

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 000-50549**

Oncternal Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1715807
(IRS Employer
Identification No.)

**12230 El Camino Real, Suite 300
San Diego, CA 92130
(858) 434-1113**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	ONCT	The Nasdaq Capital Market

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

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

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

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

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

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

As of November 2, 2020, the registrant had 22,346,766 shares of common stock outstanding.

Oncternal Therapeutics, Inc.

FORM 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.	<u>Condensed Consolidated Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4.	<u>Controls and Procedures</u>	31

PART II - OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	32
Item 1A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities</u>	34
Item 3.	<u>Defaults Upon Senior Securities</u>	34
Item 4.	<u>Mine Safety Disclosures</u>	34
Item 5.	<u>Other Information</u>	34
Item 6.	<u>Exhibits</u>	35
	<u>Signatures</u>	37

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Oncternal Therapeutics, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value)

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,259	\$ 20,051
Prepaid and other	1,448	736
Total current assets	22,707	20,787
Right-of-use	79	190
Other	766	767
Total assets	<u>\$ 23,552</u>	<u>\$ 21,744</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 977	\$ 871
Accrued liabilities	3,273	2,731
Deferred grant revenue	3,222	3,640
Lease, current	79	99
Total current liabilities	7,551	7,341
Payroll protection program loan payable	301	—
Lease, net of current	—	91
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized shares – 5,000; issued and outstanding shares – none	—	—
Common stock, \$0.001 par value; authorized shares – 60,000; issued and outstanding shares – 22,347 and 15,387 at September 30, 2020 and December 31, 2019, respectively	22	15
Additional paid-in capital	95,918	79,869
Accumulated deficit	(80,240)	(65,572)
Total stockholders' equity	15,700	14,312
Total liabilities and stockholders' equity	<u>\$ 23,552</u>	<u>\$ 21,744</u>

See accompanying notes.

Oncernal Therapeutics, Inc.
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Grant revenue	\$ 585	\$ 544	\$ 1,787	\$ 1,689
Operating expenses:				
Research and development	3,047	3,108	9,558	7,591
In-process research and development	—	—	—	18,088
General and administrative	1,933	2,385	6,910	4,937
Total operating expenses	4,980	5,493	16,468	30,616
Loss from operations	(4,395)	(4,949)	(14,681)	(28,927)
Other income (expense):				
Change in fair value of warrant liability	—	—	—	(1,268)
Interest income	—	57	13	163
Total other income (expense)	—	57	13	(1,105)
Net loss	\$ (4,395)	\$ (4,892)	\$ (14,668)	\$ (30,032)
Net loss per share, basic and diluted	\$ (0.22)	\$ (0.32)	\$ (0.85)	\$ (3.48)
Weighted-average shares outstanding, basic and diluted	20,126	15,340	17,251	8,636

See accompanying notes.

Oncternal Therapeutics, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (14,668)	\$ (30,032)
Adjustments to reconcile net loss to net cash used in operating activities:		
In-process research and development		18,088
Stock-based compensation	1,149	192
Noncash compensation expense	—	56
Change in fair value of preferred stock warrants liability	—	1,268
Noncash lease expense	111	—
Changes in operating assets and liabilities:		
Prepaid and other	(711)	(268)
Accounts payable	106	(4,402)
Accrued liabilities	958	(1,555)
Change in lease liability	(111)	(56)
Deferred grant revenue	(418)	3,008
Net cash used in operating activities	(13,584)	(13,701)
Cash flows from investing activities		
Cash acquired in connection with the Merger	—	18,292
Acquisition related costs paid	—	(2,155)
Net cash provided by investing activities	—	16,137
Cash flows from financing activities		
Proceeds from payroll protection program loan payable	301	—
Proceeds from exercise of stock options	4	14
Proceeds from exercise of common stock warrants	—	1
Proceeds from issuance of common stock and common stock warrants, net	14,487	—
Net cash provided by financing activities	14,792	15
Net increase (decrease) in cash and cash equivalents	1,208	2,451
Cash and cash equivalents at beginning of period	20,051	20,645
Cash and cash equivalents at end of period	\$ 21,259	\$ 23,096
Supplemental disclosure of non-cash investing and financing activities:		
Payment of 2019 bonus awards with stock options in lieu of cash	\$ 415	\$ —
Fair value of warrants issued to placement agent	\$ 729	\$ —
Conversion of convertible preferred stock into common stock	\$ —	\$ 46,588
Issuance of common stock to GTx stockholders	\$ —	\$ 29,049
Reclassification of preferred stock warrants liability to additional paid-in capital	\$ —	\$ 1,942
Net liabilities assumed in Merger	\$ —	\$ 5,176
Deferred financing costs included in accrued liabilities	\$ 8	\$ —

See accompanying notes.

Oncernal Therapeutics, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited; in thousands)

	Three Months Ended September 30, 2020				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at June 30, 2020	17,336	\$ 17	\$ 85,426	\$ (75,845)	\$ 9,598
Issuance of common stock and common stock warrants, net of issuance costs of \$1,165	5,011	5	10,082	—	10,087
Vesting related to unvested share liability	—	—	3	—	3
Stock-based compensation	—	—	407	—	407
Net loss	—	—	—	(4,395)	(4,395)
Balance at September 30, 2020	22,347	\$ 22	\$ 95,918	\$ (80,240)	\$ 15,700

	Three Months Ended September 30, 2019				
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at June 30, 2019	15,370	\$ 15	\$ 79,445	\$ (56,524)	\$ 22,936
Exercise of stock options for cash	17	—	12	—	12
Exercise of warrants for cash	—	—	1	—	1
Vesting related to unvested share liability	—	—	3	—	3
Stock-based compensation	—	—	90	—	90
Net loss	—	—	—	(4,892)	(4,892)
Balance at September 30, 2019	15,387	\$ 15	\$ 79,551	\$ (61,416)	\$ 18,150

See accompanying notes.

Oncernal Therapeutics, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited; in thousands)

	Nine Months Ended September 30, 2020				
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2019	15,387	\$ 15	\$ 79,869	\$ (65,572)	\$ 14,312
Exercise of stock options for cash	5	—	4	—	4
Issuance of common stock and common stock warrants, net of issuance costs of \$1,767	6,955	7	14,472	—	14,479
Vesting related to unvested share liability	—	—	9	—	9
Stock-based compensation	—	—	1,149	—	1,149
Payment of 2019 bonus awards with stock options in lieu of cash	—	—	415	—	415
Net loss	—	—	—	(14,668)	(14,668)
Balance at September 30, 2020	<u>22,347</u>	<u>\$ 22</u>	<u>\$ 95,918</u>	<u>\$ (80,240)</u>	<u>\$ 15,700</u>

	Nine Months Ended September 30, 2019						
	Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity (Deficit)
Balance at December 31, 2018	8,148	\$ 46,588	3,762	\$ 5	\$ 1,748	\$ (31,384)	\$ (29,631)
Exercise of stock options for cash	—	—	19	—	14	—	14
Exercise of warrants for cash	—	—	—	—	1	—	1
Vesting related to unvested share liability	—	—	—	—	27	—	27
Issuance of common stock to former stockholders of GTx upon Merger	—	—	3,458	2	29,047	—	29,049
Conversion of convertible preferred stock into common stock upon Merger	(8,148)	(46,588)	8,148	8	46,580	—	46,588
Reclassification of preferred stock warrant liability	—	—	—	—	1,942	—	1,942
Stock-based compensation	—	—	—	—	192	—	192
Net loss	—	—	—	—	—	(30,032)	(30,032)
Balance at September 30, 2019	<u>—</u>	<u>\$ —</u>	<u>15,387</u>	<u>\$ 15</u>	<u>\$ 79,551</u>	<u>\$ (61,416)</u>	<u>\$ 18,150</u>

See accompanying notes.

