their assignees and successors (collectively, "Company Releasees"), from and with respect to any and all claims, agreements, obligations, demands, causes of action, costs, expenses, attorneys' fees, damages, indemnities and liabilities of every kind and nature, at law, in equity or otherwise, known and unknown, discoverable and undiscoverable, suspected and unsuspected, disclosed and undisclosed, fixed or contingent, which Executive or his successors and assigns ever had, now has, or hereafter can, shall or may claim to have (collectively, the "Claims"), existing up to the date that the Executive signs and returns this Agreement and arising out of or in any way connected with the Employment Agreement, Executive's employment, the termination thereof, or any other matter or thing, including any relationship with or interest in the Company, including without limiting the generality of the foregoing, any claim for severance pay, profit sharing, bonus or similar benefit, pension, retirement, life insurance, health or medical insurance or any other fringe benefit, or disability, damages, attorneys fees, or any other Claims resulting from or arising out of any act or omission by or on the part of any Company Releasees committed or omitted prior to the date of this Agreement, including, without limiting the generality of the foregoing, any claim under Title VII of the Civil Rights Act of 1964, the Americans with

Disabilities Act, the Family and Medical Leave Act, The Massachusetts Fair Employment Practices Act, M.G.L 151B or any other federal, state or local law, regulation or ordinance; *provided, however*, that the foregoing release does not in any way prohibit, limit or otherwise interfere with Executive's protected rights under federal, state or local law to without notice to the Company: (i) communicate or file a charge with a government regulator; (ii) participate in an investigation or proceeding conducted by a government regulator although he waives the right to recover any financial award.

2. Acknowledgement. This Agreement is intended to be effective as a general release of and bar to each and every Claim hereinabove specified (collectively, the "Released Claims"). Accordingly, Executive, on his own behalf, on behalf of any entities he controls and on behalf of his descendants, dependents, heirs, executors, administrators, assigns and successors, and each of them, hereby expressly acknowledges that the release set forth in Section 1 is intended to include a release of presently unknown and unsuspected claims and expressly waives any and all rights that may exist under any state or federal statute or common law principle to the contrary, and expressly acknowledges that he later may discover or sustain Claims or facts in addition to or different from those which Executive now knows or believes to exist with respect to the subject matter of this Agreement, which are unknown and unanticipated as of the date hereof or are not presently capable of being ascertained and which, if known or suspected at the time of executing this Agreement, may have materially affected its terms. Nevertheless, Executive acknowledges that this Agreement has been negotiated and agreed in light of that realization and hereby waives, as to the Released Claims, any Claims that might arise as a result of such different or additional Claims or facts.

3. ADEA Waiver. Executive expressly acknowledges and agrees that, by entering into this Agreement, he is waiving any and all rights or claims that he may have arising under the Age Discrimination in Employment Act of 1967, as amended, which have arisen on or before the date of execution of this Agreement. Executive further expressly acknowledges, agrees and understands that:

(a) In return for this Agreement, he will receive consideration beyond that which he was already entitled to receive before entering into this Agreement;

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(b) He is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement;

(c) He was given a copy of this Agreement on [_____, 20__] and informed that he had twenty-one (21) days within which to consider the Agreement; and

(d) He was informed that he has seven (7) days following the date of execution of the Agreement in which to revoke the Agreement, and this Agreement will not become effective or enforceable until such seven (7) day revocation period has expired.

4. Defense Against Future Suit. This Agreement may be pleaded as a full and complete defense to, and Executive hereby consents that it may be used as the basis of dismissal of, any action, suit, or proceeding based on any claims whatsoever released by this Agreement.

5. Remedies: Waiver. In the event Executive commits a breach of any term(s) of this Agreement: (i) the damaged party, whether the Company or any of the Company Releasees, shall be entitled to recover from Executive all of the attorneys' fees and costs incurred in bringing a successful action on such breach, and (ii) such breach shall cause automatic and immediate termination of the Employment Agreement between Executive and the Company. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. No waiver that may be given by a party hereunder will be applicable except in the specific instance for which it is given.

6. Governing Law: Venue. This Agreement shall be governed by, and construed in accordance with the laws of the United States and the Commonwealth of Massachusetts without regard to Massachusetts principles of choice of laws applicable in such jurisdiction and, in enforcing such governing laws, any court of competent jurisdiction shall afford all relief which a Massachusetts court would afford under similar circumstances. Except for actions for injunctive or other equitable relief, which may be brought in any court of competent jurisdiction, any legal suit, action or proceeding arising out of or relating to this Agreement shall be commenced in a federal court in the Commonwealth of Massachusetts or in state court in the Commonwealth of Massachusetts, and each party hereto irrevocably submits to the exclusive jurisdiction and venue of any such court in any such suit, action or proceeding. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THEREBY OR THE ACTIONS OF SUCH PARTY IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT HEREOF.

7. No Transferred Claims. Each party hereto represents and warrants to the other that he or it, as applicable, has not heretofore assigned or transferred to any person not a party to this Agreement any released matter or any part or portion thereof.

8. Miscellaneous. If any provision of this Agreement, or the application thereof to any person, place, or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable, or void, such provision shall be enforced to the fullest extent permitted by law, and the remainder of this Agreement and such provisions as applied to other persons, places, and circumstances shall remain in full force and effect. In the event that the time period or scope of any provision is declared by a court of competent jurisdiction to exceed the maximum time period or scope that such court deems enforceable, then such court shall reduce the time period or scope to the maximum time period or scope permitted by law. This Agreement may be amended only in a written instrument executed and delivered by each of the parties hereto. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, successors and assigns. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and together shall be deemed to be one and the same document.

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The undersigned have read and understand the consequences of this Agreement and voluntarily sign it. The undersigned declare under penalty of perjury under the laws of the State of Massachusetts that the foregoing is true and correct.

EXECUTED this day of 20 .

Executive:

[Name]

Company:

By: [Name]

Its: [Title]

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ANNEX C

EMPLOYEE PROPRIETARY INFORMATION, INVENTIONS ASSIGNMENT AND NON-COMPETITION AGREEMENT

Exhibit 99.1

Arch Therapeutics Appoints Michael S. Abrams its Chief Financial Officer

Company Prepares for Next Stage of Growth

FRAMINGHAM, MA – May 3, 2021 -- Arch Therapeutics, Inc. (OTCQB: ARTH) (“Arch” or the “Company”), developer of novel self-assembling wound care and biosurgical devices, today announced that it has appointed Michael S. Abrams its Chief Financial Officer effective May 10, 2021. In alignment with the Company’s succession plan, Mr. Abrams joins Arch’s financial team today, one week before assuming the role currently held by the Company’s Chief Financial Officer, Richard Davis. Mr. Davis will remain with the Company during a Transition Period, which will end on June 30, 2021, after which he will support the Company in a consulting role through December 31, 2021.

Mr. Abrams has over 25 years of experience as a Chief Financial Officer to numerous public and private companies; principal investor; investment banker; merchant banker; strategic and financial advisor; and Board member. Mr. Abrams’ capabilities span a broad range of activities with a particular expertise in the areas of operational management, complex financial engineering, financial advisory, and capital markets strategy primarily for companies in the technology and healthcare sectors. Mr. Abrams graduated with an MBA with Honors from the Booth School of Business at the University of Chicago and received his BBA with Honors from the University of Massachusetts at Amherst as a William F. Field Alumni scholar, an award given annually to the top finance student in the class.

Terrence W. Norchi, M.D., Chief Executive Officer of Arch Therapeutics, said, “I am pleased to welcome Mike to our leadership team. His deep and extensive experience in leading financial operations will support our immediate and ongoing commercialization and R&D efforts and continue to position Arch as an industry leader. I am confident Mike will provide strong leadership and is an excellent addition to the organization.”

“On behalf of our board of directors and all of us at the Company, I thank Rick Davis for his exceptional contributions throughout his tenure at Arch,” added Norchi. “In his seven years as CFO, Rick has been a prodigious leader, mentor and colleague, and his guidance has been instrumental to Arch’s success. I wish Rick all the best in the next chapter of his life.”

Mr. Abrams commented, “I am thrilled to join Arch, a company I have long admired and one that has innovative, game-changing medical device technologies. Arch has unique strengths and tremendous opportunities worldwide with its current and future products. I look forward to working with the team to execute on the Company’s priorities, accelerate growth and enhance value for shareholders and stakeholders.”

Rick Davis, Arch Chief Financial Officer said, “It has been a privilege and honor to work with my colleagues at Arch. I have strived to do right by all, our shareholders, employees, suppliers and now our customers. I have the utmost confidence that Terry, Mike and the rest of the team will maximize this opportunity for all stakeholders.”

Terrence W. Norchi, M.D., Chief Executive Officer of Arch Therapeutics, concluded, “I again want to thank Rick on both a professional and personal basis for his care and commitment to Arch and to me. At the very same time, I look forward to working with Mike for many years to come building and expanding upon the foundation of Arch’s accomplishments and value proposition.”

About Arch Therapeutics, Inc.

Arch Therapeutics, Inc. is a biotechnology company developing a novel approach to stop bleeding (hemostasis), control leaking (sealant) and manage wounds during surgery, trauma and interventional care. Arch is developing products based on an innovative self-assembling barrier technology platform with the goal of making care faster and safer for patients. Arch has received regulatory authorization to market AC5 Advanced Wound System and AC5 Topical Hemostat as medical devices in the United States and Europe, respectively. Arch's development stage product candidates include AC5-G, AC5-V and AC5 Surgical Hemostat, among others.^{1,2}

Notice Regarding Forward-Looking Statements

This news release contains “forward-looking statements” as that term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements in this press release that are not purely historical are forward-looking statements and include any statements regarding beliefs, plans, expectations or intentions regarding the future. Such forward-looking statements include, among other things, references to novel technologies and methods, our ability to recruit additional field sales representatives and their effectiveness, our business and product development plans and projections, or market information. Actual results could differ from those projected in any forward-looking statements due to numerous factors. Such factors include, among others, the inherent uncertainties associated with developing new products or technologies and operating as a development stage company, our ability to retain important members of our management team and attract other

qualified personnel, our ability to raise the additional funding we will need to continue to pursue our business and product development plans, our ability to obtain required regulatory approvals, our ability to produce commercial quantities of our products within projected timeframes, our ability to develop and commercialize products based on our technology platform, and market conditions, and our ability to establish additional commercialization partnerships and build a critical mass of field sales representatives. These forward-looking statements are made as of the date of this news release, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Although we believe that any beliefs, plans, expectations and intentions contained in this press release are reasonable, there can be no assurance that any such beliefs, plans, expectations or intentions will prove to be accurate. Investors should consult all of the information set forth herein and should also refer to the risk factors disclosure outlined in the reports and other documents we file with the SEC, available at www.sec.gov.

¹ AC5-G, AC5-V, and AC5 Surgical Hemostat are currently investigational devices limited by law to investigational use.

² AC5, AC5-G, AC5-V and associated logos are trademarks and/or registered trademarks of Arch Therapeutics, Inc. and/or its subsidiaries.

Contact:

ARTH Investor Relations

Toll Free: +1-855-340-ARTH (2784) (US and Canada)

Email: investors@archtherapeutics.com

Website: www.archtherapeutics.com

ANNEX B

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

Commission File Number: 000-54986

ARCH THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

46-0524102

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

**235 Walnut Street, Suite 6
Framingham, MA**

(Address of principal executive offices)

01702

(Zip Code)

(617) 431-2313

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

ARCH THERAPEUTICS, INC.
Quarterly Report on Form 10-Q
For the Three Months ended March 31, 2021

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Arch Therapeutics, Inc. and Subsidiaries

Consolidated Balance Sheets

As of March 31, 2021 (Unaudited) and September 30, 2020

	March 31, 2021	September 30, 2020
ASSETS		
Current assets:		
Cash	\$ 5,560,816	\$ 959,309
Inventory	828,220	967,993
Prepaid expenses and other current assets	453,376	215,673
Total current assets	6,842,412	2,142,975
Long-term assets:		
Property and equipment, net	6,838	4,552
Other assets	3,500	3,500
Total long-term assets	10,338	8,052
Total assets	\$ 6,852,750	\$ 2,151,027
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 558,833	\$ 342,050
Accrued expenses and other liabilities	171,542	248,968
Current portion of derivative liability	1,000,000	-
Current portion of PPP Loan	116,772	37,442
Total current liabilities	1,847,147	628,460
Long-term liabilities:		
Long-term portion of PPP loan	59,528	138,858
Series 1 convertible notes	550,000	550,000
Series 2 convertible notes	1,050,000	-
Accrued interest	86,918	17,781
Derivative liability	1,207,475	2,316,419
Total long-term liabilities	2,953,921	3,023,058

Total liabilities	4,801,068	3,651,518
Commitments and contingencies		
Stockholders' equity (deficit):		
Common stock, \$0.001 par value, 800,000,000 shares authorized as of March 31, 2021 and September 30, 2020, 236,719,770 and 193,044,766 shares issued and outstanding as of March 31, 2021 and September 30, 2020	236,720	193,045
Additional paid-in capital	48,316,799	41,862,901
Accumulated deficit	(46,501,837)	(43,556,437)
Total stockholders' equity (deficit)	2,051,682	(1,500,491)
Total liabilities and stockholders' equity (deficit)	<u>\$ 6,852,750</u>	<u>\$ 2,151,027</u>

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

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Arch Therapeutics, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)
For the Three and Six Months Ended March 31, 2021 and 2020

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Six Months Ended March 31, 2021	Six Months Ended March 31, 2020
Revenue	\$ 10,000	\$ -	\$ 10,000	\$ -
Operating expenses:				
Cost of revenues	10,102	-	10,102	-
General and administrative expenses	1,339,833	892,136	2,230,024	1,867,969
Research and development expenses	410,611	262,433	754,202	906,167
Total costs and expenses	<u>1,760,546</u>	<u>1,154,569</u>	<u>2,994,328</u>	<u>2,774,136</u>
Loss from operations	(1,750,546)	(1,154,569)	(2,984,328)	(2,774,136)
Other income (expense):				
Interest expense	(40,750)	-	(70,016)	-
Decrease to fair value of derivative	-	422,685	108,944	382,498
Total other income (expense)	<u>(40,750)</u>	<u>422,685</u>	<u>38,928</u>	<u>382,498</u>
Net loss	<u>\$ (1,791,296)</u>	<u>\$ (731,884)</u>	<u>\$ (2,945,400)</u>	<u>\$ (2,391,638)</u>
Loss per share - basic and diluted				
Net loss per common share - basic and diluted	\$ (0.01)	\$ -	\$ (0.01)	\$ (0.01)
Weighted common shares - basic and diluted	213,337,625	186,897,947	203,135,751	185,492,795

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

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Arch Therapeutics, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Deficit) (Unaudited)
For the Three and Six Months Ended March 31, 2021 and 2020

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Three Months Ended March 31, 2020					
Balance at December 31, 2019	186,897,947	\$ 186,898	\$ 40,237,079	\$ (40,524,814)	\$ (100,837)
Net loss	-	-	-	(731,884)	(731,884)
Stock-based compensation expense	-	-	297,203	-	297,203
Balance at March 31, 2020	<u>186,897,947</u>	<u>\$ 186,898</u>	<u>\$ 40,534,282</u>	<u>\$ (41,256,698)</u>	<u>\$ (535,518)</u>
Three Months Ended March 31, 2021					
Balance at December 31, 2020	193,044,766	\$ 193,045	\$ 41,948,512	\$ (44,710,541)	\$ (2,568,984)
Net loss	-	-	-	(1,791,296)	(1,791,296)

Issuance of common stock and warrants, net of financing costs	43,125,004	43,125	6,176,108	-	6,219,233
Issuance of restricted stock	550,000	550	(550)	-	-
Stock-based compensation expense	-	-	192,729	-	192,729
Balance at March 31, 2021	<u>236,719,770</u>	<u>\$ 236,720</u>	<u>\$ 48,316,799</u>	<u>\$ (46,501,837)</u>	<u>\$ 2,051,682</u>
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
Six Months Ended March 31, 2020	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance at September 30, 2019	172,612,233	\$ 172,612	\$ 37,885,151	\$ (38,865,060)	\$ (807,297)
Net loss	-	-	-	(2,391,638)	(2,391,638)
Issuance of common stock and warrants, net of financing costs	14,285,714	14,286	2,152,876	-	2,167,162
Issuance of restricted stock	-	-	-	-	-
Stock-based compensation expense	-	-	496,255	-	496,255
Balance at March 31, 2020	<u>186,897,947</u>	<u>\$ 186,898</u>	<u>\$ 40,534,282</u>	<u>\$ (41,256,698)</u>	<u>\$ (535,518)</u>
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
Six Months Ended March 31, 2021	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance at September 30, 2020	193,044,766	\$ 193,045	\$ 41,862,901	\$ (43,556,437)	(1,500,491)
Net loss	-	-	-	(2,945,400)	(2,945,400)
Issuance of common stock and warrants, net of financing costs	43,125,004	43,125	6,176,108	-	6,219,233
Issuance of restricted stock	550,000	550	(550)	-	-
Stock-based compensation expense	-	-	278,340	-	278,340
Balance at March 31, 2021	<u>236,719,770</u>	<u>\$ 236,720</u>	<u>\$ 48,316,799</u>	<u>\$ (46,501,837)</u>	<u>\$ 2,051,682</u>

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

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Arch Therapeutics, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended March 31, 2021 and 2020

	Six Months Ended March 31, 2021	Six Months Ended March 31, 2020
Cash flows from operating activities:		
Net loss	\$ (2,945,400)	\$ (2,391,638)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	989	3,701
Stock-based compensation	278,340	496,255
Decrease to fair value of derivative	(108,944)	(382,498)
Inventory obsolescence charge	181,988	49,692
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Inventory	(42,215)	(657,000)
Prepaid expenses and other current assets	(237,703)	222,014
Increase (decrease) in:		
Accounts payable	216,783	190,752
Accrued interest	69,137	-
Accrued expenses and other liabilities	(77,426)	(87,385)
Net cash used in operating activities	<u>(2,664,451)</u>	<u>(2,556,107)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,275)	(2,455)
Net cash used in investing activities	<u>(3,275)</u>	<u>(2,455)</u>
Cash flows from financing activities:		
Proceeds received from Series 2 convertible notes	1,050,000	-
Proceeds from issued common stock and warrants, net of financing costs	6,219,233	2,167,162
Net cash provided by financing activities	<u>7,269,233</u>	<u>2,167,162</u>

Net increase (decrease) in cash	4,601,507	(391,400)
Cash, beginning of year	959,309	2,180,329
Cash, end of period	<u>\$ 5,560,816</u>	<u>\$ 1,788,929</u>
Non-cash financing activities:		
Issuance of restricted stock for services	<u>\$ 103,750</u>	<u>\$ -</u>

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

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ARCH THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

Organization and Description of Business

Arch Therapeutics, Inc., (together with its subsidiary, the “Company” or “Arch”) was incorporated under the laws of the State of Nevada on September 16, 2009, under the name “Almah, Inc.”. Effective June 26, 2013, the Company completed a merger (the “Merger”) with Arch Biosurgery, Inc. (formerly known as Arch Therapeutics, Inc.), a Massachusetts corporation (“ABS”), and Arch Acquisition Corporation (“Merger Sub”), the Company’s wholly owned subsidiary formed for the purpose of the transaction, pursuant to which Merger Sub merged with and into ABS and ABS thereby became the wholly owned subsidiary of the Company. As a result of the acquisition of ABS, the Company abandoned its prior business plan and changed its operations to the business of a biotechnology company. Our principal offices are located in Framingham, Massachusetts.

For financial reporting purposes, the Merger represented a “reverse merger”. ABS was deemed to be the accounting acquirer in the transaction and the predecessor of Arch. Consequently, the accumulated deficit and the historical operations that are reflected in the Company’s consolidated financial statements prior to the Merger are those of ABS. All share information has been restated to reflect the effects of the Merger. The Company’s financial information has been consolidated with that of ABS after consummation of the Merger on June 26, 2013, and the historical financial statements of the Company before the Merger have been replaced with the historical financial statements of ABS before the Merger in this report.

ABS was incorporated under the laws of the Commonwealth of Massachusetts on March 6, 2006 as Clear Nano Solutions, Inc. On April 7, 2008, ABS changed its name from Clear Nano Solutions, Inc. to Arch Therapeutics, Inc. Effective upon the closing of the Merger, ABS changed its name from Arch Therapeutics, Inc. to Arch Biosurgery, Inc.

We have only recently commenced commercial sales of our first product, ACS[®] Advanced Wound System, and have devoted substantially all of our operational effort to the research, development and regulatory programs necessary to turn our core technology into commercial products. To date, the Company has principally raised capital through debt borrowings, the issuance of convertible debt, and the issuance of units consisting of common stock and warrants.

The Company expects to incur substantial expenses for the foreseeable future relating to research, development and commercialization of its potential products. However, there can be no assurance that the Company will be successful in securing additional resources when needed, on terms acceptable to the Company, if at all. Therefore, there exists substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments related to the recoverability of assets that might be necessary despite this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The interim consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our results of operations and financial position for the interim periods.

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Although we believe that the disclosures in these unaudited interim consolidated financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2020, filed with the SEC on December 11, 2020.

For a complete summary of our significant accounting policies, please refer to Note 2 included in Item 8 of our Form 10-K for the fiscal year ended September 30, 2020. There have been no material changes to our significant accounting policies during the six months ended March 31, 2021.

Basis of Presentation

The consolidated financial statements include the accounts of Arch Therapeutics, Inc. and its wholly owned subsidiary, Arch Biosurgery, Inc., a biotechnology company. All intercompany accounts and transactions have been eliminated in consolidation.

We are a biotechnology company marketing or developing a number of products and are devoting substantially all of its efforts to developing technologies, raising capital, establishing customer and vendor relationships, and recruiting and retaining new employees.

Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Recently Issued Accounting Guidance

Accounting Standards Update (ASU) 2018-13, “Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” was issued by the Financial Accounting Standards Board (FASB) in August 2018. The purpose of this amendment in this Update is to modify the disclosure requirements on fair value measurements in Topic 820. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted ASU 2018-13 during our first quarter of fiscal year 2021, and the impact was considered immaterial on our consolidated financial statements.

ASU 2020-06, “Debt with Conversion and other Options (subtopic 470-02) and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40)” was issued by the FASB in August 2020. The purpose of this amendment is to address issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liability and equity. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures

Cash

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents as of March 31, 2021 and September 30, 2020.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises expenditures incurred in acquiring the inventories, the cost of conversion and other costs incurred in bringing them to their existing location and condition. The cost of raw materials, goods-in-process and finished goods are determined on a First in First out (FIFO) basis. When determining net realizable value, appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash. The Company maintains its cash in bank deposits accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

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Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the related asset. Upon sale or retirement, the cost and accumulated depreciation are eliminated from their respective accounts, and the resulting gain or loss is included in income or loss for the period. Repair and maintenance expenditures are charged to expense as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC 360 *Property, Plant and Equipment*. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. For the six months ended March 31, 2021 and 2020 there has not been any impairment of long-lived assets.

Leases

The Company determines if an arrangement is a lease at its inception. Operating lease right-of-use (“ROU”) assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As our lease does not provide an implicit interest rate, we use an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term. As of March 31, 2021 and September 30, 2020, our ROU asset is included in prepaid expenses and other current assets and the lease obligations is included in accrued expenses and other current liabilities on our consolidated balance sheets. As of March 31, 2021 and September 30, 2021, ROU asset of approximately \$20,000 and \$39,000, respectively, represents our right to use an underlying asset for the lease term and the lease liabilities of approximately \$20,000 and \$39,000, respectively, represents our obligation to make lease payments arising from the lease.

Income Taxes

In accordance with FASB ASC 740, *Income Taxes*, we recognize deferred tax assets and liabilities for the expected future tax consequences or events that have been included in our consolidated financial statements and/or tax returns. Deferred tax assets and liabilities are based upon the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and for loss and credit carryforwards using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions when management determines that it is more likely than not that a loss will be incurred related to these matters and the amount of the loss is reasonably determinable.

Revenue

Revenue is recognized through a five-step process: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied.

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Our source of revenue is product sales. Our contracts with customers contain a single performance obligation and we recognize revenue from product sales when we have satisfied our performance obligation by transferring control of the product to our customers. Control of the product transfers to the customer upon shipment from our third-party

warehouse.

Cost of Revenues

Cost of revenues includes product costs, warehousing, overhead allocation and royalty expenses.

Research and Development

The Company expenses internal and external research and development costs, including costs of funded research and development arrangements, in the period incurred.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the guidance of FASB ASC Topic 718, *Compensation-Stock Compensation* (“FASB ASC Topic 718”), which requires all share-based payments be recognized in the consolidated financial statements based on their fair values. In accordance with FASB ASC Topic 718, the Company has elected to use the Black-Scholes option pricing model to determine the fair value of options granted and recognizes the compensation cost of share-based awards on a straight-line basis over the vesting period of the award.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by the fair value of the common stock and a number of other assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. Prior to January 1, 2018, the Company’s expected volatility was derived from the historical daily change in the market price of its common stock since it exited shell company status, as well as the historical daily change in the market price for the peer group as determined by the Company. Effective January 1, 2018, the Company’s expected volatility is derived from the historical daily change in the market price of its common stock since it exited shell company status. The expected life for awards uses the simplified method for all “plain vanilla” options, as defined in ASC 718-10-S99 and the contractual term for all other employee and non-employee awards. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on history and the expectation of paying no dividends. Stock-based compensation expense, when recognized in the consolidated financial statements, is based on awards that are ultimately expected to vest.

Fair Value Measurements

The Company measures both financial and nonfinancial assets and liabilities in accordance with FASB ASC Topic 820 *Fair Value Measurements and Disclosures*, including those that are recognized or disclosed in the consolidated financial statements at fair value on a recurring basis. The standard created a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company’s own views about the assumptions market participants would use in pricing the asset or liability.

At March 31, 2021 and September 30, 2020, the carrying amounts of cash, accounts payables and accrued expenses and other liabilities approximate fair value because of their short-term nature. The carrying amounts for the PPP Loan and the Convertible Notes approximate fair value because borrowing rates and term are similar to comparable market participants.

Derivative Liabilities

The Company accounts for its warrants and other derivative financial instruments as either equity or liabilities based upon the characteristics and provisions of each instrument, in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. Warrants classified as equity are recorded at fair value as of the date of issuance on the Company’s consolidated balance sheets and no further adjustments to their valuation are made. Warrants classified as derivative liabilities and other derivative financial instruments that require separate accounting as liabilities are recorded on the Company’s consolidated balance sheets at their fair value on the date of issuance and will be revalued on each subsequent balance sheet date until such instruments are exercised or expire, with any changes in the fair value between reporting periods recorded as other income or expense. Management estimates the fair value of these liabilities using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

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Financial Statement Reclassification

Certain balances in the prior year consolidated financial statements have been reclassified for comparison purposes to conform to the presentation in the current period consolidated financial statements.

Subsequent Events

The Company evaluated all events or transactions through May 5, 2021 the date which these unaudited interim consolidated financial statements were issued. There were no material subsequent events.

Going Concern Basis of Accounting

As reflected in the consolidated financial statements, the Company has an accumulated deficit, has suffered significant net losses and negative cash flows from operations, only recently commenced generating operating revenues, and has limited working capital. The continuation of our business as a going concern is dependent upon raising additional capital, the ability to successfully market and sell its product and eventually attaining and maintaining profitable operations. In particular, as of March 31, 2021, the Company will be required to raise additional capital, obtain alternative means of financial support, or both, in order to continue to fund operations, and therefore there is substantial doubt about our ability to continue as a going concern. The Company expects to incur substantial expenses into the foreseeable future for the research, development and commercialization of its current and potential products. In addition, the Company will require additional financing in order to seek to license or acquire new assets, research and develop any potential patents and the related compounds, and obtain any further intellectual property that the Company may seek to acquire. Finally, some of our product candidates or the materials contained therein (such as the Active Pharmaceutical Ingredients (“APIs”) for our AC5[®] product line), are manufactured from facilities in areas impacted by the outbreak of the coronavirus, which could result in shortages due to ongoing efforts to address the outbreak. Historically, the Company has principally funded operations through debt borrowings, the issuance of convertible debt, and the issuance of units consisting of common stock and warrants. Provisions in the Securities Purchase Agreements that the Company entered into on February 20, 2017 (“2017 SPA”) and on June 28, 2018 (“2018 SPA”) restrict the Company’s ability to effect or enter into an agreement to effect any issuance by the Company or its subsidiary of Common Stock or securities convertible, exercisable or exchangeable for Common Stock (or a combination of units thereof) involving a Variable Rate Transaction (as defined in the 2017 SPA and 2018 SPA) including, but not limited to, an equity line of credit or “At-the-Market” financing facility until the three lead investors in the 2017 Financing and the institutional investors in the 2018 SPA collectively own less than 20% of the Series F Warrants and the Series G Warrants purchased by them pursuant to the 2017 SPA and 2018 SPA, respectively. The continued spread of coronavirus and uncertain market conditions may also limit the Company’s ability to access capital. If the Company is unable to obtain adequate capital, the Company may be required to reduce the scope, delay, or eliminate some or all of its planned activities. These conditions, in the aggregate, raise substantial doubt as to the Company’s ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of

assets and the settlement of liabilities and commitments in the normal course of business. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

3. PROPERTY AND EQUIPMENT

At March 31, 2021 and September 30, 2020, property and equipment consisted of:

	Estimated Useful Life	March 31, 2021	September 30, 2020
Computer equipment	3 years	\$ 14,416	\$ 11,141
Furniture and fixtures	5 years	9,357	9,357
Leasehold improvements	Life of Lease	8,983	8,983
Lab equipment	5 years	1,000	1,000
		33,756	30,481
Less – accumulated depreciation		26,918	25,929
Property and equipment, net		<u>\$ 6,838</u>	<u>\$ 4,552</u>

For the three months ended March 31, 2021 and 2020 depreciation expense recorded was \$617 and \$1,765, respectively. For the six months ended March 31, 2021 and 2020 depreciation expense was \$989 and \$3,701, respectively.

4. INVENTORIES

Inventories consist of the following:

	March 31, 2021	September 30, 2020
Finished Goods	\$ 249,696	\$ -
Goods-in-process	578,524	967,993
Total	<u>\$ 828,220</u>	<u>\$ 967,993</u>

The Company capitalizes inventory that has been produced for commercial sale and has been determined to have a probable future economic benefit. The determination of whether or not the inventory has a future economic benefit requires estimates by management. To the extent that inventory is expected to expire prior to being sold or used for research and development or used for samples, the Company will write down the value of inventory. The decrease in inventory as of March 31, 2021 of \$139,773 to \$828,220 from \$967,993 as of September 30, 2020 is attributed to an inventory obsolescence charge for shelf-life, research and development and product samples.

5. STOCK-BASED COMPENSATION

2013 Stock Incentive Plan

On June 18, 2013, the Company established the 2013 Stock Incentive Plan (the “2013 Plan”). Under the 2013 Plan, during the fiscal year ended September 30, 2020, a maximum number of 28,114,256 shares of the Company’s authorized and available common stock could be issued in the form of options, stock appreciation rights, sales or bonuses of restricted stock, restricted stock units or dividend equivalent rights, and an award may consist of one such security or benefit, or two or more of them in any combination or alternative. The 2013 Plan provides that on the first business day of each fiscal year commencing with fiscal year 2014, the number of shares of our common stock reserved for issuance under the 2013 Plan for all awards except for incentive stock option awards will be subject to increase by an amount equal to the lesser of (A) 3,000,000 Shares, (B) four (4) percent of the number of shares outstanding on the last day of the immediately preceding fiscal year of the Company, or (C) such lesser number of shares as determined by the Company’s Board of Directors (the “Board”). The exercise price of each option shall be the fair value as determined in good faith by the Board at the time each option is granted. On October 1, 2020, the aggregate number of authorized shares under the Plan was further increased by 3,000,000 shares to a total of 31,114,256 shares.

As of March 31, 2021, a total of 19,199,212 options had been issued to employees and directors and 8,792,500 options had been issued to consultants. The exercise price of each option is equal to the closing price of a share of our common stock on the date of grant.

Share-based awards

During the six months ended March 31, 2021, the Company granted 20,000 options to employees and directors and 1,075,000 options to consultants to purchase shares of common stock under the 2013 Plan.

Share-based compensation expense for awards granted during the six months ended March 31, 2021 was based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following assumptions were used to calculate the fair value of share-based compensation for the six months ended March 31, 2021; expected volatility, 79.44% - 119.44%, risk-free interest rate, 0.13% - 2.85%, expected dividend yield, 0%, expected term, 5.6 years. Expected price volatility is the measure by which the Company’s stock price is expected to fluctuate during the expected term of an option. The Company exited shell company status on June 26, 2013. In situations where a newly public entity has limited historical data on the price of its publicly traded shares and no other traded financial instruments, authoritative guidance is provided on estimating this assumption by basing its expected volatility on the historical, expected, or implied volatility of similar entities whose share option prices are publicly available. In making the determination as to similarity, the guidance recommends the consideration of industry, stage of life cycle, size and financial leverage of such other entities. Prior to January 1, 2018, the Company’s expected volatility was derived from the historical daily change in the market price of its common stock since it exited shell company status, as well as the

historical daily change in the market price for the peer group as determined by the Company. Effective January 1, 2018, the Company's expected volatility is derived from the historical daily change in the market price of its common stock since it exited shell company status.

Common Stock Options

Stock compensation activity under the 2013 Plan for the six months ended March 31, 2021 follows:

	Option Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at September 30, 2020	18,248,346	\$ 0.36	2.59	\$ 79,330
Awarded	1,095,000	0.17	—	—
Forfeited/Cancelled	(213,348)	0.44	—	—
Outstanding at March 31, 2021	19,129,998	0.35	2.45	123,233
Vested at March 31, 2021	17,059,070	0.37	2.52	83,541
Vested and expected to vest at March 31, 2021	19,129,998	\$ 0.35	2.45	\$ 123,233

As of March 31, 2021, 6,318,356 shares are available for future grants under the 2013 Plan. Share-based compensation expense recorded in the Company's Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020 resulting from stock options awarded to the Company's employees, directors and consultants was approximately \$89,000 and \$258,000, respectively. Of this amount during the three months ended March 31, 2021 and 2020, \$27,000 and \$112,000, respectively, were recorded as research and development expenses, and \$62,000 and \$146,000, respectively were recorded as general and administrative expenses in the Company's Consolidated Statements of Operations. Share-based compensation expense recorded in the Company's Consolidated Statements of Operations for the six months ended March 31, 2021 and 2020 resulting from stock options awarded to the Company's employees, directors and consultants was approximately \$174,000 and \$417,000, respectively. Of this amount during the six months ended March 31, 2021 and 2020, \$53,000 and \$229,000, respectively, were recorded as research and development expenses, and \$121,000 and \$188,000, respectively were recorded as general and administrative expenses in the Company's Consolidated Statements of Operations.

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During the six months ended March 31, 2021 and 2020, no stock options awarded were exercised.

As of March 31, 2021, there is approximately \$183,000 of unrecognized compensation expense related to unvested stock-based compensation arrangements granted under the 2013 Plan. That cost is expected to be recognized over a weighted average period of 1.19 years.

Restricted Stock

On October 14, 2020, the Company awarded 50,000 shares of Restricted Stock to a consultant. The shares subject to this grant were awarded under the 2013 Plan and vested 90 days from the date of the award. In addition, in the event of a Change of Control (as such term is defined in the 2013 Plan), 100% of the grants will immediately vest. On January 27, 2021, the Company awarded 500,000 shares of Restricted Stock to a consultant. The shares subject to this grant are awarded under the 2013 Plan and vested immediately.

On July 19, 2018, the Company awarded 745,000 shares of Restricted Stock to members of the Board of Directors and management and 220,000 shares of Restricted Stock to a consultant. The shares subject to this grant are awarded under the 2013 Plan and vested on the second anniversary of the date of grant. In addition, in the event of a Change of Control (as such term is defined in the 2013 Plan), 100% of the grants will immediately vest. As of September 30, 2020, all restricted shares have vested.

Restricted stock activity in shares under the 2013 Plan for the six months ended March 31, 2021 and 2020 follows:

	2020	2019
Non Vested at September 30, 2020 and 2019	—	965,000
Awarded	550,000	—
Vested	(550,000)	—
Forfeited	—	—
Non Vested at March 31, 2021 and 2020	—	965,000

The weighted average restricted stock award date fair value information for the six months ended March 31, 2021 and 2020 follows:

	2020	2019
Non Vested at September 30, 2020 and 2019	\$ —	\$ 0.57
Awarded	0.19	—
Vested	(0.19)	—
Forfeited	—	—
Non Vested at March 31, 2021 and 2020	\$ —	\$ 0.57

For the three months ended March 31, 2021 and 2020 compensation expense recorded for the restricted stock awards was approximately \$104,000 and \$39,000, respectively. For the six months ended March 31, 2021 and 2020 compensation expense recorded for the restricted stock awards was approximately \$104,000 and \$79,000, respectively.

6. 2015 PRIVATE PLACEMENT FINANCING

Beginning June 22, 2015 and through June 30, 2015, the Company entered into a series of substantially similar subscription agreements (each a "Subscription Agreement") with 20 accredited investors (collectively, the "2015 Investors") providing for the issuance and sale by the Company to the 2015 Investors, in a private placement, of an aggregate of 14,390,754 Units ("Unit") at a purchase price of \$0.22 per Unit (the "2015 Private Placement Financing"). Each Unit consisted of a share of Common Stock (the "2015 Shares") and a Series D Warrant to purchase a share of Common Stock at an exercise price of \$0.25 per share at any time prior to the fifth anniversary of the issuance date of the Series D Warrant (the "Series D Warrants" and the shares issuable upon exercise of the Series D Warrants, collectively, the "2015 Warrant Shares"). The Company did not engage any underwriter or placement agent in connection with the 2015 Private Placement Financing, and the aggregate gross proceeds raised by the Company in the 2015 Private Placement Financing totaled approximately \$3,200,000.

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The Company's obligation to issue and sell the 2015 Shares and the Series D Warrants and the corresponding obligation of the 2015 Investors to purchase such 2015 Shares and Series D Warrants were subject to a number of conditions precedent including, but not limited to, the amendment of the Company's Series A Warrants and Series C Warrants to delete certain of the anti-dilution provisions contained therein, and other customary closing conditions. The conditions precedent were satisfied June 30, 2015 (the "Initial Closing Date"), and the Company conducted an initial closing (the "Initial Closing") pursuant to which it sold and 19 of the 2015 Investors (the "Initial Investors") purchased 13,936,367 Units at an aggregate purchase price of \$3,066,000. On July 2, 2015, the Company conducted a second closing (the "Second Closing" and together with the Initial Closing, the "Closings") pursuant to which it sold, and one of the 2015 Investors purchased 454,387 Units at an aggregate purchase price of \$100,000.

Following each Closing, each 2015 Investor was also issued Series D Warrants to purchase shares of the Company's Common Stock up to 100% of the 2015 Shares purchased by such 2015 Investor under such 2015 Investor's Subscription Agreement. The Series D Warrants have an exercise price of \$0.25 per share, are exercisable immediately after their issuance and have a term of exercise equal to five years after their issuance date. The number of shares of the Company's Common Stock into which each of the Series D Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series D Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In addition, at any time during the term of the Series D Warrants, the Company may reduce the then-current exercise price to any amount and for any period of time deemed appropriate by the Board of the Company.

On June 3, 2020, the Company entered into an agreement (the "Agreement") with the holders of a majority (the "Majority Holders") of the outstanding Series D Warrants (the "Warrant") resulting in approximately \$850,000 of proceeds as a result of the full exercise of their Warrants. The Agreement provides for the reduction of the Series D Warrant exercise price from \$0.25 to \$0.18 per share, and the elimination of a provision that prevents the Series D Warrants from being exercised if the holder's beneficial ownership would exceed 4.9% as a result. Under the terms of the Agreement, in exchange for fully exercising their remaining Warrants for 4,727,273 shares of common stock on June 4, 2020, the Majority Holders were issued Series J Warrants to purchase 3,545,454 shares of common stock at an exercise price of \$0.25 over a 1 year term.

On June 22, 2020, the Company entered into a Series J Warrant Issuance Agreement (the "Keys Sulat Agreement") with the Keys Sulat Revocable Trust (the "Trust"), also a holder of outstanding Series D Warrants, resulting in approximately \$82,000 of proceeds as a result of the full exercise of the Trust's Warrants. Under the terms of the Keys Sulat Agreement, in exchange for fully exercising the Trust's remaining Warrants for 454,546 shares of common stock on June 22, 2020, the Trust was issued Series J Warrants to purchase 340,910 shares of common stock at an exercise price of \$0.25 over a 1 year term. James R. Sulat, a member of the Board, is a co-trustee of the Trust, of which members of Mr. Sulat's immediate family are beneficiaries. Mr. Sulat disclosed his interest in the Trust to the Board prior to its approval of the transaction and abstained from voting on the transaction.

On November 6, 2020, as consideration for investment in the Convertible Notes, the Company entered into that certain Amendment to Series J Warrant to Purchase Common Stock, a holder of a Series J Warrant exercisable for up to 3,375,000 shares of Common Stock, to extend the term of the Series J Warrant from one (1) year to thirty (30) months.

As a result of the issuance of the Series J Warrants, in conjunction with the exercise of the Series D Warrants, the Company recorded in equity a noncash equity issuance cost valued at approximately \$220,000. This charge was estimated using the Black-Scholes Option Pricing Model with the following assumptions; expected volatility, 88.15%, risk-free interest rate, 0.16%, expected dividend yield, 0%, expected term, 1.08 years. The Series J Warrants are indexed to the Company's stock and are classified as equity.

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During the year ended September 30, 2020, Series D Warrants had been exercised on a cash basis for an aggregate issuance of 5,181,819 shares of the Company's common stock resulting in gross proceeds to the Company of \$932,728. As of September 30, 2020, 3,792,570 Series D Warrants expired.

Common Stock

At June 30, 2015 the Initial Closing Date of the 2015 Private Placement Financing, the Company issued 13,936,367 shares of Common Stock. On July 2, 2015, the Company conducted the Second Closing pursuant to which it sold and one of the 2015 Investors purchased 454,387 shares of Common Stock.

Equity Value of Warrants

The Company accounted for the Series D Warrants relating to the aforementioned 2015 Private Placement Financing in accordance with ASC 815-40, *Derivatives and Hedging*. Because the Series D Warrants and the Series J Warrants are indexed to the Company's stock, they are classified within stockholders' equity (deficit) in the accompanying consolidated financial statements.

7. 2016 PRIVATE PLACEMENT FINANCING

Beginning May 24, 2016 and through May 26, 2016, we entered into a series of substantially similar subscription agreements (each a "2016 Subscription Agreement") with 18 accredited investors (collectively, the "2016 Investors") providing for the issuance and sale by the Company to the 2016 Investors, in a private placement, of an aggregate of 9,418,334 Units at a purchase price of \$0.36 per Unit (the "2016 Private Placement Financing"). Each Unit consisted of a share of Common Stock, and a Series E Warrant to purchase 0.75 shares of Common Stock at an exercise price of \$0.4380 per share at any time prior to the fifth anniversary of the issuance date of the Series E Warrant (the "Series E Warrants" and the shares issuable upon exercise of the Series E Warrants, collectively, the "Series E Warrant Shares"). The exercise price of the Series E Warrants was set to equal the closing price of our Common Stock on the date of their issuance (May 26, 2016), which was \$0.4380, and therefore the Series E Warrants were not issued at a discount to the market price of our Common Stock as of such date. The gross proceeds to Arch were approximately \$3.4 million before deducting financing costs of approximately \$281,000.