Oncternal Therapeutics, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Oncternal Therapeutics, Inc. (the “Company,” “Oncternal,” or the “combined company”), formerly known as GTx, Inc., was incorporated in Tennessee in September 1997 and reincorporated in Delaware in 2003 and is based in San Diego, California. The Company is a clinical-stage biopharmaceutical company focused on the development of novel oncology therapies for the treatment of cancers with critical unmet medical need. The Company’s clinical pipeline includes, cirmtuzumab, a humanized monoclonal antibody that binds to ROR1 (Receptor-tyrosine kinase-like Orphan Receptor 1), and TK216, a small molecule inhibiting the biological activity of ETS-family transcription factor oncoproteins. The Company is also developing a CAR-T (chimeric antigen receptor T-cells) product candidate that targets ROR1.

Merger

On June 7, 2019, the Company, then operating as GTx, Inc. (“GTx”), completed the merger contemplated by the Agreement and Plan of Merger and Reorganization, dated March 6, 2019, as amended (the “Merger Agreement”), with privately-held Oncternal Therapeutics, Inc. (“Private Oncternal”) and Grizzly Merger Sub, Inc., a wholly-owned subsidiary of the Company (“Merger Sub”). Under the Merger Agreement, Merger Sub merged with and into Private Oncternal, with Private Oncternal surviving as a wholly-owned subsidiary of the Company (the “Merger”). GTx changed its name to Oncternal Therapeutics, Inc., and Private Oncternal, which remains as a wholly-owned subsidiary of the Company, changed its name to Oncternal Oncology, Inc. On June 10, 2019, the combined company’s common stock began trading on The Nasdaq Capital Market under the ticker symbol “ONCT.”

Except as otherwise indicated, references herein to “Oncternal,” “the Company,” and the “combined company,” refer to Oncternal Therapeutics, Inc. on a post-Merger basis, and the term “Private Oncternal” refers to the business of privately-held Oncternal Therapeutics, Inc., prior to completion of the Merger. References to GTx refer to GTx, Inc. prior to completion of the Merger.

Pursuant to the terms of the Merger Agreement, each outstanding share of Private Oncternal common stock outstanding immediately prior to the closing of the Merger was converted into approximately 0.073386 shares of Company common stock (the “Exchange Ratio”). Immediately prior to the closing of the Merger, all shares of Private Oncternal preferred stock then outstanding were exchanged into shares of common stock of Private Oncternal. In addition, all outstanding options exercisable for common stock of Private Oncternal and warrants exercisable for convertible preferred stock of Private Oncternal became options and warrants exercisable for the same number of shares of common stock of the Company multiplied by the Exchange Ratio. Immediately following the Merger, stockholders of Private Oncternal owned approximately 77.5% of the outstanding common stock of the combined company.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Oncternal Oncology, Inc. and Oncternal, Inc. All intercompany accounts and transactions have been eliminated in the preparation of the condensed consolidated financial statements.

Liquidity and Going Concern

From its inception through September 30, 2020, the Company has devoted substantially all of its efforts to organizational activities including raising capital, building infrastructure, acquiring assets, developing intellectual property, and conducting preclinical studies, clinical trials and product development activities. The Company has a limited operating history and the sales and income potential of the Company’s business and market are unproven. Since inception, the Company has experienced recurring net losses and negative cash flows from operating activities and expects to continue to incur losses into the foreseeable future. At September 30, 2020, the Company had an accumulated deficit of \$80.2 million and had cash and cash equivalents of \$21.3 million. The Company will need to continue to raise a substantial amount of funds until it is able to generate revenues to fund its development activities and operations. The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. However, based on the Company’s current working capital, anticipated operating expenses and net losses and the uncertainties surrounding its ability to raise additional capital as needed, as discussed below, the Company believes that there is substantial doubt about its ability to continue as a going concern for one year after the date these condensed consolidated financial statements are issued.

On May 21, 2020, the Company completed a registered direct offering pursuant to which it sold 1,943,636 shares of its common stock at a price of \$2.5725 per share. The net proceeds to the Company from this offering were \$4.4 million, after deducting placement agent fees and commissions and other offering expenses. Concurrently with the sale of shares of the Company's common stock pursuant to the offering, the Company also sold warrants to purchase up to an aggregate of 971,818 shares of common stock (see Note 7).

On July 21, 2020, the Company completed a registered direct offering pursuant to which it sold 2,581,867 shares of its common stock at a price of \$2.3825 per share. The net proceeds to the Company from this offering were \$5.7 million, after deducting the placement agent fees and commissions and other offering expenses. Concurrently with the sale of shares of the Company's common stock pursuant to the offering, the Company also sold warrants to purchase up to an aggregate of 1,290,933 shares of common stock (see Note 7).

On September 1, 2020, the Company completed an underwritten offering pursuant to which it sold 2,428,886 shares of its common stock at a price of \$2.10 per share. The net proceeds to the Company from this offering were \$4.4 million, after deducting the underwriter discounts and commissions and other offering expenses (see Note 7).

The Company plans to continue to fund its losses from operations and capital funding needs through a combination of equity offerings, debt financings, government funding, or other sources, including, potentially, collaborations, licenses and other similar arrangements. There can be no assurance that the Company will be able to obtain any sources of financing on acceptable terms, or at all. To the extent that the Company can raise additional funds by issuing equity securities, the Company's stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact the Company's ability to conduct its business.

Unaudited Interim Financial Information

The unaudited condensed consolidated financial statements at September 30, 2020, and for the nine months ended September 30, 2020 and 2019, have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and with generally accepted accounting principles in the United States of America ("GAAP"). These unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring accruals, which in the opinion of management are necessary to present fairly the Company's financial position as of the interim date and results of operations for the interim periods presented. Interim results are not necessarily indicative of results for a full year or future periods. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ materially from those estimates. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019, filed with the SEC on its Annual Report on Form 10-K on March 16, 2020. The results presented in these unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or any other interim period or any future year or period.

Use of Estimates

The Company's condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of the Company's condensed consolidated financial statements and accompanying notes requires it to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant estimates consist of those used to determine the fair value of the Company's preferred stock, preferred stock warrant liability and stock-based awards, and those used to determine grant revenue and accruals for research and development costs. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents include cash in readily available checking accounts and money market accounts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risk on its cash balances due to the financial position of the depository institution in which those deposits are held. Additionally, the Company established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

Patent Costs

Costs related to filing and pursuing patent applications are recorded as general and administrative expense and expensed as incurred since recoverability of such expenditures is uncertain.

Research and Development Expenses and Accruals

Research and development expenses consist of costs incurred for the Company's own and for sponsored and collaborative research and development activities. Research and development costs are expensed as incurred and include manufacturing process development costs, manufacturing costs, costs associated with preclinical studies and clinical trials, regulatory and medical affairs activities, quality assurance activities, salaries and benefits, including stock-based compensation, fees paid to third-party consultants, license fees and overhead.

The Company has entered into various research and development contracts with research institutions, clinical research organizations, clinical manufacturing organizations and other companies. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, and payments made in advance of performance are reflected in the accompanying condensed consolidated balance sheets as prepaid and other assets or accrued liabilities. The Company records accruals for estimated costs incurred for ongoing research and development activities. When evaluating the adequacy of the accrued liabilities, the Company analyzes progress of the services, including the phase or completion of events, invoices received and contracted costs. Significant judgments and estimates may be made in determining the prepaid or accrued balances at the end of any reporting period. Actual results could differ from the Company's estimates.

Preferred Stock Warrant Liability

Prior to the Merger, Private Oncternal had outstanding freestanding warrants to purchase shares of its Series B-2 convertible preferred stock (the "Series B-2 warrants"). Because the underlying Series B-2 convertible preferred stock was classified as temporary equity, the Series B-2 warrants were classified as a liability in the accompanying condensed consolidated balance sheets. Private Oncternal adjusted the carrying value of such Series B-2 warrants to their estimated fair value at each reporting date, with any related increases or decreases in the fair value recorded as an increase or decrease to other income (expense) in the condensed consolidated statements of operations. Upon the completion of the Merger, the Series B-2 warrants were amended such that they were converted into warrants to purchase the Company's common stock. As amended, warrant liability accounting is no longer required and the fair value of the warrant liability has been reclassified into stockholders' equity.

Fair Value Measurements

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The carrying amounts of the Company's current financial assets and liabilities are considered to be representative of their respective fair values because of the short-term nature of those instruments. The Company has no current financial assets or liabilities measured at fair value on a recurring basis and no transfers between levels have occurred during the periods presented.

Revenue Recognition

The Company currently generates revenue from the California Institute for Regenerative Medicine pursuant to a research subaward agreement (see Note 4), which provides the Company with payments in return for certain research and development activities over a contractually defined period. Revenue from such subaward is recognized in the period during which the related qualifying services are rendered and costs are incurred, provided that the applicable conditions under the subaward agreement have been met.

The subaward agreement is on a best-effort basis and does not require scientific achievement as a performance obligation. All fees received under the agreement are non-refundable. The costs associated with the agreement are expensed as incurred and reflected as a component of research and development expense in the accompanying condensed consolidated statements of operations.

Funds received from the subaward agreement are recorded as revenue as the Company is the principal participant in the arrangement because the activities under the subaward are part of the Company's development programs. In those instances where the Company first receives consideration in advance of providing underlying services, the Company classifies such consideration as deferred revenue until (or as) the Company provides the underlying services. In those instances where the Company first provides the underlying services prior to its receipt of consideration, the Company records a grant receivable. At September 30, 2020 and December 31, 2019, the Company had deferred grant revenue of \$3.2 million and \$3.6 million, respectively.

Stock-Based Compensation

Stock-based compensation expense represents the fair value of equity awards, on the grant date, recognized in the period using the Black-Scholes option pricing model. The Company recognizes expense for awards with graded vesting schedules over the requisite service period of the awards (usually the vesting period) on a straight-line basis. For equity awards for which vesting is subject to performance-based milestones, the expense is recorded over the service period when the achievement of the milestone is probable.

Income Taxes

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

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

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment in the United States.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities and adjusted for the weighted-average number of restricted common shares outstanding that are unvested and subject to repurchase (see Note 7). The Company has excluded weighted-average shares subject to repurchase of 23,000 shares and 27,000 shares from the weighted-average number of common shares outstanding for the three and nine months ended September 30, 2020, respectively. The Company has excluded weighted-average shares subject to repurchase of 42,000 shares and 63,000 shares from the weighted-average number of common shares outstanding for the three and nine months ended September 30, 2019, respectively. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding as inclusion of the potentially dilutive securities would be antidilutive.

Potentially dilutive securities not included in the calculation of diluted net loss per share, because to do so would be anti-dilutive, are as follows (in common stock equivalent shares; in thousands):

	September 30,	
	2020	2019
Warrants to purchase common stock	3,521	841
Common stock options	2,341	1,928
Common stock subject to repurchase	20	40
	<u>5,882</u>	<u>2,809</u>

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position or results of operations upon adoption.

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements. The amendments relate to disclosures regarding unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty and are to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The Company adopted this standard effective January 1, 2020, the adoption had no material impact on the condensed consolidated financial statements.

2. Balance Sheet Details

Accrued liabilities consist of the following (in thousands):

	September 30,	December 31,
	2020	2019
Research and development	\$ 1,705	\$ 1,206
Legal fees	203	424
Unvested share liability	14	24
Compensation	1,262	825
Other	89	252
	<u>\$ 3,273</u>	<u>\$ 2,731</u>

3. Commitments, Contingencies and Related Party Transactions

Lease

Rent expense was \$41,000 for each of the three months ended September 30, 2020 and 2019. Rent expense was \$124,000 and \$75,000 for the nine months ended September 30, 2020 and 2019, respectively.

On May 22, 2019, the Company entered into a sublease agreement for office space of 4,677 square feet in San Diego, California (“San Diego Lease”) which expires on March 31, 2021. Base rent is approximately \$166,000 annually and the monthly rent expense is being recognized on a straight-line basis over the term of the lease.

The San Diego Lease is included in the accompanying condensed consolidated balance sheet at the present value of the lease payments. As the San Diego Lease does not have an implicit interest rate, the present value reflects a 10.0% discount rate which is the estimated rate of interest that the Company would have to pay in order to borrow an amount equal to the lease payments on a collateralized basis over a similar term and in a similar economic environment. The Company recognized a net operating lease right-of-use asset and an aggregate lease liability of \$79,000 as of September 30, 2020, in the accompanying condensed consolidated balance sheets. The weighted average remaining lease term was 0.50 years.

Maturities of the lease liability due under this lease agreement as of September 30, 2020, are as follows (in thousands):

<u>Maturity of lease liability</u>	<u>Operating Lease</u>
2020 (3 months)	\$ 41
2021	41
Total lease payments	82
Less imputed interest	(3)
Total lease liability	<u>\$ 79</u>

Related Party Transactions

In January 2019, the Company engaged Newfront Insurance as its primary insurance broker. The son of Richard Vincent, the Company's Chief Financial Officer, is the Company's agent at Newfront Insurance. During the nine months ended September 30, 2020 and 2019, the Company paid total related insurance policies of approximately \$1.4 million and \$1.2 million, for which the son earned a commission of \$57,000 and \$99,000, respectively.

Effective in September 2019, the Company and Shanghai Pharmaceutical (USA) Inc. ("SPH USA"), the Company's largest stockholder and an affiliate of two of the Company's directors (Xin Nakanishi, PhD and Man Cho), entered into a Materials and Supply and Services Agreement ("SPH USA Services Agreement"). Pursuant to the SPH USA Services Agreement, the Company and SPH USA will execute various statements of work for the transfer to SPH USA of key reagents and other materials, and for the supply of certain services by the Company to SPH USA, as contemplated under and in furtherance of the LDA. The Company recorded amounts receivable from SPH USA related to statements of work totaling \$0.2 million as of September 30, 2020 and December 31, 2019, respectively (see Note 4).

In connection with the securities purchase agreements and underwritten offering, other investors included individuals or entities affiliated with David F. Hale, SPH USA, Daniel L. Kisner, Hazel M. Aker, and Michael G. Carter (see Note 7).

Litigation Related to the Merger

Between April 10 and May 1, 2019, three putative class action lawsuits and one individual lawsuit were filed in the U.S. District Court for the District of Delaware (the "Delaware Actions"). In 2019, the Delaware Actions were voluntarily dismissed with prejudice. On April 11 and 23, 2019, two putative class actions were filed in the U.S. District Court for the Southern District of New York (the "New York Actions"). The New York Actions name as defendants us and our former board of directors. The New York Actions allege that defendants violated Sections 14(a) and 20(a) of the Exchange Act, as well as Rule 14a-9 promulgated thereunder, in connection with our filing of the registration statement in connection with the Merger. On September 16, 2019, plaintiffs in the New York Actions filed an amended complaint, alleging violations of Sections 14(a) and 20(a) of the Exchange Act related to the value GTx's stockholders received in the Merger. The amended complaint seeks damages and other unspecified relief. On January 10, 2020, the defendants filed their motion to dismiss the amended complaint, on January 31, 2020, the plaintiffs filed their opposition to defendants' motion to dismiss, and on February 14, 2020, the defendants filed a reply in support of their motion to dismiss. On June 23, 2020, the court granted the defendants' motion to dismiss, and the plaintiff did not amend his complaint by the July 14, 2020 deadline. On July 22, 2020, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit. On September 28, 2020, the plaintiff withdrew the appeal with prejudice, and the case is now dismissed.