The number of shares of Common Stock into which each of the Series E Warrants is exercisable and the exercise price therefor are subject to adjustment as set forth in the Series E Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In addition, (i) at any time during the term of the Series E Warrants, we may reduce the then-current exercise price to any amount and for any period of time deemed appropriate by our Board of Directors (the "Board"); and (ii) certain of the Series E Warrants provide that they shall not be exercisable in the event and to the extent that the exercise thereof would result in the holder of the Series E Warrant, together with its affiliates and any other persons whose beneficial ownership of Common Stock would be aggregated with the holder's, would be deemed to beneficially own more than 4.99% of the Common Stock; *provided, however*, the holder, upon notice to us, may increase or decrease the ownership limitation, *provided that* any increase is limited to a maximum of 9.99% of the Company's Common Stock, and any increase in the ownership limitation will not become effective until the 61st day after delivery of such notice.

During the three and six months ended March 31, 2021 and 2020, no Series E Warrants had been exercised. As of March 31, 2021, up to 4,214,582 shares may be acquired upon the exercise of the Series E Warrants.

Common Stock

At May 26, 2016, the Closing Date of the 2016 Private Placement Financing, the Company issued 9,418,334 shares of Common Stock.

Equity Value of Warrants

The Company accounted for the Series E Warrants relating to the aforementioned 2016 Private Placement Financing in accordance with ASC 815-40, *Derivatives and Hedging*. Because the Series E Warrants are indexed to the Company's stock, they are classified within stockholders' equity (deficit) in the accompanying consolidated financial statements.

8. 2017 REGISTERED DIRECT OFFERING

On September 30, 2016, the Company filed a registration statement with the SEC utilizing a "shelf" registration process, which was subsequently declared effective by the SEC on October 20, 2016 (such registration statement, the "Shelf Registration Statement"). Under the Shelf Registration Statement, the Company may offer and sell any combination of its Common Stock, warrants, debt securities, subscription rights, and/or units comprised of the foregoing to raise up to \$50,000,000 in gross proceeds.

On February 20, 2017, the Company entered into Securities Purchase Agreement (the "2017 SPA") with 6 accredited investors (collectively, the "2017 Investors") providing for the issuance and sale by the Company to the 2017 Investors of an aggregate of 10,166,664 units at a purchase price of \$0.60 per Unit in a registered offering (the "2017 Financing"). The securities comprising the units sold in the 2017 Financing were issued under the Shelf Registration Statement, and consisted of a share of Common Stock, a Series F Warrant equal to 55% of the shares of Common Stock at an exercise price of \$0.75 per share at any time prior to the fifth anniversary of the issuance date of the Series F Warrant subject to certain restrictions on exercise (the "2017 Warrants" and the shares issuable upon exercise of the 2017 Warrants, collectively, the "2017 Warrant Shares"). Provisions in the 2017 SPA restrict the Company's ability to effect or enter into an agreement to effect any issuance by the Company or any of its subsidiaries of Common Stock or securities convertible, exercisable or exchangeable for Common Stock (or a combination of units thereof) involving a Variable Rate Transaction (as defined in the 2017 SPA) including, but not limited to, an equity line of credit or "At-the-Market" financing facility until the three lead investors in the 2017 Financing collectively own less than 20% of the Series F Warrants purchased by them pursuant to the 2017 SPA. The gross proceeds to Arch from the 2017 Financing, which closed on February 24, 2017, were approximately \$6.1 million before deducting financing costs of approximately \$112,000.

The number of shares of the Company's Common Stock into which each of the Series F Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series F Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In addition, at any time during the term of the Series F Warrants, the Company may reduce the then-current exercise price to any amount and for any period of time deemed appropriate by the Board of the Company. In addition, if the Company undergoes a change of control or is involved in a similar transaction, the holder may cause the Company or any successor entity to purchase its Series F Warrant for an amount of cash equal to \$0.18 for each share of Common Stock underlying the Series F Warrant.

During the three and six months ended March 31, 2021 and 2020, no Series F Warrants had been exercised. As of March 31, 2021, up to 5,591,664 shares may be acquired upon the exercise of the Series F Warrants.

Common Stock

At February 24, 2017, the Closing Date of the 2017 Financing, the Company issued 10,166,664 shares of Common Stock.

Derivative Liabilities

The Company accounted for the Series F Warrants relating to the aforementioned 2017 Financing in accordance with ASC 815-10, *Derivatives and Hedging*. Since the Company may be required to purchase its Series F Warrants for an amount of cash equal to \$0.18 for each share of Common Stock ("Minimum") the underlying Series F Warrants are not classified within stockholders' equity (deficit), they are recorded as liabilities at the greater of the minimum or fair value. They are marked to market each reporting period through the consolidated statement of operations.

On the Closing Date, the derivative liabilities were recorded at fair value of \$2,996,110. Given that the fair value of the derivative liabilities was less than the net proceeds of the 2017 Financing of \$5,987,122, the remaining proceeds of \$2,991,012 were allocated to the Common Stock and additional paid-in capital. During the six months ended March 31, 2021 and 2020, the derivative liability is recorded at its minimum value.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	March 31, 2021	September 30, 2020
Beginning balance at September 30, 2020 and 2019	\$ 1,000,000	\$ 1,000,000
Issuances	—	—
Adjustments to estimated fair value	—	—
Ending balance at March 31, 2021 and September 30, 2020	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

The derivative liabilities were valued as of March 31, 2021 and September 30, 2020 using the Black Scholes Model with the following assumptions:

	March 31, 2021	September 30, 2020
Closing price per share of common stock	\$ 0.15	\$ 0.17
Exercise price per share	\$ 0.75	\$ 0.75
Expected volatility	81.39%	84.17%
Risk-free interest rate	0.07%	0.13%
Dividend yield	—	—
Remaining expected term of underlying securities (years)	0.84	1.35

9. 2018 REGISTERED DIRECT OFFERING

On June 28, 2018, the Company entered into a Securities Purchase Agreement ("2018 SPA") with 8 accredited investors ("2018 Investors") providing for the issuance and sale by the Company to the 2018 Investors of an aggregate of 9,070,000 units at a purchase price of \$0.50 per Unit in a registered offering ("2018 Financing"). The securities

comprising the units sold in the 2018 Financing were issued under the Shelf Registration Statement, and consisted of a share of Common Stock, a Series G Warrant to purchase up to a number of shares of our common stock equal to 75% of the shares of Common Stock at an exercise price of \$0.70 per share at any time prior to the fifth anniversary of the issuance date of the Series G Warrant subject to certain restrictions on exercise (“2018 Warrants”) and the shares issuable upon exercise of the 2018 Warrants. On July 2, 2018, the Closing Date of the 2018 Financing, the Company issued 9,070,000 shares of Common Stock.

The 2018 SPA contains certain restrictions in the Company’s ability to conduct subsequent sales of its equity securities. Until such time the three lead investors collectively own less than 20% of the Series G Warrants purchased by them pursuant to the 2018 SPA, the Company is prohibited from effecting or entering into an agreement to effect any issuance by the Company or any of its subsidiaries of Common Stock or securities convertible, exercisable or exchangeable for Common Stock (or a combination of units thereof) involving a Variable Rate Transaction (as defined in the 2018 SPA) including, but not limited to, an equity line of credit or “At-the-Market” financing facility. The gross proceeds to Arch from the 2018 Financing, were approximately \$4.5 million before deducting financing costs of approximately \$74,000.

The number of shares of the Company’s Common Stock into which each of the Series G Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series G Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In addition, if the Company undergoes a change of control or is involved in a similar transaction, the holder may cause the Company or any successor entity to purchase its Series G Warrant for an amount of cash equal to \$0.11 for each share of Common Stock underlying the Series G Warrant. During the six months ended March 31, 2021 and 2020, no Series G Warrants had been exercised. As of March 31, 2021, up to 6,802,500 shares may be acquired upon the exercise of the Series G Warrants.

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Common Stock

On June 30, 2018 the shares were recorded as subscribed but not issued. On July 2, 2018, the Closing Date of the 2018 Financing, the Company issued 9,070,000 shares of Common Stock.

Derivative Liabilities

The Company accounted for the Series G Warrants relating to the aforementioned 2018 Financing in accordance with ASC 815-10, *Derivatives and Hedging*. Since the Company may be required to purchase its Series G Warrants for an amount of cash equal to \$0.11 for each share of Common Stock (“Minimum”) and the underlying Series G Warrants are not classified within stockholders’ equity (deficit), they are recorded as liabilities the greater of the minimum or fair value. They are marked to market each reporting period through the consolidated statement of operations.

On the Closing Date, the derivative liabilities were recorded at fair value of \$2,397,454. Given that the fair value of the derivative liabilities were less than the net proceeds of the 2018 Financing of \$4,461,248, the remaining proceeds of \$2,063,794 were allocated to the Common Stock Subscribed but Unissued and additional paid-in capital. During the six months ended March 31, 2021 and 2020, the derivative liability is recorded at its minimum value.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	March 31, 2021	September 30, 2020
Beginning balance at September 30, 2020 and 2019	\$ 748,275	\$ 748,275
Issuances	—	—
Adjustments to estimated fair value	—	—
Ending balance at March 31, 2021 and September 30, 2020	<u>\$ 748,275</u>	<u>\$ 748,275</u>

The derivative liabilities were valued as of March 31, 2021 and September 30, 2020 using the Black Scholes Model with the following assumptions:

	March 31, 2021	September 30, 2020
Closing price per share of common stock	\$ 0.15	\$ 0.17
Exercise price per share	\$ 0.70	\$ 0.70
Expected volatility	83.40%	83.31%
Risk-free interest rate	0.16%	0.15%
Dividend yield	—	—
Remaining expected term of underlying securities (years)	2.21	2.71

10. 2019 REGISTERED DIRECT OFFERING

On May 12, 2019, the Company entered into a Securities Purchase Agreement (“2019 SPA”) with 5 accredited investors (“2019 Investors”) providing for the issuance and sale by the Company to the 2019 Investors of an aggregate of 8,615,384 units at a purchase price of \$0.325 per Unit in a registered offering (“2019 Financing”). The securities comprising the units sold in the 2019 Financing were issued under the Shelf Registration Statement, and consisted of a share of Common Stock, and a Series H Warrant to purchase one share of Common Stock at an exercise price of \$0.40 per share at any time prior to the fifth anniversary of the issuance date of the Series H Warrant subject to certain restrictions on exercise (“the 2019 Warrant Shares”) and the shares issuable upon exercise of the 2019 Warrants, (“2019 Warrant Shares”). As of May 14, 2019, the Company recorded the 8,615,384 shares as Common Stock.

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The gross proceeds to Arch from the 2019 Financing, were approximately \$2.8 million before deducting financing costs of approximately \$51,200. The number of shares of the Company’s Common Stock into which each of the Series H Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series H Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise). In addition, if the Company undergoes a change of control or is involved in a similar transaction, the holder may cause the Company or any successor entity to purchase its Series H Warrant for an amount of cash equal to \$0.0533 for each share of Common Stock underlying the Series H Warrant. During the six months ended March 31, 2021 and 2020, no Series H Warrants had been exercised. As of March 31, 2021, up to 8,615,384 shares may be acquired upon the exercise of the Series H Warrants.

Common Stock

At May 14, 2019 the Closing Date of the 2019 Financing, the Company issued 8,615,384 shares of Common Stock.

Derivative Liabilities

The Company accounted for the Series H Warrants relating to the aforementioned 2019 Financing in accordance with ASC 815-10, *Derivatives and Hedging*. Since the Company may be required to purchase its Series H Warrants for an amount of cash equal to \$0.0533 for each share of Common Stock (“Minimum”) and the underlying Series H Warrants are not classified within stockholders’ equity (deficit), they are recorded as liabilities the greater of the minimum or fair value. They are marked to market each reporting period through the consolidated statement of operations.

On the Closing Date, the derivative liabilities were recorded at fair value of \$1,628,113. Given that the fair value of the derivative liabilities were less than the net proceeds of the 2019 Financing of \$2,748,821, the remaining proceeds of \$1,120,708 were allocated to the Common Stock and additional-paid-in-capital. During the three months ended March 31, 2021 and 2020 \$0 and \$422,685 was recorded to decrease the fair value of derivative liability, respectively. During the six months ended March 31, 2021 and 2020 \$108,944 and \$382,498 was recorded to decrease the fair value of derivative liability, respectively.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	March 31, 2021	September 30, 2020
Beginning balance at September 30, 2020 and 2019	\$ 568,144	\$ 1,247,415
Issuances	—	—
Adjustments to estimated fair value	(108,944)	(679,271)
Ending balance at March 31, 2021 and September 30, 2020	<u>\$ 459,200</u>	<u>\$ 568,144</u>

The derivative liabilities were valued as of March 31, 2021 and September 30, 2020 using the Black Scholes Model with the following assumptions:

	March 31, 2021	September 30, 2020
Closing price per share of common stock	\$ 0.15	\$ 0.17
Exercise price per share	\$ 0.40	\$ 0.40
Expected volatility	82.93%	82.24%
Risk-free interest rate	0.35%	0.22%
Dividend yield	—	—
Remaining expected term of underlying securities (years)	3.09	3.60

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11. OCTOBER 2019 REGISTERED DIRECT OFFERING

On October 16, 2019, the Company entered into a Securities Purchase Agreement (“October 2019 SPA”) with 7 accredited investors (“October 2019 Investors”) providing for the issuance and sale by the Company to the 2019 Investors of an aggregate of 14,285,714 units at a purchase price of \$0.175 per unit in a registered offering (“October 2019 Financing”). The securities comprising the units sold in the October 2019 Financing were issued under the Shelf Registration Statement, and consisted of a share of Common Stock, and a Series I Warrant to purchase one share of Common Stock at an exercise price of \$0.22 per share at any time prior to the fifth anniversary of the issuance date of the Series I Warrant subject to certain restrictions on exercise (“October 2019 Warrants”) and the shares issuable upon exercise of the October 2019 Warrants, (“October 2019 Warrant Shares”). As of October 18, 2019, the Company recorded the 14,285,714 shares as Common Stock. Pursuant to the Engagement Agreement (as defined below), the Company also agreed to issue to the Placement Agent, or its designees, warrants to purchase up to 1,071,429 shares (the “Placement Agent Warrants”). The Placement Agent Warrants have substantially the same terms as the Series I Warrants, except that the exercise price of the Placement Agent Warrants is \$0.21875 per share and the term of the Placement Agent Warrants is five years.

The gross proceeds to Arch from the October 2019 Financing were approximately \$2.5 million before deducting financing costs of approximately \$333,000 which includes approximately \$158,000 of placement fees. The number of shares of the Company’s Common Stock into which each of the Series I Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series I Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise).

We engaged H.C. Wainwright (“Wainwright”) as our exclusive institutional investor placement agent in connection with the October SPA pursuant to an engagement agreement (the “Engagement Agreement”) dated as of October 10, 2019, and in consideration for the services provided by it, Wainwright was entitled to receive cash fees ranging from 6.0% to 8.2% of the gross proceeds received by us, as well as reimbursement for all reasonable expenses incurred by it in connection with its engagement. We received gross proceeds of approximately \$2.5 million in the aggregate, resulting in a fee of approximately \$158,000.

During the six months ended March 31, 2021 and 2020, no Series I Warrants or Placement Agent Warrants had been exercised. As of March 31, 2021, up to 14,285,714 and 1,071,429 shares may be acquired upon the exercise of the Series I Warrants and Placement Agent Warrants, respectively.

Common Stock

On October 18, 2019 the Closing Date of the October 2019 Financing, the Company issued 14,285,714 shares of Common Stock.

Equity Value of Warrants

The Company accounted for the Series I Warrants and the Placement Agent Warrants relating to the aforementioned October 2019 Registered Direct Offering in accordance with ASC 815-40, *Derivatives and Hedging*. Because the Series I Warrants and the Placement Agent Warrants are indexed to the Company’s stock, they are classified within stockholders’ equity (deficit) in the accompanying consolidated financial statements.

12. 2021 REGISTERED DIRECT OFFERING

On February 11, 2021, the Company entered into a Securities Purchase Agreement (“2021 SPA”) with certain institutional and accredited investors (“2021 Investors”) providing for the issuance and sale by the Company to the 2021 Investors of an aggregate of 43,125,004 (the “Shares”) of the Company’s common stock, \$0.001 par value per share (“Common Stock”), and Series K Warrants (the “Series K Warrants”) to purchase an aggregate of 32,343,754 shares (the “Warrant Shares”) of Common Stock, at a combined offering price of \$0.16 per share and related warrant (the “2021 Financing”). The Series K Warrants have an exercise price of \$0.17 per share and are exercisable for a period of 5.5 years. The aggregate gross proceeds for the sale of the Shares and Series K Warrants was approximately \$6.9 million, before deducting the placement agent’s fees and expenses and other offering expenses payable by the Company, of approximately \$700,000. Pursuant to an engagement agreement (the “Engagement Letter”) dated as of

February 8, 2021, by and between the Company and H.C. Wainwright & Co. (the “Placement Agent”), the Company has agreed to pay the Placement Agent cash fees equal to (i) 7.5% of the gross proceeds received by the Company from certain investors participating in the 2021 Financing, and (ii) 6.0% of the gross proceeds received by the Company from certain investors with pre-existing relationships with the Company. In addition, the Placement Agent will be entitled to receive a one-time non-accountable expense fee of \$10,000, up to \$50,000 for fees and expenses of legal counsel and other out-of-pocket expenses and \$10,000 for clearing expenses. Pursuant to the Engagement Agreement, the Company also agreed to issue to the Placement Agent, or its designees, warrants to purchase up to 7.5% of the aggregate number of shares sold to investors in the Offering, or warrants to purchase up to 3,234,375 shares (the “Placement Agent 2 Warrants”) of the Company’s common stock. The Placement Agent 2 Warrants have substantially the same terms as the Series K Warrants, except that the exercise price of the Placement Agent 2 Warrants is \$0.20 per share. The Engagement Agreement has indemnity and other customary provisions for transactions of this nature.

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The 2021 SPA contains certain restrictions on our ability to conduct subsequent sales of our equity securities. In particular, we are prohibited from entering into or effecting a Variable Rate Transaction (as defined in the 2021 SPA) until February 11, 2022; provided, however, the Company may enter into and effect an at-the-market offering facility with the Placement Agent.

Additionally, the 2021 SPA contains certain restrictions on our ability to change our capitalization. In particular, until 180 days after February 17, 2021, we may not undertake a reverse or forward stock split or reclassification of the Common Stock without the prior written consent of the investors in the 2021 Private Placement Financing, other than in connection with the uplisting of the Common Stock to the Nasdaq Stock Market or the New York Stock Exchange.

The number of shares of the Company’s Common Stock into which each of the Series K Warrants is exercisable and the exercise price therefore are subject to adjustment, as set forth in the Series K Warrants, including adjustments for stock subdivisions or combinations (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise).

During the six months ended March 31, 2021, no Series K Warrants or Placement Agent 2 Warrants had been exercised. As of March 31, 2021, up to 32,343,754 and 3,234,375 shares may be acquired upon the exercise of the Series K Warrants and Placement Agent Warrants, respectively.

Common Stock

On February 17, 2021 the Closing Date of the 2021 Financing, the Company issued 43,125,004 shares of Common Stock.

Equity Value of Warrants

The Company accounted for the Series K Warrants and the Placement Agent 2 Warrants relating to the aforementioned February 2021 Registered Direct Offering in accordance with ASC 815-40, *Derivatives and Hedging*. Because the Series K Warrants and the Placement Agent 2 Warrants are indexed to the Company’s stock, they are classified within stockholders’ equity (deficit) in the accompanying consolidated financial statements.

13. SERIES 1 CONVERTIBLE NOTES

On June 4, 2020, the Company issued unsecured 10% Convertible Notes in the aggregate principal amount of \$550,000. The Series 1 Convertible Notes provide, among other things, for (i) a term of approximately three (3) years; (ii) the Company’s ability to prepay the Series 1 Convertible Notes, in whole or in part, at any time; (iii) the automatic conversion of the Series 1 Convertible Notes upon a Change of Control (all capitalized terms not otherwise defined to have the meaning ascribed to such terms in the Series 1 Convertible Notes) into shares of the Company’s common stock, par value \$0.001 per share (Common Stock), at a per share price of \$0.27 (the “**Conversion Price**”); (iv) the ability of a holder of a Convertible Note (a “**Holder**”) to convert the Series 1 Convertible Note and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price; (v) the Company’s ability to convert all Note Obligations outstanding upon a Qualified Equity Financing into shares of Common Stock at the Conversion Price; (vi) the Company’s ability to convert Series 1 Convertible Notes and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price in the event the volume weighted average price (“VWAP”) of the Common Stock equals or exceeds \$0.32 per share for at least fifteen (15) consecutive Trading Days; (vii) the Company’s ability to convert all outstanding Note Obligations into shares of Common Stock at the Conversion Price (an “**In-Kind Note Repayment**”) in lieu of repaying the Note Obligations outstanding on the Maturity Date, June 30, 2023; provided, however, that in the case of an In-Kind Note Repayment, the outstanding Note Obligations will be calculated by increasing by thirty-five percent (35%) the aggregate sum of the unpaid Principal Amount held by each Holder and the accrued interest at a rate of ten percent (10%) per annum, subject to, with respect to any portion of the Principal Amount that is converted or prepaid before the twelve month anniversary of the Issuance Date, a minimum interest payment equal to ten percent (10%) of the amount that is converted or prepaid.

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During the three and six months ended March 31, 2021, the Company recorded interest expense of approximately \$14,000 and \$27,000, respectively.