Zappia vs. GTx Incorporated

On October 15, 2019, Joseph Zappia and Karen Zappia filed a lawsuit against the Company in the U.S. District Court for the District of Delaware. The complaint alleges that the Company's former management (prior to the Merger) engaged in illegal insider trading and false, manipulative and deceptive practices in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder), with respect to the timing of the disclosure of failed clinical trial results of GTx's enobosarm product candidate in September 2018. The plaintiffs seek damages, interest, costs, attorneys' fees. The Company believes that this lawsuit is without merit and intends to vigorously defend this matter. The Company cannot predict the outcome of or estimate the possible loss or range of loss from this matter.

4. License, Collaboration and Research Subaward Agreements

Georgetown University (“Georgetown”)

In March 2014, the Company entered into an Exclusive License Agreement (the “Georgetown License Agreement”) with Georgetown, pursuant to which the Company: (i) licensed the exclusive worldwide right to patents and technologies for the development and commercialization of certain product candidates targeting EWS-FLI1 as an anti-tumor therapy for therapeutic, diagnostics, or research tool purposes, (ii) is solely responsible for all development and commercialization activities and costs, and (iii) is responsible for all costs related to the filing, prosecution and maintenance of the licensed patent rights.

Under the terms of the Georgetown License Agreement, commencing in 2015, the Company: (i) shall pay and has paid an annual license maintenance fee of \$10,000 until the first commercial sale occurs, (ii) is required to make up to \$0.2 million in aggregate milestone payments upon the achievement of certain regulatory milestones, and (iii) will be required to pay low single digit royalties based on annual net product sales. The Company accounted for the licensed technology as an asset acquisition because it did not meet the definition of a business. All milestone payments under the Georgetown License Agreement will be recognized as research and development expense upon completion of the required events, as the triggering events are not considered to be probable until they are achieved. As of September 30, 2020, the Company had not triggered or made any milestone payments under the Georgetown License Agreement.

The Georgetown License Agreement may be terminated by either party upon material breach or may be terminated by the Company as to one or more countries with 90 days written notice of termination. The term of the Georgetown License Agreement will continue until the expiration of the last valid claim within the patent rights covering the product. Georgetown may terminate the agreement in the event: (i) the Company fails to pay any amount and fails to cure such failure within 30 days after receipt of notice, (ii) the Company defaults in its obligation to obtain and maintain insurance and fails to remedy such breach within 60 days after receipt of notice, or (iii) the Company declares insolvency or bankruptcy. The Company may terminate the Georgetown License Agreement at any time upon at least 60 days’ written notice.

The University of Texas MD Anderson Cancer Center (“MD Anderson”)

In December 2014, the Company entered into a collaboration agreement (as amended, the “Collaboration”) with MD Anderson, which provides for the conduct of preclinical and clinical research for TK216 in exchange for certain program payments. If MD Anderson successfully completes all the requirements of the Collaboration in full and the program is successfully commercialized, the Company will be required to pay aggregate milestone payments of \$1.0 million based on net product sales. The Company recorded research and development expense of \$0.2 million for each of the three and nine months ended September 30, 2020, and none for each of the three and nine months ended September 30, 2019.

The Regents of the University of California (the “Regents”)

In March 2016, and as amended and restated in August 2018 in connection with the spin-off transactions described below, the Company entered into a license agreement (as amended, the “Regents License Agreement”) for the development, manufacturing and distribution rights related to the development and commercialization of ROR1 related naked antibodies, antibody fragments or synthetic antibodies, and genetically engineered cellular therapy. The Regents License Agreement was amended on March 25, 2019 and May 15, 2019, to update the patents covered under the agreement. The Regents License Agreement provides for the following: (i) in May 2016, an upfront license fee of \$0.5 million was paid and 107,108 shares of common stock were issued, (ii) \$25,000 in annual license maintenance fees commencing in 2017, (iii) reimbursement of certain annual patent costs, (iv) certain development and regulatory milestones aggregating from \$10.0 million to \$12.5 million, on a per product basis, (v) certain worldwide sales milestones based on achievement of tiered revenue levels aggregating \$75.0 million, (vi) low single-digit royalties, including potential future minimum annual royalties, on net sales of each target, and (vii) minimum diligence to advance licensed assets consisting of at least \$1.0 million in development spend annually through 2021. Under the Regents License Agreement, the Company recorded: (i) \$25,000 in license maintenance fees as research and development expense for each of the three and nine months ended September 30, 2020 and 2019, (ii) \$0.1 million and \$0.2 million in patent costs as general and administrative expense for the three months ended September 30, 2020 and 2019, respectively, and (iii) \$0.1 million and \$0.3 million in patent costs for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, the Company believes it has met its obligations under the Regents License Agreement.

In July 2016, and as modified by the amended and restated Regents License Agreement in August 2018, the Company entered into a Research Agreement (the “Research Agreement”) with the Regents for further research on a ROR1 therapeutic development program. Under this five-year agreement, the Regents will have an aggregate budget of \$3.6 million, with \$125,000 payable quarterly. The Company recorded \$0.1 million in research and development expense under this agreement for each of the three months ended September 30, 2020 and 2019, and \$0.4 million for each of the nine months ended September 30, 2020 and 2019. Such costs are includable as part of the Company’s annual diligence obligations under the Regents License Agreement. The Regents License

Agreement will expire upon the later of the expiration date of the longest-lived patent rights or the fifteenth anniversary of the first commercial sale of a licensed product.

The Regents may terminate the Regents License Agreement if: (i) a material breach by the Company is not cured within a reasonable time, (ii) the Company files a claim asserting the Regents licensed patent rights are invalid or unenforceable and (iii) the Company files for bankruptcy. The Company may terminate the agreement at any time upon at least 60 days' written notice.

The University of Tennessee Research Foundation (“UTRF”)

In March 2015, GTx and UTRF entered into a license agreement (the “SARD License Agreement”) pursuant to which the Company was granted exclusive worldwide rights in all existing selective androgen receptor degrader (“SARD”) technologies owned or controlled by UTRF, including all improvements thereto. Under the SARD License Agreement, the Company is obligated to employ active, diligent efforts to conduct preclinical research and development activities for the SARD program to advance one or more lead compounds into clinical development. The Company is also obligated to pay UTRF annual license maintenance fees, low single-digit royalties on net sales of products and additional royalties on sublicense revenues, depending on the state of development of a clinical product candidate at the time it is sublicensed. The Company recorded research and development expense under this agreement of \$0.1 million for each of the three months ended September 30, 2020 and 2019, and \$0.2 million and \$0.1 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, the Company believes it has met its obligations under the SARD License Agreement.