14. SERIES 2 CONVERTIBLE NOTES

On November 6, 2020, the Company issued unsecured 10% Series 2 Convertible Notes in the aggregate principal amount of \$1,050,000. The Series 2 Convertible Notes provide, among other things, for (i) a term of approximately three (3) years; (ii) the Company’s ability to prepay the Series 2 Convertible Notes, in whole or in part, at any time; (iii) the automatic conversion of the Series 2 Convertible Notes upon a Change of Control (all capitalized terms not otherwise defined to have the meaning ascribed to such terms in the Series 2 Convertible Notes) into shares of the Company’s common stock, par value \$0.001 per share (Common Stock), at a per share price of \$0.25 (the “**Conversion Price**”); (iv) the ability of a holder of a Series 2 Convertible Note (a “**Holder**”) to convert the Series 2 Convertible Note and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price; (v) the Company’s ability to convert Series 2 Convertible Notes and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price in the event the volume weighted average price (“VWAP”) of the Common Stock equals or exceeds \$0.32 per share for at least fifteen (15) consecutive Trading Days; (vi) the Company’s ability to convert all outstanding Note Obligations into shares of Common Stock at the Conversion Price (an “**In-Kind Note Repayment**”) in lieu of repaying the Note Obligations outstanding on the Maturity Date, November 30, 2023; provided, however, that in the case of an In-Kind Note Repayment, the outstanding Note Obligations will be calculated by increasing by thirty-five percent (35%) the aggregate sum of the unpaid Principal Amount held by each Holder and the accrued interest at a rate of ten percent (10%) per annum, subject to, with respect to any portion of the Principal Amount that is converted or prepaid before the twelve month anniversary of the Issuance Date, a minimum interest payment equal to ten percent (10%) of the amount that is converted or prepaid.

During the three and six months ended March 31, 2021, the Company recorded interest expense of approximately \$26,000 and \$42,000, respectively.

15. PAYROLL PROTECTION PROGRAM LOAN

On April 25, 2020, the Company executed a promissory note (the “**PPP Note**”) evidencing an unsecured loan in the amount of \$176,300 under the Paycheck Protection

Program (the “PPP Loan”). The Paycheck Protection Program (or “PPP”) was established under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). The Loan has been made through First Republic Bank (the “Lender”).

The PPP Loan has a two-year term and bears interest at a rate of 1.00% per annum. Monthly principal and interest payments are deferred until the earliest of ten months after October 2020, the end of our covered period or the date the SBA makes a decision on our loan forgiveness application. Unless the PPP Loan is forgiven, the Company will be required to make monthly payments of principal and interest of approximately \$20,000 to the Lender.

The PPP Note contains customary events of default relating to, among other things, payment defaults, providing materially false and misleading representations to the SBA or Lender, or breaching the terms of the PPP Loan documents. The occurrence of an event of default may result in the immediate repayment of all amounts outstanding, collection of all amounts owing from the Company, or filing suit and obtaining judgment.

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Under the terms of the CARES Act, PPP Loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. However, no assurance is provided that forgiveness for any portion of the PPP Loan will be obtained. During November 2020, the Company applied for forgiveness of the PPP Loan. As of March 31, 2021 the application for forgiveness is under review by the SBA.

16. RISKS AND UNCERTAINTIES – COVID-19

The Company sources its materials and services for its products and product candidates from facilities in areas impacted or which may be impacted by the outbreak of the coronavirus. This may impact the Company’s ability to obtain future inventory and impact the Company’s future revenue stream as efforts to address this worldwide outbreak are undertaken. In addition, the Company has historically and principally funded its operations through debt borrowings, the issuance of convertible debt, and the issuance of units consisting of common stock and warrants which may also be impacted by economic conditions beyond the Company’s control. The extent to which the coronavirus will impact the global economy and the Company is uncertain and cannot be reasonably measured.

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

The following discussion and analysis should be read in conjunction with our unaudited interim financial statements and notes included in this report and the audited financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended September 30, 2020 filed with the Securities and Exchange Commission (“SEC”).

This report contains forward looking statements. We make forward-looking statements, as defined by the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and in some cases, you can identify these statements by forward-looking words such as “if,” “shall,” “may,” “might,” “will likely result,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “intend,” “goal,” “objective,” “predict,” “potential” or “continue,” or the negative of these terms and other comparable terminology. Such forward-looking statements contained in this report on Form 10-Q are based on various underlying assumptions and expectations and are subject to risks, uncertainties and other unknown factors, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business and include risks and uncertainties relating to Arch’s current cash position and its need to raise additional capital in order to be able to continue to fund its operations; the stockholder dilution that may result from future capital raising efforts and the exercise or conversion, as applicable of Arch’s outstanding options and warrants; anti-dilution protection afforded investors in prior financing transactions that may restrict or prohibit Arch’s ability to raise capital on terms favorable to the Company and its current stockholders; Arch’s limited operating history which may make it difficult to evaluate Arch’s business and future viability; Arch’s ability to timely commercialize and generate revenues or profits from our anticipated products; Arch’s ability to achieve the desired marketing authorizations in the United States or elsewhere; Arch’s ability to retain its managerial personnel and to attract additional personnel; the strength of Arch’s intellectual property, the intellectual property of others and any asserted claims of infringement; and other risk factors identified under the caption “Risk Factors” in this report on Form 10-Q and in the documents Arch has filed, or will file with the SEC. Copies of Arch’s filings with the SEC may be obtained from the SEC internet site at <http://www.sec.gov>. We undertake no duty to update any of these forward-looking statements after the date of filing of this report on Form 10-Q to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

As used in this report on Form 10-Q unless otherwise indicated, the “Company,” “we,” “us,” “our,” and “Arch” refer to Arch Therapeutics, Inc. and its consolidated subsidiary, Arch Biosurgery, Inc.

Corporate Overview

Arch Therapeutics, Inc., (together with its subsidiary, the “Company” or “Arch”) was incorporated under the laws of the State of Nevada on September 16, 2009, under the name “Almah, Inc.”. Effective June 26, 2013, the Company completed a merger (the “Merger”) with Arch Biosurgery, Inc. (formerly known as Arch Therapeutics, Inc.), a Massachusetts corporation (“ABS”), and Arch Acquisition Corporation (“Merger Sub”), the Company’s wholly owned subsidiary formed for the purpose of the transaction, pursuant to which Merger Sub merged with and into ABS and ABS thereby became the wholly owned subsidiary of the Company. As a result of the acquisition of ABS, the Company abandoned its prior business plan and changed its operations to the business of a biotechnology company. Our principal offices are located in Framingham, Massachusetts.

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For financial reporting purposes, the Merger represented a “reverse merger”. ABS was deemed to be the accounting acquirer in the transaction and the predecessor of Arch. Consequently, the accumulated deficit and the historical operations that are reflected in the Company’s consolidated financial statements prior to the Merger are those of ABS. All share information has been restated to reflect the effects of the Merger. The Company’s financial information has been consolidated with that of ABS after consummation of the Merger on June 26, 2013, and the historical financial statements of the Company before the Merger have been replaced with the historical financial statements of ABS before the Merger in this report.

ABS was incorporated under the laws of the Commonwealth of Massachusetts on March 6, 2006 as Clear Nano Solutions, Inc. On April 7, 2008, ABS changed its name from Clear Nano Solutions, Inc. to Arch Therapeutics, Inc. Effective upon the closing of the Merger, ABS changed its name from Arch Therapeutics, Inc. to Arch Biosurgery, Inc.

Business Overview

We are a biotechnology company marketing or developing a number of products based on our innovative AC5[®] self-assembling technology platform. We believe these products can be important advances in the field of stasis and barrier applications, which includes stopping bleeding (“hemostasis”), controlling leaking (“sealant”) and managing wounds created during surgery, trauma or interventional care or from disease. We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System, and have devoted substantially all of our operational effort to the research, development and regulatory programs necessary to turn our core technology into commercial products. Our goal is to make care faster and safer for patients with products for use in external wounds, which we refer to as Dermal Sciences

applications, and products for use inside the body, which we refer to as Biosurgery applications.

Core Technology

Our flagship products and product candidates are derived from our AC5 self-assembling peptide (SAP) technology platform and are sometimes referred to as AC5 or the “AC5 Devices.” These include AC5 Advanced Wound System and AC5 Topical Hemostat, which have received marketing authorization as medical devices in the United States and Europe, respectively, and which are intended for skin applications, such as management of complicated chronic wounds or acute surgical wounds. Other products are in development for use in minimally invasive or open surgical procedures and include, for example, AC5-G™ for gastrointestinal endoscopic procedures and AC5-V® and AC5 Surgical Hemostat for hemostasis inside the body, all of which are currently investigational devices limited by law to investigational use.

Products based on the AC5 platform contain a biocompatible peptide that is synthesized from proteogenic, naturally occurring L-amino acids. Unlike products that contain traditional peptide sequences, when applied to a wound, AC5-based products intercalate into the interstices of the connective tissue and self-assemble into a protective physical-mechanical nanoscale structure that can provide a barrier to leaking substances, such as blood, while also acting as a biodegradable scaffold that enables healing. Self-assembly is a central component of the mechanism of action of our technology. Individual AC5 peptide units readily build themselves, or self-assemble, into an ordered network of nanofibrils when in aqueous solution by the following process:

- Peptide strands line up with neighboring peptide strands, interacting via hydrogen bonds (non-covalent bonds) to form a ribbon-like structure called a beta sheet.

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- This process continues such that hundreds of strands organize with charged and polar side chains oriented on one face and non-polar side chains oriented on the opposite face of the beta sheets.
- Interactions of the resulting structure with water molecules and ions results in formation nanofibrils, which extend in length and can join together to form larger nanofibers.
- This network of AC5 peptide nanofibers forms the physical-mechanical barrier that is responsible for sealant, hemostatic and other properties, regardless of the presence of antithrombotic agents, and which subsequently becomes the scaffold that supports the repair and regeneration of damaged tissue.

Based on the intended application, we believe that the underlying AC5 SAP technology can impart important features and benefits to our products that may include, for instance, stopping bleeding (hemostasis), mitigating contamination, modulating inflammation, donating moisture, and enabling an appropriate wound microenvironment conducive to healing. For instance, AC5 Advanced Wound System, which is indicated for the management of partial and full-thickness wounds, such as pressure sores, leg ulcers, diabetic ulcers, and surgical wounds, is shipped and stored at room temperature, is applied directly as a liquid, can conform to irregular wound geometry, and does not possess sticky or glue-like handling characteristics. We believe these properties enhance its utility in several settings and contribute to its user-friendly profile.

We believe that our technology lends itself to a range of potential applications in which there is a wound inside or on the body, and in which there is need for a hemostatic agent or sealant. For instance, the results of certain preclinical and clinical investigations that either we have conducted, or others have conducted on our behalf have shown quick and effective hemostasis with the use of AC5 SAP technology, and that time to hemostasis (“TTH”) is comparable among test subjects regardless of whether such test subject had or had not been treated with therapeutic doses of anticoagulant or antiplatelet medications, commonly called “blood thinners.” Furthermore, the transparency and physical properties of certain AC5 Devices may enable a surgeon to operate through it in order to maintain a clearer field of vision and prophylactically stop or lessen bleeding as surgery starts, a concept that we call Crystal Clear Surgery™. An example of a product that contains related features and benefits is AC5 Topical Hemostat, which is indicated for use as a dressing and to control mild to moderate bleeding, each during the management of injured skin and the micro-environment of an acute surgical wound.

Operations

Much of our operational efforts to date, which we often perform in collaboration with partners, have included selecting compositions and formulations for our initial products; conducting preclinical studies, including safety and other tests; conducting a human trial for safety and performance of AC5; developing and conducting a human safety study to assess for irritation and sensitization potential; securing marketing authorization for our first product in the United States and in Europe; developing, optimizing, and validating manufacturing methods and formulations, which are particularly important components of self-assembling peptide development; developing methods for manufacturing scale-up, reproducibility, and validation; engaging with regulatory authorities to seek early regulatory guidance as well as marketing authorization for our products; sourcing and evaluating commercial partnering opportunities in the United States and abroad; and developing and protecting the intellectual property rights underlying our technology platform.

Our long-term business plan includes the following goals:

- conducting biocompatibility, pre-clinical, and clinical studies on our products and product candidates;
- obtaining additional marketing authorization for products in the United States, Europe, and other jurisdictions as we may determine;
- continuing to develop third party relationships to manufacture, distribute, market and otherwise commercialize our products;
- continuing to develop academic, scientific and institutional relationships to collaborate on product research and development;
- expanding and maintaining protection of our intellectual property portfolio; and
- developing additional product candidates in Dermal Sciences, Biosurgery, and other areas.

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In furtherance of our long-term business goals, we expect to continue to focus on the following activities during the next twelve months:

- seek additional funding as required to support the milestones described previously and our operations generally;
- work with our manufacturing partners to scale up production of product compliant with current good manufacturing practices (“cGMP”), which activities will be ongoing and tied to our development and commercialization needs;
- further clinical development of our product platform;
- assess our technology platform in order to identify and select product candidates for potential advancement into development;
- seek regulatory input to guide activities related to expanded and new product marketing authorizations;
- continue to expand and enhance our financial and operational reporting and controls;
- pursue commercial partnerships; and
- expand and enhance our intellectual property portfolio by filing new patent applications, obtaining allowances on currently filed patent applications, and/or adding to our trade secrets in self-assembly, manufacturing, analytical methods and formulation, which activities will be ongoing as we seek to expand our product candidate portfolio.

In addition to capital required for operating expenses, depending upon additional input from EU and US regulatory authorities, as well as the potential for additional regulatory filings and approvals during the next 2 years, additional capital will be required.

We believe that the Company has cash on hand to meet its anticipated cash requirements through the first quarter of fiscal 2022. Notwithstanding this, depending upon additional input from EU and US regulatory authorities, we may need to raise additional capital before then. In addition to the foregoing, our estimated capital requirements potentially could increase significantly if a number of risks relating to conducting these activities were to occur, including without limitation those set forth under the heading “**RISK FACTORS**” in this filing.

Merger with ABS and Related Activities

As noted earlier in this document, on June 26, 2013, the Company completed the Merger with ABS, pursuant to which ABS became a wholly owned subsidiary of the Company. In contemplation of the Merger, effective May 24, 2013, the Company increased its authorized common stock, par value \$0.001 per share (“Common Stock”), from 75,000,000 shares to 300,000,000 shares and effected a forward stock split, by way of a stock dividend, of its issued and outstanding shares of Common Stock at a ratio of 11 shares to each one issued and outstanding share. Also, in contemplation of the Merger, effective June 5, 2013, the Company changed its name from Almah, Inc. to Arch Therapeutics, Inc. and changed the ticker symbol under which its Common Stock trades on the OTC Bulletin Board from “AACH” to “ARTH”

Liquidity

We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System. We devote a significant amount of our efforts on fundraising as well as planning and conducting product research and development and activities in connection with obtaining regulatory marketing authorization. For the three months ended March 31, 2021, we had a net loss of \$1,791,296 versus a net loss of \$731,884 in the comparable period in the prior year. The net loss for the three months ended March 31, 2021 can be attributable to general and administrative costs and research and development expenses, including regulatory marketing authorization. The loss for the three months ended March 31, 2020 can be attributable to general and administrative costs, and research and development expenses, including regulatory approval and product research partially offset by an adjustment of derivative liabilities of \$422,685. For the six months ended March 31, 2021, we had a net loss of \$2,945,400 versus a net loss of \$2,391,638 in the comparable period in the prior year. The net loss for the six months ended March 31, 2021 can be attributable to general and administrative costs and research and development expenses, including regulatory marketing authorization and partially offset by an adjustment of derivative liabilities of \$108,944. The loss for the six months ended March 31, 2020 can be attributable to general and administrative costs, and research and development expenses, including regulatory approval and product research partially offset by an adjustment of derivative liabilities of \$382,498.

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Cash used in operating activities increased \$108,344 during the six months ended March 31, 2021 to \$2,664,451 compared to \$2,556,107, for the six months ended March 31, 2020. Cash at March 31, 2021 increased by \$4,601,507 to \$5,560,816 compared to \$959,309 as of September 30, 2020.

Recent Developments

On November 6, 2020, the Company issued unsecured 10% Series 2 Convertible Notes in the aggregate principal amount of \$1,050,000. The Series 2 Convertible Notes provide, among other things, for (i) a term of approximately three (3) years; (ii) the Company’s ability to prepay the Series 2 Convertible Notes, in whole or in part, at any time; (iii) the automatic conversion of the Convertible Notes upon a Change of Control (all capitalized terms not otherwise defined to have the meaning ascribed to such terms in the Series 2 Convertible Notes) into shares of the Company’s common stock, par value \$0.001 per share (Common Stock), at a per share price of \$0.25 (the “**Conversion Price**”); (iv) the ability of a holder of a Convertible Note (a “**Holder**”) to convert the Convertible Note and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price; (v) the Company’s ability to convert all Note Obligations outstanding upon a Qualified Equity Financing into shares of Common Stock at the Conversion Price; (vi) the Company’s ability to convert Convertible Notes and accrued interest, in whole or in part, into shares of Common Stock at the Conversion Price in the event the volume weighted average price (“**VWAP**”) of the Common Stock equals or exceeds \$0.32 per share for at least fifteen (15) consecutive Trading Days; (vii) the Company’s ability to convert all outstanding Note Obligations into shares of Common Stock at the Conversion Price (an “**In-Kind Note Repayment**”) in lieu of repaying the Note Obligations outstanding on the Maturity Date, November 30, 2023; provided, however, that in the case of an In-Kind Note Repayment, the outstanding Note Obligations will be calculated by increasing by thirty-five percent (35%) the aggregate sum of the unpaid Principal Amount held by each Holder and the accrued interest at a rate of ten percent (10%) per annum, subject to, with respect to any portion of the Principal Amount that is converted or prepaid before the twelve month anniversary of the Issuance Date, a minimum interest payment equal to ten percent (10%) of the amount that is converted or prepaid.

On November 6, 2020, as consideration for an investment in the Convertible Notes, the Company entered into an Amendment to the Series J Warrant to Purchase Common Stock, with a holder of a Series J Warrant exercisable for up to 3,375,000 shares of Common Stock, to extend the term of the Series J Warrant from one (1) year to thirty (30) months.

During November 2020, the Company applied for forgiveness of the PPP loan. The PPP Loan has a two-year term and bears interest at a rate of 1.00% per annum. Monthly principal and interest payments are deferred until the earliest of ten months after the end of our covered period or the date the SBA makes a decision on our loan forgiveness application. Unless the PPP Loan is forgiven, the Company will be required to make monthly payments of principal and interest of approximately \$20,000 to the Lender.

On December 31, 2020, the Company announced that the Company and Richard Davis, the Company’s current Chief Financial Officer, entered into a transition agreement, under which Mr. Davis agreed to continue in his current role as the Company’s Chief Financial Officer until the earlier of (i) when a successor is named and ready to perform the daily duties of Chief Financial Officer, and (ii) June 30, 2021 (such date, the “**Transition End Date**”), upon which date Mr. Davis will retire as Chief Financial Officer. Pursuant to the Agreement, for a period of six months following the Transition End Date, Mr. Davis will continue to work as an employee of the Company in a non-executive role to provide support and ensure a smooth and successful transition. On May 3, 2021, the Company appointed Michael S. Abrams as an employee and then, effective May 10, 2021 as its Chief Financial Officer and Treasurer.

On January 4, 2021, the Company announced that it has entered into a distribution and sales administration agreement with Buffalo Supply, Inc. (“**Buffalo Supply**” or “**BSI**”) to be the exclusive distributor for products sold to United States government facilities worldwide.

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On February 12, 2021, the Company announced that it had entered into a securities purchase agreement with certain institutional and accredited investors as of February 11, 2021 to raise approximately \$6.9 million through the issuance of an aggregate of 43,125,004 shares of its common stock and warrants to purchase up to an aggregate of 32,343,753 shares of common stock, at a combined purchase price of \$0.16 per share of common stock and associated warrant in a private placement (the “**2021 Financing**”). The Series K Warrants have an exercise price of \$0.17 per share and are exercisable for a period of 5.5 years. The gross proceeds to Arch from the 2021 Financing, which closed on February 17, 2021, were approximately \$6.9 million before deducting financing costs of approximately \$700,000. The Company believes that its cash on hand, not including that which may be derived from any potential revenue generation, will meet its anticipated cash requirements through the first quarter of fiscal 2022.

The Company engaged H.C. Wainwright & Co., LLC (the “Placement Agent”) as exclusive placement agent for the 2021 Financing. Pursuant to the Company’s engagement letter with the Placement Agent, the Company also agreed to issue to the Placement Agent, or its designees, warrants to purchase up to 3,234,375 shares (the “Placement Agent 2 Warrants”). The Placement Agent 2 Warrants have substantially the same terms as the Series K Warrants, except that the exercise price of the Placement Agent Warrants is \$0.20 per share.

The Company also recently commenced commercial sales of its first product, AC5[®] Advanced Wound System.

Results of Operations

The following discussion of our results of operations should be read together with the unaudited interim consolidated financial statements included in this report on Form 10-Q. The period to period comparisons of our interim results of operations that follow are not necessarily indicative of future results.

Three months ended March 31, 2021 Compared to Three months ended March 31, 2020

	March 31, 2021 (\$)	March 31, 2020 (\$)	Increase (Decrease) (\$)
Revenue	10,000	-	10,000
Operating Expenses			
Cost of revenues	10,102	-	10,102
General and administrative	1,339,833	892,136	447,697
Research and development	410,611	262,433	148,178
Loss from operations	(1,750,546)	(1,154,569)	595,977
Other income (expense)	(40,750)	422,685	463,435
Net loss	(1,791,296)	(731,884)	1,059,412

Revenue

The Company commenced commercial sales of its first product, AC5[®] Advanced Wound System, during the three months ended March 31, 2021. Revenue for the three months ended March 31, 2021 was \$10,000. We did not generate revenue during the three months ended March 31, 2020.