The California Institute for Regenerative Medicine (“CIRM”) Awards

In August 2017, CIRM awarded an \$18.3 million grant to researchers at the University of California San Diego School of Medicine (“UC San Diego”) to advance the Company’s Phase 1/2 clinical trial evaluating cirmtuzumab in combination with ibrutinib for the treatment of patients with B-cell lymphoid malignancies, including chronic lymphocytic leukemia and mantle cell lymphoma. The Company: (i) is conducting this study in collaboration with UC San Diego, (ii) estimates it will receive approximately \$14.0 million in development milestones under research subaward agreements throughout the award project period, estimated to be from October 1, 2017 to March 31, 2022, (iii) is committed to certain co-funding requirements, (iv) received subaward payments of none and \$1.2 million in the three months ended September 30, 2020 and 2019, respectively, and \$1.4 million and \$4.8 million for the nine months ended September 30, 2020 and 2019, respectively, and (v) is required to provide UC San Diego progress and financial update reports throughout the award period. The subaward does not bear a royalty payment commitment, nor is the subaward otherwise refundable. For the three months ended September 30, 2020 and 2019, the Company recorded revenue of \$0.6 million and \$0.5 million, respectively, and recorded revenue of \$1.8 million and \$1.7 million for the nine months ended September 30, 2020 and 2019, respectively. Related qualifying subaward costs for the three months ended September 30, 2020 and 2019 were \$1.3 million and \$1.1 million, respectively, and \$4.1 million and \$3.2 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, the Company believes it has met its obligations under the CIRM award and UC San Diego subawards.

In October 2017, CIRM awarded a \$5.8 million grant to UC San Diego to develop a novel anti-cancer stem cell targeted therapy for patients with advanced solid and hematological malignancies. In connection with such CIRM award, the Company agreed to provide up to \$1.0 million in contingency funds if required during the grant period, which expired in April 2020. The Company recorded no research and development expense under such CIRM award for the three and nine months ended September 30, 2020 and 2019.

Clinical Trial and Supply Agreement

In April 2018, the Company entered into a Clinical Trial and Supply Agreement with Pharmacyclics, LLC, an AbbVie Company (“Pharmacyclics”) to supply ibrutinib for the Company’s Phase 1/2 clinical trial evaluating cirmtuzumab in combination with ibrutinib, which agreement was amended in August 2019. Such agreement does not bear any upfront costs, inventory purchase costs, milestone or royalty payment commitments or other financial obligations.

SPH USA, a Related Party

License and Development Agreement (“LDA”)

In November 2018, and as amended in August 2020, the Company entered into the LDA with SPH USA for: (i) the territory of the People’s Republic of China, Hong Kong, Macau, and Taiwan (“Greater China”), and (ii) rights to manufacture, develop, market, distribute and sell all of the Company’s product candidates under the Georgetown License Agreement and the Regents License Agreement (exclusive to Greater China only). Under the LDA, SPH USA is solely responsible for: (a) all preclinical and clinical development activities required in order to obtain regulatory approval in Greater China for such product candidates, (b) any third-

party license milestone or royalty payments owed under the Georgetown License Agreement and the Regents License Agreement, and (c) paying the Company a low single digit royalty on net sales in the territory.

The LDA will expire upon the expiration of the last royalty term for the last licensed product. The LDA may be terminated by: (i) SPH USA on a country by country or product by product basis with 180 days written notice, (ii) either party upon material breach that is not cured within 90 days, and (iii) either party in the event the other party declares insolvency or bankruptcy.

5. Debt

Payroll Protection Program Loan Payable

In May 2020, the Company qualified for and received a loan pursuant to the Paycheck Protection Program (the “PPP”), a program implemented by the U.S. Small Business Administration (the “SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), for an aggregate principal amount of \$0.3 million (the “PPP Loan”). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the Company’s request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and utility payments incurred by the Company. The Company applied for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Company will be required to pay interest on the unforgiven PPP Loan balance at a rate of 1.0% per annum, and, commencing in November 2020, principal and interest payments will be required through the maturity date in April 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

6. Merger

The Merger, which closed on June 7, 2019, was accounted for as a reverse asset acquisition, as substantially all of the fair value of the assets acquired were concentrated in a group of similar non-financial assets, and the acquired assets did not have outputs or employees. Because the assets had not yet received regulatory approval, the fair value attributable to these assets of \$18.1 million was recorded as in-process research and development expenses in the Company’s condensed consolidated statement of operations in the nine months ended September 30, 2019.

7. Stockholders’ Equity

Convertible Preferred Stock

In connection with the Merger, all of the then outstanding shares of Private Oncternal’s convertible preferred stock were converted into 8,148,268 shares of the Company’s common stock. As of December 31, 2018, Private Oncternal’s convertible preferred stock was classified as temporary equity on the accompanying condensed consolidated statement of convertible preferred stock and stockholders’ equity (deficit) in accordance with authoritative guidance for the classification and measurement of potentially redeemable securities whose redemption is based upon certain change in control events outside of Private Oncternal’s control, including liquidation, sale or transfer of control of Private Oncternal. Private Oncternal did not adjust the carrying values of the convertible preferred stock to the liquidation preferences of such shares because the occurrence of any such change of control event was not deemed probable.

Securities Purchase Agreements and Underwritten Offering

In May 2020, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with several institutional and individual investors (including an entity affiliated with David F. Hale, the chairman of the Company’s board of directors) for the concurrent sale of: (i) 1,943,636 shares of the Company’s common stock in a registered direct offering, resulting in net proceeds of \$4.4 million, after deducting the placement agent’s cash commissions and other offering expenses, and excluding the proceeds, if any, from the exercise of the warrants, and (ii) unregistered warrants to purchase up to an aggregate of 971,818 shares of common stock. The combined purchase price for one share and one warrant to purchase half of a share of common stock was \$2.5725. The shares, but not the warrants or shares of common stock issuable upon exercise of the warrants, were offered and sold by the Company pursuant to an effective shelf registration statement on Form S-3, which was filed with the SEC on December 22, 2017 and subsequently declared effective on January 5, 2018 (the “Registration Statement”), and a related prospectus supplement. In addition, the Company issued warrants to purchase 116,618 shares of common stock at an exercise price of \$3.2156 per share to the placement agent, H.C. Wainwright & Co., LLC (“Wainwright” or the “placement agent”) as part of its compensation, which warrants were immediately exercisable and expire on May 21, 2025.

In July 2020, the Company entered into a Securities Purchase Agreement (the “July Purchase Agreement”) with several institutional and individual investors for the concurrent sale of: (i) 2,581,867 shares of the Company’s common stock in a registered direct offering, resulting in net proceeds of \$5.7 million, after deducting the placement agent’s cash commissions and other offering expenses, and excluding the proceeds, if any, from the exercise of the warrants, and (ii) unregistered warrants to purchase up to an aggregate of 1,290,933 shares of common stock. The combined purchase price for one share and one warrant to purchase half of a share of common stock was \$2.3825. The warrants issued to investors were, subject to certain ownership limitations, immediately exercisable at an exercise price equal to \$2.32 per share and expire on January 21, 2026. The shares, but not the warrants or shares of common stock issuable upon exercise of the warrants, were offered and sold by the Company pursuant to the Registration Statement and a related prospectus supplement. In addition, the Company issued warrants to purchase 154,912 shares of common stock at an exercise price of \$2.9781 per share to the placement agent as part of its compensation, which warrants were immediately exercisable upon issuance and terminate on July 21, 2025. Other investors participating in the July Purchase Agreement included an entity affiliated with SPH USA, the Company’s largest stockholder, Daniel L. Kisner, a member of the Company’s board of directors, and Hazel M. Aker, the Company’s then General Counsel.

In August 2020, the Company entered into an underwriting agreement (as amended and restated, the “Underwriting Agreement”) with Wainwright for the sale of 2,428,886 shares of the Company’s common stock at a price to the public of \$2.10 per share, resulting in net proceeds of \$4.4 million, after deducting the underwriter’s discounts, commissions and other offering expenses. The shares were offered and sold by the Company pursuant to the Registration Statement and a related prospectus supplement. In addition, the Company issued warrants to purchase 145,733 shares of common stock at an exercise price of \$2.625 per share to Wainwright as part of its compensation, which warrants were immediately exercisable upon issuance and terminate on August 27, 2025. An investor participating in the transaction included Michael G. Carter, a member of the Company’s board of directors.

In connection with the Securities Purchase Agreements above, the Company also agreed, on a best efforts basis, to: (i) maintain its listing on The Nasdaq Capital Market to provide for the resale of the shares of common stock issuable upon the exercise of the warrants, (ii) not enter into any agreement for the issuance of any shares of common stock through September 4, 2020, and (iii) not enter into any agreement for the issuance of any shares of common stock involving a variable rate transaction before July 21, 2021. Warrant liability accounting is not required for the issued warrants.

The Company also agreed, on a best efforts basis, to: (i) maintain its listing on The Nasdaq Capital Market to provide for the resale of the shares of common stock issuable upon the exercise of the warrants, and (ii) not enter into any agreement for the issuance of any shares of common stock involving a variable rate transaction before July 21, 2021.

Common Stock Warrants

On September 29, 2017, as adjusted for the Exchange Ratio, the Company completed a private placement transaction that included warrants to purchase an aggregate of 469,996 shares of the Company’s common stock at an exercise price of \$63.14 per share. The five-year warrants expire on September 29, 2022. As of September 30, 2020, no such warrants have been exercised.

In September, November and December 2017, as adjusted for the Exchange Ratio, Private Oncternal issued warrants to purchase of 371,624 shares of Series B-2 preferred stock, which converted into rights to purchase common stock of the Company at the Merger closing, at an exercise price of \$6.13 per share. The warrants expire on various dates in September, November and December 2022. As of September 30, 2020, warrants to purchase 196 shares of common stock have been exercised.

On May 21, 2020 in connection with the Purchase Agreement, the Company issued warrants to: (i) investors for the purchase of 971,818 shares of common stock. Subject to certain ownership limitations, the warrants are immediately exercisable at an exercise price equal to \$2.51 per share and expire on November 21, 2025, and (ii) the placement agent for the purchase of 116,618 shares of common stock, which were immediately exercisable at an exercise price of \$3.2156 per share and expire on May 21, 2025. As of September 30, 2020, no such warrants have been exercised.

On July 21, 2020 in connection with the July Purchase Agreement, the Company issued warrants to: (i) investors for the purchase of 1,290,933 shares of common stock. Subject to certain ownership limitations, the warrants are immediately exercisable at an exercise price equal to \$2.32 per share and expire on January 21, 2026, and (ii) the placement agent for the purchase of 154,912 shares of common stock, which were immediately exercisable at an exercise price of \$2.9781 per share and expire on July 21, 2025. As of September 30, 2020, no such warrants have been exercised.

On September 1, 2020 in connection with the Underwriting Agreement, the Company issued warrants to Wainwright for the purchase of 145,733 shares of common stock, which warrants were immediately exercisable at an exercise price of \$2.625 per share and expire on August 27, 2025. As of September 30, 2020, no such warrants have been exercised.

The Company assessed whether the above warrants require accounting as liabilities and determined that the warrants meet the criteria to be classified in stockholders' equity.

Restricted Common Stock and Unvested Share Liability

Prior to the Merger, the Company issued restricted common stock subject to vesting and repurchase by the Company. For employee and non-employee awards, the issuance date fair value is recognized over the requisite service period of the award (usually the vesting period) on a straight-line basis. In addition, the Company has outstanding unvested shares related to the early exercise of stock options. The Company has the right, but not the obligation, to repurchase any unvested shares at the original purchase price upon any voluntary or involuntary termination. The consideration received in exchange for unvested shares is recorded as an unvested share liability on the accompanying condensed consolidated balance sheets and is reclassified into common stock and additional paid-in capital as the shares vest. At September 30, 2020 and December 31, 2019, the unvested share liability was \$14,000 and \$24,000, respectively.

A summary of the Company's unvested shares is as follows (in thousands):

	Number of Shares
Balance at December 31, 2019	35
Vested shares	(15)
Balance at September 30, 2020	20

Equity Incentive Plans

Contemporaneous with the Merger closing: (i) Private Oncernal's 2015 Equity Incentive Plan, as amended (the "2015 Plan") was assumed by the Company, and (ii) the Company adopted the 2019 Incentive Award Plan ("2019 Plan") under which the sum of: (a) 1,678,571 shares of common stock, (b) up to 275,579 shares of common stock which were subject to outstanding awards under the GTx 2013 Equity Incentive Plan (the "2013 Plan") as of June 7, 2019, that are subsequently cancelled will become available for issuance under the 2019 Plan, and (c) an annual increase on the first day of each calendar year beginning January 1, 2020, and ending on and including January 1, 2029, equal to the lesser of (A) 5% of the aggregate number of shares of common stock outstanding on the final day of the immediately preceding calendar year and (B) such smaller number of shares of common stock as is determined by the Board, are reserved for issuance. At September 30, 2020, 842,837 shares remain available for future issuance under the 2019 Plan.

As of September 30, 2020, there were: (i) 111,415 outstanding and fully vested options, and (ii) 164,164 cancelled options from the 2013 Plan that were added back to the 2019 Plan. As of September 30, 2020, the former GTx stock option plans had an aggregate of 120,731 outstanding and fully vested and exercisable options with a weighted average exercise price of \$77.63 and a weighted average remaining contractual term of 0.6 years.

In July 2015, Private Oncernal adopted the 2015 Plan which provided for the issuance of up to 631,120 shares of common stock for incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards and other stock awards to its employees, members of its board of directors and consultants. In general, the options issued under the 2015 Plan expire ten years from the date of grant and vest over a four-year period. Certain grants vest based on the achievement of development or regulatory milestones. The 2015 Plan was terminated as to new grants in June 2019. The 2015 Plan allowed for the early exercise of all stock option grants if authorized by the board of directors at the time of grant. The Company has the option to repurchase any unvested shares at the original purchase price upon any voluntary or involuntary termination.

A summary of the Company's stock option activity under the 2019 Plan and 2015 Plan is as follows:

	Number of Options	Weighted- Average Exercise Price
Balance at December 31, 2019	1,662,253	\$ 4.17
Granted	569,260	\$ 3.20
Cancelled	(6,170)	\$ 2.82
Exercised	(5,135)	\$ 0.77
Balance at September 30, 2020	<u>2,220,208</u>	<u>\$ 3.93</u>

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2020 was not significant. The intrinsic value is calculated as the difference between the fair value of the Company's common stock at the time of the option exercise and the exercise price of that stock option.

Stock-Based Compensation Expense

The weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of stock option grants, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Risk-free interest rate	0.7%	1.6%	0.8%	1.6%
Expected volatility	98.6%	76.9%	92.2%	76.9%
Expected term (in years)	10.0	5.9	6.6	5.9
Expected dividend yield	—%	—%	—%	—%

Expected volatility. Prior to the Merger, Private Oncernal did not have a trading history for its common stock. Accordingly, the expected volatility assumption is based on volatilities of a peer group of similar companies whose share prices are publicly available. The peer group was developed based on companies in the life sciences industry. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

Expected term. The expected term represents the period of time that options are expected to be outstanding. Because Private Oncernal did not have historical exercise behavior, it determined the expected life assumption using the simplified method, which is an average of the contractual term of the option and its vesting period.

Risk-free interest rate. The risk-free interest rate is based on the implied yield on the U.S. Treasury securities with a maturity date similar to the expected term of the associated stock option award.

Expected dividend yield. The Company bases the expected dividend yield assumption on the fact that it has never paid cash dividends and has no present intention to pay cash dividends and, therefore, used an expected dividend yield of zero.