Cost of revenues

Cost of revenues during the three months ended March 31, 2021 was \$10,102, an increase of \$10,102 compared to \$0 for the three months ended March 31, 2020. Cost of sales includes product costs, warehousing, overhead allocation and royalty expenses.

General and Administrative Expense

General and administrative expenses during the three months ended March 31, 2021 were \$1,339,833, an increase of \$447,697 compared to \$892,136 for the three months ended March 31, 2020. The increase in general and administrative expense for the three months ended March 31, 2021 is primarily attributable to corporate legal, and consulting expense. General and administrative expenses are generally expected to increase during fiscal 2021 as a result of the establishment and execution of commercialization efforts, additional staffing, as well as increased costs associated with the Company’s continued fundraising efforts.

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Research and Development Expense

Research and development expense during the three months ended March 31, 2021 was \$410,611, an increase of \$148,178 compared to \$262,433 for the three months ended March 31, 2020. The increase in research and development expense is primarily attributable to an increase in product and development costs, part of which includes an approximate \$180,000 reserve for inventory for obsolescence samples, partially offset by compensation costs. Research and development expenses are expected to increase during fiscal 2021 as a result of our plans for additional product development, clinical and regulatory programs.

Other Income (expense)

Other expense during the three months ended March 31, 2021 was \$40,750, an increase of \$463,435 compared to total other income of \$422,685 for the three months ended March 31, 2020. The increase in other expense is attributed to interest expense, and a change in fair market value of the derivative liabilities

Six months ended March 31, 2021 Compared to Six months ended March 31, 2020

	March 31, 2021 (\$)	March 31, 2020 (\$)	Increase (Decrease) (\$)
Revenue	10,000	-	10,000
Operating Expenses			
Cost of revenues	10,102	-	10,102
General and administrative	2,230,024	1,867,969	362,055
Research and development	754,202	906,167	(151,965)
Loss from Operations	2,984,328	(2,774,136)	(210,192)
Other income (expense)	38,928	382,498	(343,570)
Net loss	(2,945,400)	(2,391,638)	553,762

Revenue

The Company commenced commercial sales of its first product, AC5[®] Advanced Wound System during the six months ended March 31, 2021. Revenue for the six months ended March 31, 2021 was \$10,000. We did not generate revenue during the six months ended March 31, 2020.

Cost of revenues

Cost of revenues during the six months ended March 31, 2021 was \$10,102, an increase of \$10,102 compared to \$0 for the six months ended March 31, 2020. Cost of sales

includes product costs, third party warehousing, overhead allocation and royalty expenses.

General and Administrative Expense

General and administrative expenses during the six months ended March 31, 2021 were \$2,230,024, an increase of \$362,055 compared to \$1,867,969 for the six months ended March 31, 2020. The increase in general and administrative expense for the six months ended March 31, 2021 is primarily attributable to legal and consulting expense. General and administrative expenses are generally expected to increase during fiscal 2021 as a result of the establishment and execution of commercialization efforts, additional staffing as well as increased costs associated with the Company's continued fundraising efforts.

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Research and Development Expense

Research and development expense during the six months ended March 31, 2021 was \$754,202, a decrease of \$151,965 compared to \$906,167 for the six months ended March 31, 2020. The decrease in research and development expense is primarily attributable to lower compensation costs partially offset by increased product costs part of which includes an approximate \$180,000 reserve for inventory for obsolescence and samples, to be used for research and development. Research and development expenses are expected to increase during fiscal 2021 as a result of our plans for additional product development, clinical and regulatory programs.

Other Income (Expense)

Other income during the six months ended March 31, 2021 was \$38,928, a decrease of \$343,570 compared to total other income of \$382,498 for the six months ended March 31, 2020. The decrease in other income is attributable a change in fair market value of the derivative liabilities and interest expense.

Liquidity and Capital Resources

We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System. We devote a significant amount of our efforts on fundraising as well as planning and conducting product research and development and activities in connection with obtaining regulatory marketing authorization. We have principally raised capital through borrowings and the issuance of convertible debt and units consisting of Common Stock and warrants to fund our operations.

Working Capital

At March 31, 2021, we had total current assets of \$6,842,412 (including cash of \$5,560,816) and working capital of \$4,995,265. Our working capital as of March 31, 2021 and September 30, 2020 are summarized as follows:

	March 31, 2021	September 30, 2020
Total Current Assets	\$ 6,842,412	\$ 2,142,975
Total Current Liabilities	1,847,147	628,460
Working Capital	<u>\$ 4,995,265</u>	<u>\$ 1,514,515</u>

Total current assets as of March 31, 2021 were \$6,842,412, an increase of \$4,699,437 compared to \$2,142,975 as of September 30, 2020. The increase in current assets is primarily attributable to net proceeds of approximately \$6.2 million raised from the issuance of common stock and warrants in the 2021 Financing, and \$1,050,000 received from the issuance of convertible notes. This was partially offset by general and administrative expenses and research and development expenses incurred in connection with activities to develop our primary product candidate. Our total current assets as of March 31, 2021 and September 30, 2020 were comprised primarily of cash, inventory and prepaid expenses and other current assets.

Total current liabilities as of March 31, 2021 were \$1,847,147, an increase of \$1,218,687 compared to \$628,460 as of September 30, 2020. The increase is primarily due to the current portion of the derivative liability, and an increase in accounts payable. Our total current liabilities as of March 31, 2021 and September 30, 2020 were comprised of accounts payable, accrued expenses and other liabilities, current portion of derivative liabilities and the current portion of the PPP loan.

Cash Flow for the six months ended

	March 31, 2021	March 31, 2020
Cash Used in Operating Activities	\$ (2,664,451)	\$ (2,556,107)
Cash Used in Investing Activities	(3,275)	(2,455)
Cash Provided by Financing Activities	7,269,233	2,167,162
Net increase (decrease) in cash	<u>\$ 4,601,507</u>	<u>\$ (391,400)</u>

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Cash Used in Operating Activities

Cash used in operating activities increased \$108,344 to \$2,664,451 during the six months ended March 31, 2021 compared to \$2,556,107 during the six months ended March 31, 2020. The increase in cash used in operating activities is primarily attributable to increased legal and consulting costs partially offset by decreased payroll and product and development costs.

Cash Used in Investing Activities

Cash used in investing activities increased \$820 to \$3,275 compared to \$2,455 during the six months ended March 31, 2020. For the six months ended March 31, 2021 and 2020, cash used in investing activities is attributed to computer hardware purchases.

Cash Provided by Financing Activities

Cash provided by financing activities increased \$5,102,071 to \$7,269,233 during the six months ended March 31, 2021, compared to \$2,167,162 during the six months ended March 31, 2020. For the six months ended March 31, 2021, the cash provided by financing activities resulted from net proceeds of \$6,219,233 raised from issuance of common

stock and warrants in the 2021 Financing and \$1,050,000 from the issuance of Series 2 Convertible Notes. For the six months ended March 31, 2020, the cash provided by financing activities resulted from \$2,167,162 from the issuance of common stock and warrants in the October 2019 Financing.

Cash Requirements

We anticipate that our operating and other expenses will increase significantly as we continue to implement our business plan and pursue our operational goals. As of May 5, 2021, we believe that our current cash on hand will meet our anticipated cash requirements through the first quarter of fiscal 2022. Notwithstanding this, depending upon additional input from EU and US regulatory authorities, we do not expect to generate sufficient revenues from operations before we need to raise additional capital. Further, our estimates regarding our use of cash could change if we encounter unanticipated difficulties or other issues arise, including without limitation those set forth under the heading “**RISK FACTORS**” in this filing, in which case our current funds may not be sufficient to operate our business for the period we expect.

We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System. That revenue will not be sufficient to fund our business operations and we will need to obtain additional funding from external sources for the foreseeable future. We do not have any commitments for future capital. Significant additional financing will be required to fund our planned operations in the near term and in future periods, including research and development activities relating to our principal product candidate, seeking regulatory approval of that or any other product candidate we may choose to develop, commercializing any product candidate for which we are able to obtain regulatory approval or certification, seeking to license or acquire new assets or businesses, and maintaining our intellectual property rights and pursuing rights to new technologies. We may not be able to obtain additional financing on commercially reasonable or acceptable terms when needed, or at all. We are bound by certain contractual terms and obligations that may limit or otherwise impact our ability to raise additional funding in the near-term including, but not limited to, provisions in the 2017 SPA and 2018 SPA restricting our ability to effect or enter into an agreement to effect any issuance by the Company or any of its subsidiaries of Common Stock or securities convertible, exercisable or exchangeable for Common Stock (or a combination of units thereof) involving a Variable Rate Transaction (as defined in the 2017 SPA and 2018 SPA) including, but not limited to, an equity line of credit or “At-the-Market” financing facility until the three lead investors in the 2017 Financing and the 2018 Financing collectively own less than 20% of the Series F Warrants and Series G Warrants purchased by them pursuant to the 2017 SPA and 2018 SPA. These restrictions and provisions could make it more challenging for us to raise capital through the incurrence of debt or through equity issuances. If we cannot raise the money that we need in order to continue to develop our business, we will be forced to delay, scale back or eliminate some or all of our proposed operations. If any of these were to occur, there is a substantial risk that our business would fail, and our stockholders could lose all of their investments.

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As previously noted, since inception we have funded our operations primarily through equity and debt financings and we expect to continue to seek to do so in the future. If we obtain additional financing by issuing equity securities, our existing stockholders’ ownership will be diluted. Additionally, the terms of securities we may issue in future capital-raising transactions may be more favorable for our new investors, and in particular may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have additional dilutive effects. If we obtain additional financing by incurring debt, we may become subject to significant limitations and restrictions on our operations pursuant to the terms of any loan or credit agreement governing the debt. Further, obtaining any loan, assuming a loan would be available when needed on acceptable terms, would increase our liabilities and future cash commitments. We may also seek funding from collaboration or licensing arrangements in the future, which may require that we relinquish potentially valuable rights to our product candidates or proprietary technologies or grant licenses on terms that are not favorable to us. Moreover, regardless of the manner in which we seek to raise capital, we may incur substantial costs in those pursuits, including investment banking fees, legal fees, accounting fees, printing and distribution expenses and other related costs.

Going Concern

We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System. From inception, we have had recurring losses from operations. While the Company anticipates that it will have cash on hand through the first quarter of fiscal 2022, the continuation of our business as a going concern is dependent upon raising additional capital and eventually attaining and maintaining profitable operations. As of March 31, 2021, there is substantial doubt about the Company’s ability to continue as a going concern. The financial statements included in this Quarterly Report on Form 10-Q do not include any adjustments that might be necessary should operations discontinue.

Critical Accounting Policies and Significant Judgments and Estimates

Pursuant to certain disclosure guidance issued by the SEC, the SEC defines “critical accounting policies” as those that require the application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our critical accounting policies that we anticipate will require the application of our most difficult, subjective or complex judgments are as follows:

Derivative Liabilities

The Company accounts for its warrants and other derivative financial instruments as either equity or liabilities based upon the characteristics and provisions of each instrument, in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. Warrants classified as equity are recorded at fair value as of the date of issuance on the Company’s consolidated balance sheets and no further adjustments to their valuation are made. Warrants classified as derivative liabilities and other derivative financial instruments that require separate accounting as liabilities are recorded on the Company’s consolidated balance sheets at their fair value on the date of issuance and will be revalued on each subsequent balance sheet date until such instruments are exercised or expire, with any changes in the fair value between reporting periods recorded as other income or expense. Management estimates the fair value of these liabilities using option pricing models and assumptions that are based on the individual characteristics of the warrants or instruments on the valuation date, as well as assumptions for future financings, expected volatility, expected life, yield, and risk-free interest rate.

Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories comprises expenditures incurred in acquiring the inventories, the cost of conversion and other costs incurred in bringing them to their existing location and condition. The cost of raw materials, work-in-progress and finished goods and other products are determined on a First in First out (FiFo) basis. When determining net realizable value, appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value.

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Recent Accounting Guidance

Accounting Standards Update (ASU) 2018-13, “Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” was issued by the Financial Accounting Standards Board (FASB) in August 2018. The purpose of this amendment in this Update is to modify the disclosure requirements on fair value measurements in Topic 820. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted ASU 2018-13 during our first quarter of fiscal year 2021, and the impact was considered

immaterial on our consolidated financial statements.

ASU 2020-06, “Debt with Conversion and other Options (subtopic 470-02) and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40)” was issued by the FASB in August 2020. The purpose of this amendment is to address issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liability and equity. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not believe that this guidance will have a material impact on its consolidated results of operations, financial position or disclosures

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (who is our Principal Executive Officer) and our Chief Financial Officer (who is our Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design of our disclosure controls and procedures (as defined by Exchange Act Rules 13a-15(e) or 15d-15(e)) as of March 31, 2021, pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2021 in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. The impact and outcome of litigation, if any, is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently a party to any proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors.

Investment in our Common Stock involves a high degree of risk. You should carefully consider the risks that are summarized below and discussed in greater detail in the following pages before making an investment decision. If any of the following risks and uncertainties actually occur, our business, financial condition, and results of operations could be negatively impacted, and you could lose all or part of your investment.

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Risk Factor Summary

- There is substantial doubt about our ability to continue as a going concern, and we believe that our current cash on hand will meet our anticipated cash requirements through the first quarter of fiscal 2022.
- We have incurred significant losses since inception, we expect to continue to incur losses for the foreseeable future, and we may not generate sufficient revenue to achieve or maintain profitability.
- We will need to raise additional capital, which may not be available to us on acceptable terms, or at all.
- Our business may be materially adversely affected by the coronavirus (COVID-19) pandemic. Should the pandemic or its aftereffects continue, our business operations could and will likely be delayed or interrupted.
- Applications for regulatory marketing authorization for commercialization of our products or elements of our supply chain may not be accepted, or if accepted, may be voluntarily withdrawn or eventually rejected, and the future success of our business is significantly dependent on the success of our being able to obtain regulatory marketing authorization for our development stage candidates.
- Our principal product candidates are inherently risky because they are based on novel technologies and thus create significant challenges with respect to product development and optimization, engineering, manufacturing, scale-up, quality systems, pre-clinical in vitro and in vivo testing, government regulation and approval, third-party reimbursement and market acceptance.
- Any changes in our supply chain, including to the third party contract manufacturers, service providers, or other vendors, or in the processes that they employ, could adversely affect us.
- If the FDA or similar foreign agencies or intermediaries impose requirements or an alternative product classification more onerous than we anticipate, our business could be adversely affected.
- We are subject to extensive and dynamic medical device regulations outside of the United States, which may impede or hinder the approval, marketing authorization or sale of our products and, in some cases, may ultimately result in an inability to obtain approval of certain products or may result in the recall or seizure of previously approved or authorized products.

- Any clinical trials that are planned or are conducted on our product candidates may not start or may fail. Clinical trials are lengthy, complex and extremely expensive processes with uncertain expenditures and results and frequent failures.
- We cannot market and sell any product candidate in the United States or in any other country or region if we fail to obtain the necessary marketing authorization, clearances or certifications from applicable government agencies.
- Any product for which we obtain required regulatory marketing authorization could be subject to post-approval regulation, and we may be subject to penalties if we fail to comply with such post-approval requirements.
- Use of third parties to manufacture our product candidates may increase the risk that preclinical development, clinical development and potential commercialization of our product candidates could be delayed, prevented or impaired.
- We face competition from companies that have greater resources than we do, and we may not be able to effectively compete against these companies.
- If others claim we and/or the parties from who we license some of our intellectual property are infringing on their intellectual property rights, we may be subject to costly and time-consuming litigation.

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- There is not now, and there may not ever be, an active market for our Common Stock, which trades in the over-the-counter market in low volumes and at volatile prices.
- The market price of our Common Stock is and is expected to continue to be in the near term, less than \$5.00 per share and is therefore a “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities.

AC5, AC5-G, AC5-V, AC5-P, Crystal Clear Surgery, NanoDrape and NanoBioBarrier and associated logos are trademarks and/or registered trademarks of Arch Therapeutics, Inc. and subsidiary. For purposes herein, references to regulatory approval and marketing authorization may be used interchangeably.

Risks Related to our Business

Our business may be materially adversely affected by the recent coronavirus (COVID-19) outbreak.

COVID-19 is the disease caused by a coronavirus discovered in 2019 called SARS-CoV-2. It has evolved into a global pandemic, having spread to many regions of the world. The extent to which COVID-19 impacts our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Should the coronavirus continue to spread, our business operations could and will likely be delayed or interrupted. For instance, clinical use may be delayed due to, among other items, availability of clinicians, follow-up by patients, availability of facility administrators to coordinate product evaluations and intake, and the inability to ship product to clinical sites. Site initiation, participant recruitment and enrollment, participant dosing, distribution of clinical trial materials, study monitoring and data analysis may be paused or delayed due to changes in hospital or university policies, federal, state or local regulations, prioritization of hospital resources toward pandemic efforts, or other reasons related to the pandemic. Some participants and clinical investigators may not be able to comply with clinical trial protocols. For example, quarantines or other travel limitations (whether voluntary or required) may impede participant movement, affect sponsor access to study sites, or interrupt healthcare services, and we may be unable to conduct our clinical trials. Furthermore, if the spread of the coronavirus pandemic continues and our operations are adversely impacted, we risk a delay, default and/or nonperformance under existing agreements which may increase our costs. These cost increases may not be fully recoverable or adequately covered by insurance.

Infections, deaths and resource constraints due to the pandemic may disrupt the United States and/or other healthcare and healthcare regulatory systems. Such disruptions could divert healthcare resources away from evaluating and/or using our products, materially delay FDA and/or other regulatory agency review and/or approval with respect to our current and future preclinical development plans, clinical trials and requests for marketing authorizations. It is unknown how long these disruptions could continue, were they to occur. Any elongation or de-prioritization of our clinical trials or delay in regulatory review resulting from such disruptions could and will materially affect the development and study of our product candidates.

We currently utilize third parties to, among other things, manufacture raw materials. If any third-party involved in the production of our products, product candidates, or raw materials are adversely impacted by restrictions resulting from the coronavirus outbreak, our supply chain may be disrupted, limiting our ability to manufacture products for research and development operations, clinical trials and, in the case of AC5[®] Topical Gel (renamed AC5 Advanced Wound System) and AC5 Topical Hemostat, commercialization.

Finally, while we believe that we currently have sufficient supply of our products to continue commercialization efforts, our products and product candidates or the materials contained therein (such as the Active Pharmaceutical Ingredients (“APIs”) for our AC5 product line) are manufactured from facilities in areas impacted by the coronavirus, which could result in shortages due to ongoing efforts to address the outbreak. If any of the foregoing were to occur, it could materially adversely affect our future revenues, financial condition, profitability, and cash flows.

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In the event of a shelter-in-place order or other mandated local travel restrictions, our employees conducting research and development, or manufacturing activities may not be able to access their laboratory or manufacturing space, and our core activities may be significantly limited or curtailed, possibly for an extended period of time.

The spread of the coronavirus, which has had a broad negative global impact, including restrictions on travel and quarantine policies put into place by businesses and governments, may have a material economic effect on our business. This may also limit the ability of physicians to perform procedures in which our products could be used.

In addition, and as noted elsewhere, we believe that our current cash on hand will meet our anticipated cash requirements through the first quarter of fiscal 2022. Accordingly, while the potential economic impact brought by and the duration of the pandemic may be difficult to assess or predict, it has already caused, and is likely to result in further, significant disruption of global financial markets, which may reduce our ability to access capital either at all or on favorable terms. In addition, a recession, depression or other sustained adverse market event resulting from the spread of the coronavirus could materially and adversely affect our business and the value of our common stock.

The ultimate impact of the current pandemic, or any other health epidemic, is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our clinical trials, our research programs, healthcare systems or the global economy as a whole. However, these effects could have a material impact on our operations, and we will continue to monitor the situation closely.

There is substantial doubt about our ability to continue as a going concern.

We have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System and we have incurred substantial net losses as a result. As of May 5, 2021, we believe that our current cash will meet anticipated requirements through the first quarter of fiscal 2022 and we will need to raise additional capital before then.

During the first and third quarters of fiscal 2020 and the first and second quarters of fiscal 2021, we obtained additional cash to continue operations and fund our planned future operations, which include research and development of our product candidates, steps related to seeking regulatory marketing authorization for our initial product candidates, and planning for their commercialization in the U.S. and Europe. Even with the additional funds received from these financings, there exists substantial doubt about our ability to continue as a going concern.

We have incurred significant losses since inception. We expect to continue to incur losses for the foreseeable future, and we may achieve or maintain profitability.

As noted above under the risk factor entitled “*There is substantial doubt about our ability to continue as a going concern*,” we have only recently commenced commercial sales of our first product, AC5[®] Advanced Wound System and we have incurred substantial net losses as a result. Consequently, we have incurred losses in each year since our inception and we expect that losses will continue to be incurred in the foreseeable future in the operation of our business. To date, we have financed our operations entirely through equity and debt investments by founders, other investors and third parties, and we expect to continue to rely on these sources of funding, to the extent available in the foreseeable future. Losses from operations have resulted principally from costs incurred in research and development programs and from general and administrative expenses, including significant costs associated with establishing and maintaining intellectual property rights, significant legal and accounting costs incurred in connection with both the closing of the Merger and complying with public company reporting and control obligations, and personnel expenses. We have devoted much of our operational effort to date to the research and development of our core technology, including selecting our initial product composition, conducting safety and other related tests, conducting a human trial for safety and performance, developing methods for manufacturing scale-up, reproducibility and validation, and developing and protecting the intellectual property rights underlying our technology platform.