Stock-based compensation expense recognized for all equity awards has been reported in the condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Research and development	\$ 129	\$ 44	\$ 398	\$ 111
General and administrative	278	46	751	81
	<u>\$ 407</u>	<u>\$ 90</u>	<u>\$ 1,149</u>	<u>\$ 192</u>

As of September 30, 2020, the total compensation cost related to non-vested awards not yet recognized was \$3.9 million and the weighted-average period over which it is expected to be recognized was 2.8 years.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance is as follows (in thousands):

	September 30, 2020
Common stock warrants	3,521
Common stock options issued and outstanding	2,341
Common stock available for issuance under the 2019 Plan	843
	<u>6,705</u>

8. COVID-19 Pandemic and CARES Act

A novel strain of coronavirus (SAR-CoV-2) causing a severe respiratory disease (“COVID-19”), was declared a global pandemic by the World Health Organization in March 2020. COVID-19 has presented substantial public health and economic challenges and is affecting economies, financial markets and business operations around the world. International and U.S. governmental authorities in impacted regions are taking action in an effort to slow the spread of COVID-19, including issuing varying forms of “stay-at-home” orders, and restricting business functions outside of one’s home. In response, the Company has put restrictions on employee travel and working from its executive offices with many employees continuing their work remotely. While the Company is currently continuing the clinical trials it has underway in sites across the U.S., the Company expects that COVID-19 precautions may directly or indirectly impact the timeline for some of its clinical trials. For example, some of its clinical trial sites, including those located in areas severely impacted by the pandemic, have placed new patient enrollment into clinical trials on hold or, for patients travelling from out-of-state, have implemented a 14-day self-quarantine before appointments. Additionally, the Company’s expectations for the timing of first-in-human dosing of its ROR1 CAR-T therapy in China has been delayed. The Company considered the impacts of COVID-19 on the assumptions and estimates used to prepare its condensed consolidated financial statements and determined that there were no material adverse impacts on the Company’s results of operations and financial position at September 30, 2020. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company’s business results of operations and financial condition, will depend on future development that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain or treat it, as well as the economic impact on local, regional, national and international markets.

In response to the COVID-19 pandemic, the CARES Act was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer’s social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP), and authorized the PPP (see Note 5). The CARES Act had no material impact on the Company’s income tax provision for the nine months ended September 30, 2020. The Company continues to evaluate the impact of the CARES Act on its condensed consolidated financial position, results of operations and cash flows.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with: (i) our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the period ended September 30, 2020, and (ii) our audited financial statements and notes thereto for the year ended December 31, 2019 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019. References to the Company's operating results prior to the merger (the "Merger") pursuant to the Agreement and Plan of Merger by and between us (then doing business as GTx, Inc.), Grizzly Merger Sub, Inc. and privately-held Oncernal Therapeutics, Inc. ("Private Oncernal") refer to the operating results of Private Oncernal prior to the Merger. Except as otherwise indicated herein or as the context otherwise requires, references in this Quarterly Report to "Oncernal" "the Company," "we," "us" and "our" refer to Oncernal Therapeutics, Inc., a Delaware corporation, on a post-Merger basis, and the term "Private Oncernal" refers to the business of privately-held Oncernal Therapeutics, Inc. prior to completion of the Merger.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations and financial position, business strategies and plans, prospective products, product approvals, research and development costs, the expected impact of COVID-19, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. These forward-looking statements are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions, including those described in our Annual Report on Form 10-K, filed with the SEC on March 16, 2020, and in Part II, Item 1A, "Risk Factors" of this Quarterly Report. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

We are a clinical-stage biopharmaceutical company focused on the development of novel oncology therapies for cancers with critical unmet medical need. Our development efforts are focused on promising, yet untapped, biological pathways implicated in cancer generation or progression. Our pipeline includes cirmtuzumab, an investigational monoclonal antibody that is designed to inhibit Receptor tyrosine kinase-like Orphan Receptor 1, or ROR1, a growth factor receptor that is widely expressed on many tumors and that activates pathways leading to increased tumor proliferation, invasiveness and drug resistance. Cirmtuzumab is being evaluated in a Phase 1/2 clinical trial in combination with ibrutinib (Imbruvica®)(Cirmtuzumab and Ibrutinib targeting ROR1 for Leukemia and Lymphoma, or CIRLL), for the treatment of patients with B-cell lymphoid malignancies, including MCL and CLL, and in an investigator-sponsored, Phase 1 clinical trial in combination with paclitaxel for the treatment of women with HER2-negative metastatic or locally advanced, unresectable breast cancer. We are also developing TK216, an investigational small molecule that is designed to inhibit the ETS, or E26 Transformation Specific, family of oncoproteins, which have been shown in preclinical studies to alter gene transcription and RNA processing and lead to increased cell proliferation and invasion. TK216 is being evaluated in a Phase 1 clinical trial as a single agent and in combination with vincristine in patients with relapsed or refractory Ewing sarcoma, a rare pediatric cancer. In addition, we are developing a chimeric antigen receptor T cell, or CAR-T, therapy candidate that targets ROR1, which is currently in preclinical development as a potential treatment for hematologic cancers and solid tumors. The U.S Food and Drug Administration, or FDA, has granted orphan drug designations of cirmtuzumab for the treatment of MCL and for the treatment of CLL/small lymphocytic lymphoma, and has granted rare pediatric disease designation for TK216.

On June 30, 2020, we announced an updated clinical strategy for cirmtuzumab that prioritizes development in MCL, based on encouraging interim clinical results from the CIRLL Phase 1/2 clinical trial that were presented at the American Society of Clinical Oncology 2020 Annual Meeting in May 2020. As a result, we are amending the CIRLL study to increase the number of patients with relapsed/refractory MCL to be enrolled in the Phase 2 expansion cohort to at least 20 patients and to allow the enrollment of patients with a broader range of prior BTK inhibitor treatments. In addition, we have limited the total enrollment of CLL patients in the CIRLL study to approximately 30 patients, in order to focus resources on the MCL portion of the study. In September 2020, we met with the FDA and are in a dialogue with the FDA regarding potential accelerated approval pathways for cirmtuzumab plus ibrutinib in

patients with relapsed/refractory MCL. Additionally, we are supporting a new, investigator-sponsored Phase 2 clinical trial of cirmtuzumab in combination with venetoclax, a Bcl-2 inhibitor, in patients with relapsed/refractory CLL in collaboration with the University of California San Diego School of Medicine, or UC San Diego.

Since Private Oncernal's inception in 2013, we have devoted most of our resources to organizing and staffing, business planning, raising capital, acquiring product candidates and securing related intellectual property rights and advancing our cirmtuzumab and TK216 clinical development programs. Under research subaward agreements between us and the UC San Diego, we are eligible to receive approximately \$14.0 million in development milestones throughout the award project period, estimated to be from October 1, 2017 to March 31, 2022. Through September 30, 2020, we have funded our operations primarily through: (i) gross proceeds of \$54.0 million from the issuance of stock, (ii) receipt of \$11.6 million in subaward grant payments received from UC San Diego, and (iii) cash proceeds of \$18.3 million received in connection with the closing of the Merger described below. As of September 30, 2020, we had cash and cash equivalents of \$21.3 million.