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We expect to continue to incur significant expenses and anticipate that those expenses and losses may increase in the foreseeable future as we:

- develop our principal product candidates, and the underlying technology, including advancing applications and conducting biocompatibility and other preclinical studies;
- raise capital needed to fund our operations;
- enhance investor relations and corporate communications capabilities;
- conduct clinical trials on products and product candidates;
- attempt to obtain regulatory marketing authorizations for product candidates;
- build relationships with additional contract manufacturing partners, and invest in product and process development through such partners;
- maintain, expand and protect our intellectual property portfolio;
- advance additional product candidates and technologies through our research and development pipeline;
- seek to commercialize selected product candidates, which may require regulatory marketing authorization; and
- hire additional regulatory, clinical, quality control, scientific, financial, and management, consultants and advisors.

To become and remain profitable, we must succeed in developing and eventually commercializing product candidates with significant market potential. This will require us to be successful in a number of challenging activities, including successfully completing preclinical testing and clinical trials of product candidates, obtaining regulatory marketing authorization for our product candidates and manufacturing, marketing and selling any products for which we have or may obtain marketing authorization. We are only in the preliminary stages of many of those activities. We may never succeed in those activities and may never generate sufficient operating revenues to achieve profitability. Even if we do generate operating revenues sufficient to achieve profitability, we may not be able to sustain or increase profitability. Our failure to generate sufficient operating revenues to become and remain profitable would impair our ability to raise capital, expand our business or continue our operations, all of which would depress the price of our Common Stock. A further decline or lack of increase in the prices of our Common Stock could cause our stockholders to lose all or a part of their investment in the Company.

We will need substantial additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts and could cause our business to fail.

Based on our current operating expenses and working capital requirements, as of May 5, 2021, we believe that our current cash on hand will meet our anticipated cash requirements through the first quarter of fiscal 2022. Notwithstanding that, depending upon additional input from EU and US regulatory authorities, we may need to raise additional capital before then. For example, on December 18, 2017, we voluntarily withdrew a 510(k) notification for AC5 Topical Gel after receiving questions from the FDA for which an adequately comprehensive response could not be provided within the FDA’s congressionally-mandated 90-day review period. While on October 1, 2018, we announced that we both completed the necessary steps required to refile our 510(k) submission for AC5 Topical Gel and filed a 510(k) submission during the third calendar quarter of 2018, the resubmission process required us to expend a minimum of \$100,000 that we had not anticipated spending and delayed the clearance of our 510(k) submission.

During the first and third quarters of fiscal 2020 and the first and second quarters of fiscal 2021, we obtained additional cash to continue operations and fund our planned future operations, including the continuation of our ongoing research and development efforts, the licensing or acquisition of new assets, and researching and developing any potential patents, the related compounds and any further intellectual property that we may acquire. In addition, our plans may change and/or we may use our capital resources more rapidly than we currently anticipate. We presently expect that our expenses will increase in connection with our ongoing activities to support our business operations, inclusive of regulatory submissions, marketing authorization, and commercialization of our product candidates and products, and, therefore, we will require additional funding.

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Our future capital requirements will depend on many factors, including:

- the scope, progress and results of our research and development collaborations;
- the extent of potential direct or indirect grant funding for our research and development activities;
- the scope, progress, results, costs, timing and outcomes of any regulatory process and clinical trials conducted for any of our product candidates;
- the timing of entering into, and the terms of, any collaboration agreements with third parties relating to any of our product candidates;
- the timing of and the costs involved in obtaining regulatory marketing authorization for our product candidates;
- the costs of operating, expanding and enhancing our operations to support our clinical activities and, if our product candidates are approved, commercialization activities;
- the costs of maintaining, expanding and protecting our intellectual property portfolio, including potential litigation costs and liabilities;
- the costs associated with maintaining and expanding our product pipeline;
- the costs associated with expanding our geographic focus;
- operating revenues, if any, received from sales of our product candidates, if any are approved by the FDA or other applicable regulatory agencies;
- the cost associated with being a public company, including obligations to regulatory agencies, and increased investor relations and corporate communications expenses; and
- the costs of additional general and administrative personnel, including accounting and finance, legal and human resources employees.

We intend to obtain additional financing for our business through public or private securities offerings, the incurrence of additional indebtedness, or some combination of those sources. We may also seek funding through collaborative arrangements with strategic partners if we determine them to be necessary or appropriate, although these arrangements could require us to relinquish rights to our technology or product candidates and could result in our receipt of only a portion of any revenues associated with the partnered product. We cannot provide any assurance that additional financing from these sources will be available on favorable terms, if at all.

In addition, we are bound by certain contractual terms and obligations that may limit or otherwise impact our ability to raise additional funding in the near-term including, but not limited to, provisions in the Securities Purchase Agreements that we entered into on February 20, 2017 (the “2017 SPA”) and June 28, 2018 (the “2018 SPA”) in connection with the registered direct financings that closed on February 24, 2017 (the “2017 Financing”) and July 2, 2018 (the “2018 Financing”), respectively, and the Securities Purchase Agreement that we entered into in connection with the 2021 Private Placement Financing (the “2021 SPA”), in each case as described in greater detail in the risk factor entitled *“The terms of the 2017 Financing, 2018 Financing and 2021 Private Placement Financing could impose additional challenges on our ability to raise funding in the future”* below.

These restrictions and provisions could make it more challenging for us to raise capital through the incurrence of additional debt or through future equity issuances. Further, if we do raise capital through the sale of equity, or securities convertible into equity, the ownership of our then existing stockholders would be diluted, which dilution could be significant depending on the price at which we may be able to sell our securities. Also, if we raise additional capital through the incurrence of indebtedness, we may become subject to covenants restricting our business activities, and the holders of debt instruments may have rights and privileges senior to those of our equity investors. Finally, servicing the interest and principal repayment obligations under any debt facilities that we may enter into in the future could divert funds that would otherwise be available to support research and development, clinical or commercialization activities.

If we are unable to obtain adequate financing on a timely basis or on acceptable terms in the future, we would likely be required to delay, reduce or eliminate one or more of our product development activities, which could cause our business to fail.

The terms of the 2017 Financing, 2018 Financing and 2021 Private Placement Financing could impose additional challenges on our ability to raise funding in the future.

The 2017 SPA and 2018 SPA contain provisions that provide that until such time as the three lead investors in the 2017 Financing and 2018 Financing, respectively, collectively own less than 20% of the Series F Warrants or Series G Warrants as applicable, purchased by them pursuant to the 2017 SPA or 2018 SPA, as applicable, the Company is prohibited from effecting or entering into an agreement to effect any issuance by the Company or its subsidiary of Common Stock or securities convertible, exercisable or exchangeable for Common Stock (or a combination of units thereof) involving a Variable Rate Transaction including, but not limited to, an equity line of credit or “At-the-Market” financing facility.

As of May 5, 2021, none of the lead investors for either the 2017 Financing or 2018 Financing have exercised or transferred any of their Series F Warrants and Series G Warrants. As defined in the 2017 SPA and 2018 SPA, Variable Rate Transaction means a transaction in which the Company (a) issues or sells any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of Common Stock either (A) at a conversion price, exercise price or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock (excluding adjustments under customary anti-dilution provisions) or (b) enters into, or effects a transaction under, any agreement, including, but not limited to, an equity line of credit, whereby the Company may issue securities at a future determined price. These provisions could make our securities less attractive to investors and could limit our ability to obtain adequate financing on a timely basis or on acceptable terms in the future, which could have significant harmful effects on our financial condition and business and could include substantial limitations on our ability to continue to conduct operations.

The 2021 SPA contains certain restrictions on our ability to conduct subsequent sales of our equity securities. In particular, we are prohibited from entering into or effecting a Variable Rate Transaction (as defined in the 2021 SPA) until February 11, 2022; *provided, however*, the Company may enter into and effect an at-the-market offering facility with the Placement Agent.

Additionally, the 2021 SPA contains certain restrictions on our ability to change our capitalization. In particular, until 180 days after February 17, 2021, we may not undertake a reverse or forward stock split or reclassification of the Common Stock without the prior written consent of the investors in the 2021 Private Placement Financing, other than in connection with the uplisting of the Common Stock to the Nasdaq Stock Market or the New York Stock Exchange.

Our short operating history may hinder our ability to successfully meet our objectives.

We are transitioning from being strictly a development stage company subject to the risks, uncertainties and difficulties frequently encountered by early-stage companies in evolving markets. Our operations to date have been primarily limited to organizing and staffing, developing and securing our technology and undertaking funding preclinical studies of our lead product candidates, and funding one clinical trial. We have not demonstrated our ability to successfully complete large-scale, pivotal clinical trials, reliably

obtain regulatory marketing authorizations, manufacture a commercial scale product or arrange for a third-party to do so on our behalf, and we have only recently begun to generate revenue from commercial sales of our first product, AC5[®] Advanced Wound System, and there can be no assurance that we will be successful in generating increased revenue.

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Because of our limited operating history, we have limited insight into trends that may emerge and affect our business, and errors may be made in developing an approach to address those trends and the other challenges faced by development stage companies. Failure to adequately respond to such trends and challenges could cause our business, results of operations and financial condition to suffer or fail. Further, our limited operating history may make it difficult for our stockholders to make any predictions about our likelihood of future success or viability.

If we are not able to attract and retain qualified management and scientific personnel, we may fail to develop our technologies and product candidates.

Our future success depends to a significant degree on the skills, experience and efforts of the principal members of our scientific and management personnel. These members include Terrence Norchi, MD, our President and Chief Executive Officer. The loss of Dr. Norchi or any of our other key personnel could harm our business and might significantly delay or prevent the achievement of research, development or business objectives. Further, our operation as a public company will require that we attract additional personnel to support the establishment of appropriate financial reporting and internal controls systems. Competition for personnel is intense. We may not be able to attract, retain and/or successfully integrate qualified scientific, financial and other management personnel, which could materially harm our business.

By way of example, on December 31, 2020, we announced that we had entered into a transition agreement with Richard Davis, our current Chief Financial Officer, under which Mr. Davis agreed to continue in his current role as our Chief Financial Officer until the earlier of (i) the date when a successor is named and ready to perform the daily duties of Chief Financial Officer, and (ii) June 30, 2021 (such date, the "Transition End Date"), upon which date Mr. Davis will retire as Chief Financial Officer.

If we fail to properly manage any growth we may experience, our business could be adversely affected.

We anticipate increasing the scale of our operations as we seek to develop our product candidates, including hiring and training additional personnel and establishing appropriate systems for a company with larger operations. The management of any growth we may experience will depend, among other things, upon our ability to develop and improve our operational, financial and management controls, reporting systems and procedures. If we are unable to manage any growth effectively, our operations and financial condition could be adversely affected.

If we fail to maintain appropriate internal controls in the future, we may not be able to report our financial results accurately, which may adversely affect our stock price and our business.

Our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting requires the commitment of significant financial and managerial resources. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud. If we are unable to maintain effective internal controls, we may not have adequate, accurate or timely financial information, and we may be unable to meet our reporting obligations as a publicly traded company or comply with the requirements of the SEC or the Sarbanes-Oxley Act of 2002. This could result in a restatement of our financial statements, the imposition of sanctions, including the inability of registered broker dealers to make a market in our stock, or investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements or by disclosure of an accounting, reporting or control issue could adversely affect the trading price of our stock and our business.

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We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology, including any cybersecurity incidents, could harm our ability to operate our business effectively.

We maintain sensitive data pertaining to our Company on our computer networks, including information about our research and development activities, our intellectual property and other proprietary business information. Our internal computer systems and those of third parties with which we contract may be vulnerable to damage from cyber-attacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures, despite the implementation of security measures. System failures, accidents or security breaches could cause interruptions to our operations, including material disruption of our research and development activities, result in significant data losses or theft of our intellectual property or proprietary business information, and could require substantial expenditures to remedy. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications or inappropriate disclosure of confidential or proprietary information, we could incur liability and our research and development programs could be delayed, any of which would harm our business and operations.

Risks Related to Our Business, Financial Position and Capital Requirements - Legal, political and economic uncertainty surrounding the exit of the United Kingdom from the European Union is a source of instability and uncertainty.

Legal, political and economic uncertainty surrounding the exit of the United Kingdom from the European Union is a source of instability and uncertainty.

The uncertainty concerning the U.K.'s legal, political and economic relationship with the E.U. after the Transition Period may be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise).

These developments, or the perception that any of them could occur, have had, and may continue to have, a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and limit the ability of key market participants to operate in certain financial markets. In particular, it could also lead to a period of considerable uncertainty in relation to the U.K. financial and banking markets, as well as on the regulatory process in Europe. Asset valuations, currency exchange rates and credit ratings may also be subject to increased market volatility.

If the U.K. and the E.U. are unable to negotiate acceptable trading and customs terms or if other E.U. Member States pursue withdrawal, barrier-free access between the U.K. and other E.U. Member States or among the European Economic Area ("E.E.A.") overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the U.K. and the E.U. and, in particular, any arrangements for the U.K. to retain access to E.U. markets after the Transition Period. Such a withdrawal from the E.U. is unprecedented, and it is unclear how the U.K. access to the European single market for goods, capital, services and labor within the E.U., or single market, and the wider commercial, legal and regulatory environment, will impact our U.K. operations.

We may also face new regulatory costs and challenges that could have an adverse effect on our operations and development programs. For example, the U.K. could lose the benefits of global trade agreements negotiated by the E.U. on behalf of its members, which may result in increased trade barriers that could make our doing business in the E.U.

and the E.E.A. more difficult. There may continue to be economic uncertainty surrounding the consequences of Brexit, which could adversely affect our financial condition, results of operations, cash flows and market price of our common stock.

Risks Related to the Development and Commercialization of our Product Candidates

Applications for regulatory marketing authorization for commercialization of our products or elements of our supply chain may not be accepted, or if accepted, may be voluntarily withdrawn or eventually rejected, and the future success of our business is significantly dependent on the success of our being able to obtain regulatory marketing authorization for our development stage candidates.

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For example, on July 17, 2017, we filed a 510(k) notification with the FDA for AC5 Topical Gel. As previously announced on December 18, 2017, we voluntarily withdrew the submission after receiving a communication from the FDA near the end of the agency's 90-day review period for a final decision on 510(k) notifications. The communication contained questions for which a comprehensive response could not be provided in the limited review time remaining on the submission. Given that it was not possible to respond in the time available, the Company made the decision to withdraw the 510(k) notification but noted at the time that it remained committed to continued collaboration with the FDA to appropriately address the outstanding questions and planned to submit a new 510(k) notification as soon as possible following further discussion with the agency. On March 12, 2018, we announced that we were utilizing the FDA's pre-submission process to submit a proposed development strategy to the FDA to address the agency's comments on our 510(k) notification. As indicated in that March 12, 2018 announcement, we determined that providing additional data to the FDA would be the most expeditious path forward for addressing the FDA's comments, subject to any further comments that we may receive from the FDA.

On May 8, 2018, the Company announced that it would initiate the previously disclosed study designed to address FDA comments on Arch's previous 510(k) notification for its AC5 Topical Gel. The agency provided feedback via the pre-submission process and indicated that the proposed study design was acceptable to support the Company's future marketing application. On June 15, 2018, the Company further announced that it completed enrollment for its human skin sensitization study and that applications of the Company's AC5 Topical Gel were underway for all subjects.

On October 1, 2018 the Company announced that it submitted a 510(k) notification to the FDA for its AC5 Topical Gel (AC5) and received acknowledgement from the FDA that the submission has been received. On December 17, 2018, we announced that the 510(k) premarket notification for AC5 Topical Gel has been reviewed and cleared by the FDA.

Our business plan is dependent on the success of our development stage product candidates.

Our business is currently focused almost entirely on the development and commercialization of our initial product candidates and products ("AC5 Devices"). Our reliance on AC5 Devices means that, if we are not able to obtain both regulatory marketing authorization and market acceptance of those product candidates, our chances for success will be significantly reduced. We are also less likely to withstand competitive pressures if any of our competitors develop and obtain regulatory marketing authorization for similar products or for products that may be more attractive to the market. Our current dependence on AC5 Devices increases the risk that our business will fail if our development efforts for those products experience delays or other obstacles or are otherwise not successful.

The Chemistry, Manufacturing and Control ("CMC") process may be challenging.

Because of the complexity of our lead product candidates, the CMC process, including but not limited to product scale-up activities and cGMP manufacturing for human use, may be difficult to complete successfully within the parameters required by the FDA or its foreign counterparts. Peptide formulation optimization is particularly challenging, and any delays could negatively impact our ability to conduct clinical trials and our subsequent commercialization timeline. Furthermore, we have, and the third parties with whom we may establish relationships may also have, limited experience with attempting to commercialize a self-assembling peptide as a medical device, which increases the risks associated with completing the CMC process successfully, on time, or within the projected budget. Failure to complete the CMC process successfully would impact our ability to complete product development activities, such as conducting clinical trials and submitting applications for regulatory approval, which could affect the long-term viability of our business.

Our principal product candidates are inherently risky because they are based on novel technologies.

We are subject to the risks of failure inherent in the development of products based on new technologies. The novel nature of the AC5 Devices creates significant challenges with respect to product development and optimization, engineering, manufacturing, scale-up, quality systems, pre-clinical in vitro and in vivo testing, government regulation and approval, third-party reimbursement and market acceptance. Our failure to overcome any one of those challenges could harm our operations, ability to complete additional clinical trials, and overall chances for success.

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Any changes in our supply chain, including to the third party contract manufacturers, service providers, or other vendors, or in the processes that they employ could adversely affect us.

We are dependent on third-parties in our supply chain, including manufacturers, service providers, and other vendors, and the processes that they employ to make major and minor components of our products, and this dependence exposes us to risks associated with regulatory requirements, delivery schedules, manufacturing capability, quality control, quality assurance and costs. We make periodic changes within our supply chain, for example, as our business needs evolve; and/or if a third party does not perform as agreed or desired; and/or if we decide to add an additional manufacturer, service provider, or vendor where we were previously single sourced; and/or if processes are altered to meet evolving scale requirements. For instance, the Company harmonized its US and European product supply chains by adding a supplier and additional manufacturing processes to the list of approved suppliers and processes for the production of the AC5 Topical Advanced Wound System that is commercially available in the United States. The Company filed documentation with the FDA related to these supply chain changes and announced on March 23, 2020 that the FDA provided the required clearance to market with the supply chain and manufacturing process changes. We cannot yet provide assurance that the changes or resulting product will prove acceptable to us.

The manufacturing, production, and sterilization methods that we intend to be utilized are detailed and complex and are a difficult process to manage.

We intend to utilize third-party manufacturers to manufacture and sterilize our products. We believe that our proposed manufacturing methods make our choice of manufacturer and sterilizer critical, as they must possess sufficient expertise in synthetic organic chemistry and device manufacturing. If such manufacturers are unable to properly manufacture to product specifications or sterilize our products adequately, that could severely limit our ability to market our products.

Compliance with governmental regulations regarding the treatment of animals used in research could increase our operating costs, which would adversely affect the commercialization of our technology.

The Animal Welfare Act (“AWA”) is the federal law that covers the treatment of certain animals used in research. Currently, the AWA imposes a wide variety of specific regulations that govern the humane handling, care, treatment and transportation of certain animals by producers and users of research animals, most notably relating to personnel, facilities, sanitation, cage size, and feeding, watering and shipping conditions. Third parties with whom we contract are subject to registration, inspections and reporting requirements under the AWA. Furthermore, some states have their own regulations, including general anti-cruelty legislation, which establish certain standards in handling animals. Comparable rules, regulations, and or obligations exist in many foreign jurisdictions. If our contractors or we fail to comply with regulations concerning the treatment of animals used in research, we may be subject to fines and penalties and adverse publicity, and our operations could be adversely affected.

If the FDA or similar foreign agencies or intermediaries impose requirements or an alternative product classification more onerous than we anticipate, our business could be adversely affected.

The FDA and other regulatory authorities or related bodies separately determine the classification of our products and product candidates. The development plan for our lead product candidates is based on our anticipation of pursuing the medical device regulatory pathway, and in February 2015 we received confirmation from The British Standards Institution (“BSI”), a European notified body (which is a private commercial entity designated by the national government of a European Union (“EU”) member state as being competent to make independent judgments about whether a medical device complies with applicable regulatory requirements), confirmed that AC5 Topical Hemostat fulfills the definition of a medical device within the EU and it was classified as such in consideration of the CE mark, receipt of which was announced by the Company on April 13, 2020. The FDA also determined AC5 Topical Gel, which was later renamed AC5 Advanced Wound System, to be a medical device. If the FDA or similar foreign agencies or intermediaries deem our products to be a member of a category other than a medical device, such as a drug or biologic, or impose additional requirements on our pre-clinical and clinical development than we presently anticipate, financing needs would increase, the timeline for product approval would lengthen, the program complexity and resource requirements would increase, and the probability of successfully commercializing a product would decrease. Any or all of those circumstances would materially adversely affect our business.

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We are subject to extensive and dynamic medical device regulations outside of the United States, which may impede or hinder the approval or sale of our products and, in some cases, may ultimately result in an inability to obtain approval of certain products or may result in the recall or seizure of products that were previously approved.

In the European Union, we are required to comply with applicable medical device directives, including the Medical Devices Directive, and obtain CE mark in order to market medical device products. The CE mark is applied following approval from an independent notified body or declaration of conformity. As is the case in the United States, the process of obtaining marketing approval or clearance from comparable agencies in foreign countries for new products, or with respect to enhancements or modifications to existing products, could:

- take a significant period of time;
- require the expenditure of substantial resources;
- involve rigorous pre-clinical and clinical testing;
- require extensive post-marketing surveillance;
- require changes to products; and
- result in limitations on the indicated uses of products.

In addition, exported devices are subject to the regulatory requirements of each country to which the device is exported. Most foreign countries possess medical device regulations and require that they be applied to medical devices before they can be commercialized. There can be no assurance that we will receive the required approvals for our products on a timely basis or that any approval will not be subsequently withdrawn or conditioned upon extensive post-market study requirements.

Our global regulatory environment is becoming increasingly stringent and unpredictable, which could increase the time, cost and complexity of obtaining marketing authorization for our products, as well as the clinical and regulatory costs of supporting those approvals. Several countries that did not have regulatory requirements for medical devices have established such requirements in recent years and other countries have expanded existing regulations. Certain regulators are exhibiting less flexibility by requiring, for example, the collection of local preclinical and/or clinical data prior to approval. While harmonization of global regulations has been pursued, requirements continue to differ significantly among countries. We expect the global regulatory environment to continue to evolve, which could impact our ability to obtain future approvals for our products and increase the cost and time to obtain such approvals. By way of example, the European Union regulatory bodies recently finalized a new Medical Device Regulation (“MDR”). The MDR changes several aspects of the existing regulatory framework, such as clinical data requirements, and introduces new ones, such as Unique Device Identification (“UDI”). We, and the Notified Bodies who will oversee compliance to the new MDR, face uncertainties in the upcoming years as the MDR is rolled out and enforced, creating risks in several areas, including the CE mark process, data transparency and application review timetables. The MDR was to be implemented on May 25, 2020, however, the implementation date has been postponed until May 26, 2021 due to the effects of Covid-19.

If we are not able to secure and maintain relationships with third parties that are capable of conducting clinical trials on our product candidates and support our regulatory submissions, our product development efforts, and subsequent marketing authorization could be adversely impacted.

Our management has limited experience in conducting preclinical development activities and clinical trials. As a result, we have relied and will need to continue to rely on third-party research institutions, organizations and clinical investigators to conduct our preclinical and clinical trials and support our regulatory submissions. If we are unable to reach agreement with qualified research institutions, organizations and clinical investigators on acceptable terms, or if any resulting agreement is terminated prior to the completion of our clinical trials, then our product development efforts could be materially delayed or otherwise harmed. Further, our reliance on third parties to conduct our clinical trials and support our regulatory submissions will provide us with less control over the timing and cost of those trials, the ability to recruit suitable subjects to participate in the trials, and the timing, cost, and probability of success for the regulatory submissions. Moreover, the FDA and other regulatory authorities require that we comply with standards, commonly referred to as good clinical practices (“GCP”), for conducting, recording and reporting the results of our preclinical development activities and our clinical trials, to assure that data and reported results are credible and accurate and that the rights, safety and confidentiality of trial participants are protected. Additionally, both we and any third-party contractor performing preclinical and clinical studies are subject to regulations governing the treatment of human and animal subjects in performing those studies. Our reliance on third parties that we do not control does not relieve us of those responsibilities and requirements. If those third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our preclinical development activities or clinical trials in accordance with regulatory requirements or stated protocols, we may not be able to obtain, or may be delayed in obtaining, marketing authorization for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates. Any of those circumstances would materially harm our business and prospects.

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Any clinical trials that are planned or are conducted on our products and product candidates may not start or may fail.

Clinical trials are lengthy, complex and extremely expensive processes with uncertain expenditures and results and frequent failures. While the Company has completed its first clinical trial in Western Europe, clinical trials that are planned or which have or shall commence for any of our product candidates could be delayed or fail for a number of reasons, including if:

- FDA or other regulatory authorities, or other relevant decision-making bodies do not grant permission to proceed or place a trial on clinical hold due to safety concerns or other reasons;
- sufficient suitable subjects do not enroll, enroll more slowly than anticipated or remain in our trials;
- we fail to produce necessary amounts of the product or product candidate;
- subjects experience an unacceptable rate of efficacy of the product or product candidate;
- subjects experience an unacceptable rate or severity of adverse side effects, demonstrating a lack of safety of the product or product candidate;
- any portion of the trial or related studies produces negative or inconclusive results or other adverse events;
- reports from preclinical or clinical testing on similar technologies and products raise safety and/or efficacy concerns;
- third-party clinical investigators lose their licenses or permits necessary to perform our clinical trials, do not perform their clinical trials on the anticipated schedule or consistent with the clinical trial protocol, GCP or regulatory requirements, or other third parties do not perform data collection and analysis in a timely or accurate manner;
- inspections of clinical trial sites by the FDA or an institutional review board (“IRB”) or other applicable regulatory authorities find violations that require us to undertake corrective action, suspend or terminate one or more testing sites, or prohibit us from using some or all of the resulting data in support of our marketing applications with the FDA or other applicable agencies;
- manufacturing facilities of our third-party manufacturers are ordered by the FDA or other government or regulatory authorities to temporarily or permanently shut down due to violations of current good manufacturing practices (“cGMP”) or other applicable requirements;
- third-party contractors become debarred or suspended or otherwise penalized by the FDA or other government or regulatory authorities for violations of regulatory requirements;
- the FDA or other regulatory authorities impose requirements on the design, structure or other features of the clinical trials for our product candidates that we and/or our third-party contractors are unable to satisfy;
- one or more IRB refuses to approve, suspends or terminates a trial at an investigational site, precludes enrollment of additional subjects, or withdraws its approval of the trial;
- the FDA or other regulatory authorities seek the advice of an advisory committee of physician and patient representatives that may view the risks of our product candidates as outweighing the benefits;
- the FDA or other regulatory authorities require us to expand the size and scope of the clinical trials, which we may not be able to do; or
- the FDA or other regulatory authorities impose prohibitive post-marketing restrictions on any of our product candidates that attain marketing authorization.

Any delay or failure of one or more of our clinical trials may occur at any stage of testing. Any such delay could cause our development costs to materially increase, and any such failure could significantly impair our business plans, which would materially harm our financial condition and operations.

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We cannot market and sell any product candidate in the U.S. or in any other country or region if we fail to obtain the necessary marketing authorization, clearances or certifications from applicable government agencies.

We cannot sell our product candidates in any country until regulatory agencies grant marketing approval, clearance or other required certification. The process of obtaining such approval is lengthy, expensive and uncertain. If we are able to obtain such approvals for our lead product candidate or any other product candidate we may pursue, which we may never be able to do, it would likely be a process that takes many years to achieve.

To obtain marketing approvals in the U.S. for our product candidates, we believe that we must, among other requirements, complete carefully controlled and well-designed clinical trials sufficient to demonstrate to the FDA that the product candidate is safe and effective for each indication for which we seek approval. As described above, many factors could cause those trials to be delayed or to fail.

We believe that the pathway to marketing approval in the U.S. for our lead product candidate for internal use will likely be classified as a Class III medical device and require the process of FDA Premarket Approval (“PMA”). This approval pathway can be lengthy and expensive and is estimated to take from one to three years or longer from the time the PMA application is submitted to the FDA until approval is obtained, if approval can be obtained at all.

Similarly, to obtain approval to market our product candidates outside of the U.S., we will need to submit clinical data concerning our product candidates to and receive marketing approval or other required certifications from governmental or other agencies in those countries, which in certain countries includes approval of the price we intend to charge for a product. For instance, in order to obtain the certification needed to market our lead product candidate in the EU, we believe that we will need to obtain a CE mark for the product, which entails scrutiny by applicable regulatory agencies and bears some similarity to the PMA process, including completion of one or more successful clinical trials.

We may encounter delays or rejections if changes occur in regulatory agency policies, if difficulties arise within regulatory or related agencies such as, for instance, any delays in their review time, or if reports from preclinical and clinical testing on similar technology or products raise safety and/or efficacy concerns during the period in which we develop a product candidate or during the period required for review of any application for marketing approval or certification.

Any difficulties we encounter during the approval or certification process for any of our product candidates would have a substantial adverse impact on our operations and financial condition and could cause our business to fail.

We cannot guarantee that we will be able to effectively market our product candidates.

A significant part of our success depends on the various marketing strategies we plan to implement. Our business model has historically focused solely on product development, and we have never attempted to commercialize any product. There can be no assurance as to the success of any such marketing strategy that we develop or that we will be able to build a successful sales and marketing organization. If we cannot effectively market those products we seek to commercialize directly, such products’ prospects will be harmed.

Any product for which we obtain required regulatory marketing authorization could be subject to post-approval regulation, and we may be subject to penalties if we fail to comply with such post-approval requirements.

Any product for which we are able to obtain marketing approval or other required certifications, and for which we are able to obtain approval of the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and comparable foreign regulatory authorities, including through periodic inspections. These requirements include, without limitation, submissions of safety and other post-marketing information and reports, registration requirements, cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents. Maintaining compliance with any such regulations that may be applicable to us or our product candidates in the future would require significant time, attention and expense. Even if marketing approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or other conditions of approval or may contain requirements for costly and time consuming post-marketing approval testing and surveillance to monitor the safety or efficacy of the product. Discovery after approval of previously unknown problems with any approved product candidate or related manufacturing processes, or failure to comply with regulatory requirements, may result in consequences to us such as:

- restrictions on the marketing or distribution of a product, including refusals to permit the import or export of the product;

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- the requirement to include warning labels on the products;
- withdrawal or recall of the products from the market;
- refusal by the FDA or other regulatory agencies to approve pending applications or supplements to approved applications that we may submit;
- suspension of any ongoing clinical trials;
- fines, restitution or disgorgement of profits or revenue;
- suspension or withdrawal of marketing approvals or certifications; or
- civil or criminal penalties.

If any of our product candidates achieves required regulatory marketing approvals or certifications in the future, the subsequent occurrence of any such post-approval consequences would materially adversely affect our business and operations.

Current or future legislation may make it more difficult and costly for us to obtain marketing approval or other certifications of our product candidates.

In 2007, the Food and Drug Administration Amendments Act of 2007 (“FDAAA”) was adopted. This legislation grants significant powers to the FDA, many of which are aimed at assuring the safety of medical products after approval. For example, the FDAAA grants the FDA authority to impose post-approval clinical study requirements, require safety-related changes to product labeling and require the adoption of complex risk management plans. Pursuant to the FDAAA, the FDA may require that a new product be used only by physicians with specialized training, only in specified health care settings, or only in conjunction with special patient testing and monitoring. The legislation also includes requirements for disclosing clinical study results to the public through a clinical study registry, and renewed requirements for conducting clinical studies to generate information on the use of products in pediatric patients. Under the FDAAA, companies that violate these laws are subject to substantial civil monetary penalties. The requirements and changes imposed by the FDAAA, or any other new legislation, regulations or policies that grant the FDA or other regulatory agencies additional authority that further complicates the process for obtaining marketing approval and/or further restricts or regulates post-marketing approval activities, could make it more difficult and more costly for us to obtain and maintain approval of any of our product candidates.

Public perception of ethical and social issues may limit or discourage the type of research we conduct.

Our clinical trials will involve human subjects, and third parties with whom we contract also conduct research involving animal subjects. Governmental authorities could, for public health or other purposes, limit the use of human or animal research or prohibit the practice of our technology. Further, ethical and other concerns about our or our third-party contractors’ methods, particularly the use of human subjects in clinical trials or the use of animal testing, could delay our research and preclinical and clinical trials, which would adversely affect our business and financial condition.

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Use of third parties to manufacture our product candidates may increase the risk that preclinical development, clinical development and potential commercialization of our product candidates could be delayed, prevented or impaired.

We have limited personnel with experience in medical device development and manufacturing, do not own or operate manufacturing facilities, and generally lack the resources and the capabilities to manufacture any of our product candidates on a clinical or commercial scale. We currently intend to outsource all or most of the clinical and commercial manufacturing and packaging of our product candidates to third parties. However, we have not established long-term agreements with any third-party manufacturers for the supply of any of our product candidates. There are a limited number of manufacturers that operate under cGMP regulations and that are capable of and willing to manufacture our lead product candidates utilizing the manufacturing methods that are required to produce our product candidates, and our product candidates will compete with other product candidates for access to qualified manufacturing facilities. If we have difficulty locating third-party manufacturers to develop our product candidates for preclinical and clinical work, then our product development programs will experience delays and otherwise suffer. We may also be unable to enter into agreements for the commercial supply of products with third-party manufacturers in the future or may be unable to do so when needed or on acceptable terms. Any such events could materially harm our business.

Reliance on third-party manufacturers entails risks to our business, including without limitation:

- the failure of the third-party to maintain regulatory compliance, quality assurance, and general expertise in advanced manufacturing techniques and processes that may be necessary for the manufacture of our product candidates;
- limitations on supply availability resulting from capacity and scheduling constraints of the third parties;
- failure of the third-party manufacturers to meet the demand for the product candidate, either from future customers or for preclinical or clinical trial needs;
- the possible breach of the manufacturing agreement by the third-party; and
- the possible termination or non-renewal of the agreement by the third-party at a time that is costly or inconvenient for us.

The failure of any of our contract manufacturers to maintain high manufacturing standards could result in harm to clinical trial, participants or patients using the products. Such failure could also result in product liability claims, product recalls, product seizures or withdrawals, delays or failures in testing or delivery, cost overruns or other problems that could seriously harm our business or profitability. Further, our contract manufacturers will be required to adhere to FDA and other applicable regulations relating to manufacturing practices. Those regulations cover all aspects of the manufacturing, testing, quality control and recordkeeping relating to our product candidates and any products that we may commercialize in the future. The failure of our third-party manufacturers to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval or other required certifications of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business, financial condition and operations.

Materials necessary to manufacture our product candidates may not be available on time, on commercially reasonable terms, or at all, which may delay or otherwise hinder

the development and commercialization of those product candidates.

We will rely on the manufacturers of our product candidates to purchase from third-party suppliers the materials necessary to produce the compounds for preclinical and clinical studies and may continue to rely on those suppliers for commercial distribution if we obtain marketing approval or other required certifications for any of our product candidates. The materials to produce our products may not be available when needed or on commercially reasonable terms, and the prices for such materials may be susceptible to fluctuations. We do not have any control over the process or timing of the acquisition of these materials by our manufacturers. Moreover, we currently do not have any agreements relating to the commercial production of any of these materials. If these materials cannot be obtained for our preclinical and clinical studies, product testing and potential regulatory marketing authorization of our product candidates will be delayed, which would significantly impact our ability to develop our product candidates and materially adversely affect our ability to meet our objectives and obtain operations success.

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We may not be successful in maintaining or establishing collaborations, which could adversely affect our ability to develop and, if required regulatory authorizations are obtained, commercialize our product candidates.

If required regulatory authorizations are obtained to market any of our product candidates, then we may consider entering into additional collaboration arrangements with medical technology, pharmaceutical or biotechnology companies and/or seek to establish strategic relationships with marketing partners for the development, sale, marketing and/or distribution of our products within or outside of the U.S. If we elect to expand our current relationships or seek additional collaborators in the future but are unable to reach agreements with such other collaborators, as applicable, then we may fail to meet our business objectives for the affected product or program. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement, and we may not be successful in our efforts, if any, to establish and implement additional collaborations or other alternative arrangements. The terms of any collaboration or other arrangements that we establish may not be favorable to us, and the success of any such collaboration will depend heavily on the efforts and activities of our collaborators. Any failure to engage successful collaborators could cause delays in our product development and/or commercialization efforts, which could harm our financial condition and operational results.

We compete with other pharmaceutical and medical device companies, including companies that may develop products that make our product candidates less attractive or obsolete.

The medical device, pharmaceutical and biotechnology industries are highly competitive. If our product candidates become available for commercial sale, we will compete in that competitive marketplace. There are several products on the market or in development that could be competitors with our lead product candidates. Further, most of our competitors have greater resources or capabilities and greater experience in the development, approval and commercialization of medical devices or other products than we do. We may not be able to compete successfully against them. We also compete for funding with other companies in our industry that are focused on discovering and developing novel improvements in surgical bleeding prevention.

We anticipate that competition in our industry will increase. In addition, the healthcare industry is characterized by rapid technological change, resulting in new product introductions and other technological advancements. Our competitors may develop and market products that render our lead product candidate or any future product candidate we may seek to develop non-competitive or otherwise obsolete. Any such circumstances could cause our operations to suffer.

If we fail to generate market acceptance of our product candidates and establish programs to educate and train surgeons as to the distinctive characteristics of our product candidates, we will not be able to generate revenues on our product candidates.

Acceptance in the marketplace of our lead product candidates depends in part on our and our third-party contractors' ability to establish programs for the training of surgeons in the proper usage of those product candidates, which will require significant expenditure of resources. Convincing surgeons to dedicate the time and energy necessary to properly train to use new products and techniques is challenging, and we may not be successful in those efforts. If surgeons are not properly trained, they may ineffectively use our product candidates. Such misuse could result in unsatisfactory patient outcomes, patient injury, negative publicity or lawsuits against us. Accordingly, even if our product candidates are superior to alternative treatments, our success will depend on our ability to gain and maintain market acceptance for those product candidates among certain select groups of the population and develop programs to effectively train them to use those products. If we fail to do so, we will not be able to generate revenue from product sales and our business, financial condition and results of operations will be adversely affected.

We face uncertainty related to pricing, reimbursement and healthcare reform, which could reduce our potential revenues.

If our product candidates are approved for commercialization, any sales will depend in part on the availability of direct or indirect coverage and reimbursement from third-party payers such as government insurance programs, including Medicare and Medicaid, private health insurers, health maintenance organizations and other healthcare related organizations. If our product candidates obtain marketing approval, pricing and reimbursement may be uncertain. Both the federal and state governments in the U.S. and foreign governments continue to propose and pass new legislation affecting coverage and reimbursement policies, which are designed to contain or reduce the cost of healthcare. Further, federal, state and foreign healthcare proposals and reforms could limit the prices that can be charged for the product candidates that we may develop, which may limit our commercial opportunity. Adoption of our product candidates by the medical community may be limited if doctors and hospitals do not receive adequate partial or full reimbursement for use of our products or procedures in which our products are used, if any are commercialized. In some foreign jurisdictions, marketing approval or allowance could be dependent upon pre-marketing price negotiations. As a result, any denial of private or government payer coverage or inadequate reimbursement for procedures performed using our products, before or upon commercialization, could harm our business and reduce our prospects for generating revenue.

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In addition, the U.S. Congress periodically adopts and changes legislation regarding health insurance. As a result, substantial changes to the system for paying for healthcare in the U.S. may include some combination of modifications to the existing system of private payers and government programs, such as Medicare, Medicaid and State Children's Health Insurance Program, as well as other changes. Restructuring the coverage of medical care in the U.S. could impact reimbursement for medical devices such as our product candidates. If reimbursement for our products, if any, is substantially less than we expect, or rebate obligations associated with them are substantially increased, our business could be materially and adversely impacted.

The use of our product candidates in human subjects may expose us to product liability claims, and we may not be able to obtain adequate insurance or otherwise defend against any such claims.

We face an inherent risk of product liability claims and currently have clinical trial liability coverage. We will need to obtain additional product liability insurance coverage if and when we begin commercialization of any of our product candidates. If claims against us exceed any applicable insurance coverage we may obtain, then our business could be adversely impacted. Regardless of whether we would be ultimately successful in any product liability litigation, such litigation could consume substantial amounts of our financial and managerial resources, which could significantly harm our business.

Risks Related to our Intellectual Property

If we are unable to obtain and maintain protection for intellectual property rights that we own, seek, or have licensed from other parties, the value of our technology and products will be adversely affected.

Our success will depend in large part on our ability to obtain and maintain protection in the U.S. and other countries for the intellectual property rights covering or incorporated into our technology and products. The ability to obtain patents covering technology in the field of medical devices generally is highly uncertain and involves complex legal, technical, scientific and factual questions. We may not be able to obtain and maintain patent protection relating to our technology or products. Many of our owned or licensed patent applications are pending. Even if issued, patents issued or licensed to us may be challenged, narrowed, invalidated, held to be unenforceable or circumvented, or determined not to cover our product candidates or our competitors' products, which could limit our ability to stop competitors from marketing identical or similar products. Because our patent portfolio includes certain patents and applications that are in-licensed on a non-exclusive basis, other parties may be able to develop, manufacture, market and sell products with similar features covered by the same patent rights and technologies, which in turn could significantly undercut the value of any of our product candidates and adversely affect our business. Our licensed MIT European patent No. 1879606 was opposed; however, this patent was maintained in amended form following an administrative hearing. Both parties have appealed this decision. A decision is not expected before the end of November 2021. If the Opponents prevail in the appeal, European Patent No. 1879606 will be fully or partially invalidated, resulting in potential loss of rights. European patent No. 2581097 was opposed. The Opposition Division revoked the patent. This decision was appealed. If the Opponent prevails in the appeal, European Patent No. 2581097 could be fully or partially invalidated, resulting in potential loss of rights. Further, we cannot be certain that we were the first to make the inventions claimed in the patents we own or license, or that protection of the inventions set forth in those patents was the first to be filed in the U.S. Third parties that have filed patents or patent applications covering similar technologies or processes may challenge our claim of sole right to use the intellectual property covered by the patents we own or exclusively license. Moreover, changes in applicable intellectual property laws or interpretations thereof in the U.S. and other countries may diminish the value of our intellectual property rights or narrow the scope of our patent protection. Any failure to obtain or maintain adequate protection for our intellectual property would materially harm our business, product development programs and prospects. In addition, our proprietary information, trade secrets and know-how are important components of our intellectual property rights. We seek to protect our proprietary information, trade secrets, know-how and confidential information, in part, with confidentiality agreements with our employees, corporate partners, outside scientific collaborators, sponsored researchers, consultants and other advisors. We also have invention or patent assignment agreements with our employees and certain consultants and advisors. If our employees or consultants breach those agreements, we may not have adequate remedies for any of those breaches. In addition, our proprietary information, trade secrets and know-how may otherwise become known to or be independently developed by others. Enforcing a claim that a party illegally obtained and/or for which a party is using our proprietary information, trade secrets and/or know-how is difficult, expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the U.S. may be less willing to protect trade secrets. Costly and time-consuming litigation could be necessary to seek to defend, enforce and/or determine the scope of our intellectual property rights, and failure to obtain or maintain protection thereof could adversely affect our competitive business position and results of operations.

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Many of our owned patent applications are pending, and our patent portfolio includes certain patents and applications that are in-licensed on a non-exclusive basis.

As of April 19, 2021, we either own or license from others a number of U.S. patents, U.S. patent applications, foreign patents and foreign patent applications.

Six patent portfolios assigned to Arch Biosurgery, Inc. include a total of 41 patents and pending applications in a total of nine jurisdictions, including twelve patents and pending applications in the US. These portfolios cover self-assembling peptides, formulations and methods of use thereof and self-assembling peptidomimetics and methods of use thereof, including eight issued US patents (US 9,415,084; US 9,162,005; US 9,789,157; US 9,821,022; US 9,339,476; US 10,314,886; US 10,682,386; and 10,869,907) that expire between 2026 and 2034 (absent patent term extension) as well as sixteen patents that have been either allowed, issued or granted in foreign jurisdictions.

We have entered into a license agreement with Massachusetts Institute of Technology and Versitech Limited ("MIT") pursuant to which we have been granted exclusive rights under two portfolios of patents and non-exclusive rights under another three portfolios of patents.

The two portfolios exclusively licensed from MIT include a total of 22 patents and pending applications drawn to self-assembling peptides, formulations and methods of use thereof and self-assembling peptidomimetics and methods of use thereof in a total of nine jurisdictions. The portfolios include five issued US patents (US 9,511,113; US 9,084,837; US 10,137,166; US 9,327,010; and US 9,364,513) that expire between 2026 and 2027 (absent patent term extension), as well as fourteen patents that have been either allowed, issued or granted in foreign jurisdictions.

The three portfolios non-exclusively licensed from MIT include a number of US and foreign applications, including three issued US patents (US 7,846,891; US 7,713,923; and US 8,901,084) that expire not before 2024 (absent patent term extension), as well as five patents that have been either allowed, issued or granted in foreign jurisdictions.

If we lose certain intellectual property rights owned by third parties and licensed to us, our business could be materially harmed.

We have entered into certain in-license agreements with MIT and with certain other third parties and may seek to enter into additional in-license agreements relating to other intellectual property rights in the future. To the extent we and our product candidates rely heavily on any such in-licensed intellectual property, we are subject to our and the counterparty's compliance with the terms of such agreements in order to maintain those rights. Presently, we, our lead product candidates and our business plans are dependent on the patent and other intellectual property rights that are licensed to us under our license agreement with MIT. Although that agreement has a durational term through the life of the licensed patents, it also imposes or imposed certain diligence, capital raising, and other obligations on us, our breach of which could permit MIT to terminate the agreement. Further, we are responsible for all patent prosecution and maintenance fees under that agreement, and a failure to pay such fees on a timely basis could also entitle MIT to terminate the agreement. Any failure by us to satisfy our obligations under our license agreement with MIT or any other dispute or other issue relating to that agreement could cause us to lose some or all of our rights to use certain intellectual property that is material to our business and our lead product candidates, which would materially harm our product development efforts and could cause our business to fail.

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If we infringe or are alleged to infringe the intellectual property rights of third parties, our business and financial condition could suffer.

Our research, development and commercialization activities, as well as any product candidates or products resulting from those activities, may infringe or be accused of infringing a patent or other intellectual property under which we do not hold a license or other rights. Third parties may own or control those patents or other rights in the U.S. or abroad and could bring claims against us that would cause us to incur substantial time, expense, and diversion of management attention. If a patent or other intellectual property infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or sales, if any, of the applicable product or product candidate that is the subject of the suit. In order to avoid or settle potential claims with respect to any of the patent or other intellectual property rights of third parties, we may choose or be required to seek a license from a third-party and be required to pay license fees or royalties or both. Any such license may not be available on acceptable terms, or at all. Even if we or our future collaborators were able to obtain a license, the rights granted to us or them could be non-exclusive, which could result in our competitors gaining access to the same intellectual property rights and materially negatively affecting the commercialization potential of our planned products. Ultimately, we could be prevented from commercializing one or more product candidates, or be forced to cease some aspects of our business operations, if, as a result of actual or threatened

infringement claims, we are unable to enter into licenses on acceptable terms or at all or otherwise settle such claims. Further, if any such claims were successful against us, we could be forced to pay substantial damages. Any of those results could significantly harm our business, prospects and operations.

Risks Related to Ownership of our Common Stock

There is not now, and there may not ever be, an active market for our Common Stock, which trades in the over-the-counter market in low volumes and at volatile prices.

There currently is a limited market for our Common Stock. Although our Common Stock is quoted on the OTCQB, an over-the-counter quotation system, trading of our Common Stock is extremely limited and sporadic and generally at very low volumes. Further, the price at which our Common Stock may trade is volatile and we expect that it will continue to fluctuate significantly in response to various factors, many of which are beyond our control. The stock market in general, and securities of small-cap companies driven by novel technologies in particular, has experienced extreme price and volume fluctuations in recent years. Continued market fluctuations could result in further volatility in the price at which our Common Stock may trade, which could cause its value to decline. To the extent we seek to raise capital in the future through the issuance of equity, those efforts could be limited or hindered by low and/or volatile market prices for our Common Stock.

We do not now meet the initial listing standards of the Nasdaq Stock Market or any other national securities exchange. We presently anticipate that our Common Stock will continue to be quoted on the OTCQB or another over-the-counter quotation system. In those venues, our stockholders may find it difficult to obtain accurate quotations as to the market value of their shares of our Common Stock and may find few buyers to purchase their stock and few market makers to support its price.

A more active market for our Common Stock may never develop. As a result, investors must bear the economic risk of holding their shares of our Common Stock for an indefinite period of time.

Our Common Stock is a “penny stock.”

The SEC has adopted regulations that generally define “penny stock” as an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our Common Stock is and is expected to continue to be in the near term, less than \$5.00 per share and is therefore a “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. Those rules may restrict the ability of brokers or dealers to sell our Common Stock and may affect the ability of our stockholders to sell their shares of our Common Stock. In addition, if our Common Stock continues to be quoted on the OTCQB as we expect, then our stockholders may find it difficult to obtain accurate quotations for our stock and may find few buyers to purchase our stock and few market makers to support its price.

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If we issue additional shares in the future, including issuances of shares upon exercise of the Series K Warrants, Placement Agent Warrants, Series J Warrants, Series I Warrants, 2019 Placement Agent Warrants, Series H Warrants, Series G Warrants, Series F Warrants, Series E Warrants and our Series 1 and Series 2 Convertible Notes, our existing stockholders will be diluted.

As of July 1, 2020, our articles of incorporation authorize the issuance of up to 800,000,000 shares of Common Stock.

In connection with the 2021 Private Placement Financing, we issued to the investors in the 2021 Private Placement Financing an aggregate of 43,125,004 shares of Common Stock and Series K Warrants to acquire up to an additional 32,343,754 shares of Common Stock at an exercise price of \$0.17 per share. In addition, we also issued designees of the Placement Agent Placement Agent Warrants to acquire up to 3,234,375 shares of Common Stock at an exercise price of \$0.20 per share. As of May 5, 2021, up to 32,343,754 shares may be acquired upon the exercise of the Series K Warrants and up to 3,234,375 shares may be acquired upon the exercise of the Placement Agent Warrants.

In June 2020, we issued certain of holders of our Series D Warrants Series J Warrants to acquire up to 3,886,364 shares of our Common Stock at an initial exercise price of \$0.25 per share as consideration for those holders exercising their Series D Warrants in full to acquire 5,181,819 shares of our Common Stock at \$0.18 per share. As of May 5, 2021, up to 3,886,364 shares may be acquired upon the exercise of the Series J Warrants.

In connection with the October 2019 Financing that closed on October 18, 2019, we issued an aggregate of 14,285,714 shares of our Common Stock, which equaled approximately 8% of the 173,577,233 shares of our Common Stock that were issued and outstanding immediately prior to the commencement of the October 2019 Financing. Upon the closing of the October 2019 Financing, we also issued Series I Warrants to acquire up to an additional 14,285,714 shares of our Common Stock at an initial exercise price of \$0.22 per share and additional warrants to acquire up to an additional 1,071,429 shares of our Common Stock at an initial exercise price of \$0.21875 per share to designees of the Placement Agent (the “2019 Placement Agent Warrants”). As of May 5, 2021, up to 14,285,714 shares may be acquired upon the exercise of the Series I Warrants and up to 1,071,429 shares may be acquired upon the exercise of the 2019 Placement Agent Warrants.

In connection with the financing that closed on May 14, 2019 (the “2019 Financing”), we issued an aggregate of 8,615,384 shares of our Common Stock, which equaled approximately 5% of the 164,961,849 shares of our Common Stock that were issued and outstanding immediately prior to the commencement of the 2019 Financing. Upon the closing of the 2019 Financing, we also issued Series H Warrants to acquire up to an additional 8,615,384 shares of our Common Stock at an initial exercise price of \$0.40 per share. As of May 5, 2021, up to 8,615,384 shares may be acquired upon the exercise of the Series H Warrants.

In connection with the 2018 Financing that closed on July 2, 2018, we issued an aggregate of 9,070,000 shares of our Common Stock, which equaled approximately 6% of the 154,052,013 shares of our Common Stock that were issued and outstanding immediately prior to the commencement of the 2018 Financing. Upon the closing of the 2018 Financing, we also issued Series G Warrants to acquire up to an additional 6,802,500 shares of our Common Stock at an initial exercise price of \$0.70 per share. As of May 5, 2021, up to 6,802,500 shares may be acquired upon the exercise of the Series G Warrants.

In connection with the 2017 Financing that closed on February 24, 2017, we issued an aggregate of 10,166,664 shares of our Common Stock, which equaled approximately 7% of the 136,745,712 shares of our Common Stock that were issued and outstanding immediately prior to the commencement of the 2017 Financing. Upon the closing of the 2017 Financing, we also issued Series F Warrants to acquire up to an additional 5,591,664 shares of our Common Stock at an initial exercise price of \$0.75 per share. As of May 5, 2021, up to 5,591,664 shares may be acquired upon the exercise of the Series F Warrants.

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In connection with the 2016 Private Placement Financing that closed on May 26, 2016, we issued an aggregate of 9,418,334 shares of our Common Stock, which equaled approximately 8% of the 118,592,070 shares of our Common Stock that were issued and outstanding immediately prior to the commencement of the 2016 Private Placement Financing. Upon the closing of the 2016 Private Placement Financing, we also issued Series E Warrants to acquire up to an additional 7,063,748 shares of our Common Stock at an initial exercise price of \$0.4380 per share. As of May 5, 2021, up to 4,214,582 shares may be acquired upon the exercise of the Series E Warrants.

In addition to the aforementioned warrants, in June 2020 and November 2020, we issued \$550,000 and \$1,050,000 in aggregate principal amount of our Series 1 Unsecured

Convertible Promissory Notes and Series 2 Unsecured Convertible Promissory Notes, respectively (collectively, the “Convertible Notes”). The Convertible Notes (i) have a three year term; (ii) accrue interest on the unpaid principal balance at a rate equal to ten percent (10.0%), and (iii) can be converted into shares of our Common Stock at a conversion price of \$0.27 per share and \$0.25 per share, respectively. At maturity, at our sole option, we may convert the principal and accrued interest under the Convertible Notes (the “Note Obligations”) into shares of our Common Stock at the applicable conversion price in lieu of repaying the Convertible Notes; provided, however, in the event we exercise this option, the Note Obligations will be deemed to equal the product of 1.35 and the outstanding Note Obligations.

Additionally, as of May 5, 2021, 5,118,356 shares of Common Stock were reserved for future issuance under the 2013 Plan, of which 20,329,998 shares are subject to outstanding option awards granted under the 2013 Plan at exercise prices ranging from \$0.13 to \$0.72 per share and with a weighted average exercise price of \$0.34 per share and the numbers issuable under the 2013 Plan will increase by up to 3 million shares on the first business day of each following fiscal year as set forth in the 2013 Plan. Finally, in addition to the Series K Warrants, Placement Agent Warrants, Series J Warrants, Series I Warrants, 2019 Placement Agent Warrants, Series H Warrants granted in connection with the 2019 Financing, the Series G Warrants granted in connection with the 2018 Financing, the Series F Warrants granted in connection with the 2017 Financing, the Series E Warrants granted in connection with the 2016 Private Placement Financing and the shares of Common Stock potentially issuable under the Convertible Notes, there are currently outstanding warrants to acquire up to 145,985 shares of our Common Stock which are related to the Massachusetts Life Sciences Center (“MSLC”) note. Any future grants of options, warrants or other securities exercisable or convertible into our Common Stock, or the exercise or conversion of such shares, and any sales of such shares in the market, could have an adverse effect on the market price of our Common Stock.

In addition to capital raising activities, other possible business and financial uses for our authorized Common Stock include, without limitation, future stock splits, acquiring other companies, businesses or products in exchange for shares of Common Stock, issuing shares of our Common Stock to partners in connection with strategic alliances, attracting and retaining employees by the issuance of additional securities under our various equity compensation plans, compensating consultants by issuing shares or options to purchase shares of our Common Stock, or other transactions and corporate purposes that our Board of Directors deems are in the Company’s best interest. By way of example, on (i) August 9, 2016, we issued 225,000 shares of restricted stock and options to purchase up to an additional 375,000 shares of Common Stock at an exercise price of price of \$0.72 per share in connection with our entrance into a consulting agreement with Acorn Management Partners, LLC (“Acorn”) in consideration of the services to be provided under and in accordance with the terms of such consulting agreement; and (ii) August 6, 2015, we issued an aggregate of 600,000 shares of restricted stock in connection with our entrance into separate consulting agreements with two investor relations firms, Excelsior Global Advisors LLC and Acorn, in each case in consideration of the services to be provided under and in accordance with the terms of each consulting agreement. Additionally, shares of Common Stock could be used for anti-takeover purposes or to delay or prevent changes in control or management of the Company. We cannot provide assurances that any issuances of Common Stock will be consummated on favorable terms or at all, that they will enhance stockholder value, or that they will not adversely affect our business or the trading price of our Common Stock. The issuance of any such shares will reduce the book value per share and may contribute to a reduction in the market price of the outstanding shares of our Common Stock. If we issue any such additional shares, such issuance will reduce the proportionate ownership and voting power of all current shareholders. Further, such issuance may result in a change of control of our corporation.

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Future sales of our Common Stock or rights to purchase Common Stock, or the perception that such sales could occur, could cause our stock price to fall.

As noted above under the risk factor entitled, ***“We will need substantial additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts and could cause our business to fail.”*** as of May 5, 2021, we believe that our current cash on hand will meet our anticipated cash requirements through the first quarter of fiscal 2022. To raise capital, we may sell Common Stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. Any such sales of our Common Stock by us or resale of our Common Stock by our existing stockholders could cause the market price of our Common Stock to decline.

Financial Industry Regulatory Authority (“FINRA”) sales practice requirements may limit a stockholder’s ability to buy and sell our stock.

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that, in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA has indicated its belief that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. These FINRA requirements make it more difficult for broker-dealers to recommend that at least some of their customers buy our Common Stock, which may limit the ability of our stockholders to buy and sell our Common Stock and could have an adverse effect on the market for our shares.

There may be additional risks because we completed a reverse merger transaction in June 2013.

Additional risks may exist because we completed a “reverse merger” transaction in June 2013. Securities analysts of major brokerage firms may not provide coverage of the Company because there may be little incentive to brokerage firms to recommend the purchase of our Common Stock. There may also be increased scrutiny by the SEC and other government agencies and holders of our securities due to the nature of the transaction, as there has been increased focus on transactions such as the Merger in recent years. Further, since the Company existed as a “shell company” under applicable rules of the SEC up until the closing of the Merger on June 26, 2013, there will be certain restrictions and limitations on the Company going forward relating to any potential future issuances of additional securities to raise funding and compliance with applicable SEC rules and regulations.

Certain of our directors and officers own a significant percentage of our capital stock and are able to exercise significant influence over the Company.

Certain of our directors and executive officers own a significant percentage of our outstanding capital stock. As of May 5, 2021, Dr. Terrence W. Norchi, our Chairman of the Board, President and Chief Executive Officer, James R. Sulat, a director and Punit Dhillon, a director beneficially own (as determined under Section 13(d) of the Exchange Act and the rules and regulations thereunder) approximately 9% of our shares of Common Stock. Accordingly, these members of our Board of Directors and management team have substantial voting power to approve matters requiring stockholder approval, including without limitation the election of directors, and have significant influence over our affairs. This concentration of ownership could have the effect of delaying or preventing a change in control of our Company, even if such a change in control would be beneficial to our stockholders.

The elimination of monetary liability against our directors and officers under Nevada law and the existence of indemnification rights held by our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation eliminate the personal liability of our directors and officers to our Company and our stockholders for breach of fiduciary duty as a director or officer to the extent permissible under Nevada law. Further, our amended and restated bylaws provide that we are obligated to indemnify any of our directors or officers to the fullest extent authorized by Nevada law and, subject to certain conditions, advance the expenses incurred by any director or officer in defending any action, suit or proceeding prior to its final disposition.

Those indemnification obligations could result in our Company incurring substantial expenditures to cover the cost of settlement or damage awards against our directors or officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against any of our current or former directors or officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even if such actions, if successful, might otherwise benefit us or our stockholders.

We are subject to the reporting requirements of federal securities laws, compliance with which involves significant time, expense and expertise.

We are a public reporting company in the U.S., and, accordingly, are subject to the information and reporting requirements of the Exchange Act and other federal securities laws, including the obligations imposed by the Sarbanes-Oxley Act. The costs associated with preparing and filing annual, quarterly and current reports, proxy statements and other information with the SEC in the ordinary course, as well as preparing and filing audited financial statements, has caused, and could continue to cause, our operational expenses to remain at higher levels or continue to increase.

Shares of our Common Stock that have not been registered under federal securities laws are subject to resale restrictions imposed by Rule 144. In addition, any shares of our Common Stock that are held by affiliates, including any that are registered, will be subject to the resale restrictions of Rule 144.

Rule 144 imposes requirements on us and our stockholders that must be met in order to effect a sale thereunder. As a result, it will be more difficult for us to raise funding to support our operations through the sale of debt or equity securities unless we agree to register such securities under the Securities Act, which could cause us to expend significant additional time and cash resources and which we presently have no intention to pursue. Further, it may be more difficult for us to compensate our employees and consultants with our securities instead of cash. We were a shell company prior to the closing of the Merger, and such status could also limit our use of our securities to pay for any acquisitions we may seek to pursue in the future (although none are currently planned) and could cause the value of our securities to decline. In addition, any shares held by affiliates, including shares received in any registered offering, will be subject to certain additional requirements in order to effect a sale of such shares under Rule 144.

We do not intend to pay cash dividends on our capital stock in the foreseeable future.

We have never declared or paid any dividends on our shares and do not anticipate paying any such dividends in the foreseeable future. Any future payment of cash dividends would depend on our financial condition, contractual restrictions, solvency tests imposed by applicable corporate laws, results of operations, anticipated cash requirements and other factors and will be at the discretion of our Board of Directors.

We are at risk of securities class action litigation that could result in substantial costs and divert management's attention and resources.

In the past, securities class action litigation has been brought against companies following periods of volatility of its securities in the marketplace, particularly following a company's initial public offering. Due to the volatility of our stock price, we could be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks, uncertainties and assumptions. In some cases, you can identify forward-looking statements by terminology such as "if," "shall," "may," "might," "will likely result," "should," "expect," "plan," "anticipate," "believe," "estimate," "project," "intend," "goal," "objective," "predict," "potential" or "continue," or the negative of these terms or other comparable terminology. All statements made in this report on Form 10-Q other than statements of historical fact are statements that could be deemed forward-looking statements, including without limitation statements about our business plan, our plan of operations and our need to obtain future financing. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors" and the risks set out below, any of which may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, by way of example and not in limitation, risks related to:

- Our ability to continue as a going concern;
- Our ability to obtain financing necessary to operate our business;
- Our limited operating history;
- The results of our research and development activities, including uncertainties relating to the preclinical and clinical testing of our product candidates;
- The early stage of our primary product candidate presently under development;
- Our ability to develop, obtain required approvals for and commercialize our product candidates;
- Our ability to recruit and retain qualified personnel;
- Our ability to develop and maintain an effective sales force to market our approved product candidates;
- Our ability to manage any future growth we may experience;
- Our ability to obtain and maintain protection of our intellectual property;
- Our dependence on third party manufacturers, suppliers, research organizations, academic institutions, testing laboratories and other potential collaborators;
- The size and growth of the potential markets for any of our approved product candidates, and the rate and degree of market acceptance of any of our approved product candidates;
- Our ability to successfully complete potential acquisitions and collaborative arrangements;
- Competition in our industry;
- General economic and business conditions; and
- Other factors discussed under the section entitled "RISK FACTORS".

New risks emerge in our rapidly-changing industry from time to time. As a result, it is not possible for our management to predict all risks, nor can we assess the impact of all

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934**

I, Terrence W. Norchi, certify that:

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

Date: May 6, 2021

/s/ TERRENCE W. NORCHI, MD

Name: *Terrence W. Norchi, MD*
Title: *President and Chief Executive Officer*
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934**

I, Richard E. Davis, certify that:

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

internal control over financial reporting; and

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

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

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

Dated: May 6, 2021

/s/ RICHARD E. DAVIS

Name: Richard E. Davis

Title: *Chief Financial Officer*

(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION REQUIRED BY
SECTION 1350 OF TITLE 18 OF THE UNITED STATES CODE**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Arch Therapeutics, Inc. (the "Company") that the quarterly report of the Company on Form 10-Q for the fiscal quarter ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 6, 2021

/s/ TERRENCE W. NORCHI, MD

Name: Terrence W. Norchi, MD

Title: *President and Chief Executive Officer*

(Principal Executive Officer)

Dated: May 6, 2021

/s/ RICHARD E. DAVIS

Name: Richard E. Davis

Title: *Chief Financial Officer*

(Principal Financial and Accounting Officer)

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.