We have incurred net losses in each year since inception. Our ability to generate product revenue sufficient to achieve profitability will depend heavily on the successful development and eventual commercialization of one or more of our current or future product candidates. Our net losses were \$14.7 million and \$30.0 million (\$18.1 million related to nonrecurring costs associated with the Merger) for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, we had an accumulated deficit of \$80.2 million. Substantially all of our net losses have resulted from costs incurred in connection with: (i) advancing our research and development programs, (ii) general and administrative costs associated with our operations, and (iii) in-process research and development costs associated with the Merger. We expect to continue to incur significant and increasing operating losses for at least the next several years. We expect that our expenses and capital funding requirements will increase substantially in connection with our ongoing activities, particularly if and as we:

- advance cirmtuzumab through clinical development, with a primary focus in MCL, and ongoing trials in CLL and breast cancer;
- generate clinical proof-of-concept data with TK216 in Ewing sarcoma, an orphan pediatric cancer indication;
- advance our ROR1-targeting CAR-T therapy candidate to clinical testing, initially in hematological cancers and then in solid tumors;
- respond to the impacts of the COVID-19 pandemic, which has slowed enrollment into our clinical trials;
- evaluate cirmtuzumab in additional ROR1-positive solid tumors;
- evaluate TK216 in additional tumors with ETS fusion proteins or overexpression;
- continue to develop additional product candidates;
- acquire or in-license other product candidates and technologies;
- maintain, expand and protect our intellectual property portfolio;
- establish a commercial manufacturing source and secure supply chain capacity sufficient to provide commercial quantities of any product candidates for which we may obtain regulatory approval;
- seek regulatory approvals for any product candidates that successfully complete clinical trials;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain regulatory approval; and
- add operational, financial and management information systems and personnel, including personnel to support our planned product development and future commercialization efforts, as well as to support our transition to a public reporting company.

We will not generate product sales revenue unless and until we successfully complete clinical development and obtain regulatory approval for our product candidates. If we obtain regulatory approval for any of our product candidates and do not enter into a commercialization partnership, we expect to incur significant expenses related to developing our internal commercialization capability to support product sales, marketing and distribution. In addition, we expect to incur additional costs associated with operating as a public company.

As a result, we believe we will need substantial additional funding to support our continuing operations and pursue our business strategy. Until such time as we can generate significant product sales revenue, if ever, we expect to finance our operations through a combination of equity offerings, debt financings, government funding, or other sources, including potentially collaborations, licenses and other similar arrangements. We may not be able to raise additional funds or enter into such other agreements or arrangements

when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as and when needed, we may have to significantly delay, reduce or eliminate the development and commercialization of one or more of our product candidates or delay our pursuit of potential in-licenses or acquisitions.

Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

We expect that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital expenditure requirements into the second quarter of 2021. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we expect. See *"Liquidity and Going Concern."* Beyond that point, we will need to raise additional capital to finance our operations, which cannot be assured. We have concluded that this circumstance raises substantial doubt about our ability to continue as a going concern within one year after November 4, 2020, the issuance date of our quarterly condensed consolidated financial statements as of September 30, 2020. See Note 1 of our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report.

Similarly, in our report on our financial statements for the year ended December 31, 2019, our independent registered public accounting firm included an explanatory paragraph stating that our recurring losses from operations and required additional funding to finance our operations raise substantial doubt about our ability to continue as a going concern.

Business Update Regarding COVID-19

The COVID-19 worldwide pandemic has presented substantial public health and economic challenges and is affecting economies, financial markets and business operations around the world. International and U.S. governmental authorities in impacted regions are taking action in an effort to slow the spread of COVID-19, including issuing and modifying varying forms of "stay-at-home" orders, and restricting business functions outside of one's home. In response, we have put restrictions on employee travel and working from our executive offices, with many employees continuing their work remotely. To date, we have been able to continue to supply cirmtuzumab and TK216 clinical trial sites for patients enrolled in our ongoing clinical trials and do not currently anticipate any interruptions in the supply of cirmtuzumab or TK216. While we are continuing the clinical trials we have underway in sites across the U.S., we expect that COVID-19 precautions may directly or indirectly impact the timeline for some of our clinical trials. For example, some of our clinical trial sites, including those located in areas severely impacted by the pandemic, have placed new patient enrollment into clinical trials on hold or, for patients travelling from out-of-state, have implemented a 14-day self-quarantine before appointments. For our existing patients, we are actively working with all of our clinical trial sites to minimize disruptions and address concerns on an individual site or patient basis in order to allow participating patients to continue to receive treatment at home or in alternative healthcare settings while minimizing their potential exposure to the virus that causes COVID-19. If restrictions related to the COVID-19 outbreak continue for a prolonged period of time or if additional clinical trial sites pause patient enrollment or treatments, our clinical trial milestones would be negatively impacted. Additionally, our expectations for the timing of first-in-human dosing of our ROR1 CAR-T therapy in China has been delayed. Any delays in the completion of our clinical trials and any disruption in our supply chain could have a material adverse effect on our business, results of operations and financial condition. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain or treat it, as well as the economic impact on local, regional, national and international markets.

Components of Results of Operations

Grant Revenue

We have not and do not expect to generate any product sales revenue in the foreseeable future. If our development efforts for our product candidates are successful and result in regulatory approval, we may generate product sales revenue in the future. We cannot predict if, when, or to what extent we will generate revenue from the commercialization and sale of our product candidates. We may never succeed in obtaining regulatory approval for any of our product candidates. Our total revenue to date has been derived from a California Institute for Regenerative Medicine ("CIRM") grant subaward with UC San Diego.

In August 2017, CIRM awarded an \$18.3 million grant to researchers at UC San Diego to advance our Phase 1/2 clinical trial evaluating cirmtuzumab in combination with ibrutinib for the treatment of patients with B-cell lymphoid malignancies, including MCL and CLL. We are conducting this study in collaboration with UC San Diego and estimate we will receive approximately \$14.0 million in development milestones under research subaward agreements throughout the award project period, estimated to be from October 1, 2017 to March 31, 2022. In addition, we are committed to certain co-funding requirements and are required to provide UC

San Diego progress and financial update reports throughout the award project period. We received subaward payments of \$1.4 million and \$4.8 million in the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020: (i) the remaining estimated subaward funds available total \$2.5 million, and (ii) we believe we have met our obligations under the CIRM award and UC San Diego subawards.

Operating Expenses

Research and Development

Research and development expenses consist primarily of costs incurred for the preclinical and clinical development of our lead product candidate, cirmtuzumab, as well as TK216, which include:

- expenses under agreements with consultants, third-party contract organizations, and investigative clinical trial sites that conduct research and development activities on our behalf;
- costs related to the development and manufacture of preclinical study and clinical trial material;
- salaries and employee-related costs, including stock-based compensation;
- costs incurred under our collaboration and third-party licensing agreements; and
- laboratory and vendor expenses related to the execution of preclinical and clinical trials.

We accrue all research and development costs in the period for which they are incurred. Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors, collaborators and third-party service providers. Advance payments for goods or services to be received in future periods for use in research and development activities are deferred and then expensed as the related goods are delivered and as services are performed. Any unearned advances would be refunded when known.

We expect our research and development expenses to increase substantially for the foreseeable future as we: (i) invest in additional operational personnel to support our planned product development efforts, and (ii) continue to invest in developing our product candidates preclinically, advance them into later stages of clinical development, and as we begin to conduct larger clinical trials. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials.

Our direct research and development expenses are tracked by product candidate and consist primarily of external costs, such as fees paid under third-party license agreements and to outside consultants, contract research organizations or CRO, contract manufacturing organizations and research laboratories in connection with our preclinical development, process development, manufacturing and clinical development activities. We do not allocate employee costs and costs associated with our discovery efforts, laboratory supplies and facilities, including other indirect costs, to specific product candidates because these costs are deployed across multiple programs and, as such, are not separately classified. We use internal resources primarily to conduct our research as well as for managing our preclinical development, process development, manufacturing and clinical development activities. These employees work across multiple programs and, therefore, we do not track our costs by product candidate unless we can include them as subaward costs.

We cannot determine with certainty the timing of initiation, the duration or the completion costs of current or future preclinical studies and clinical trials of our product candidates due to the inherently unpredictable nature of preclinical and clinical development, including any potential expanded dosing beyond the original protocols based in part on ongoing clinical success and the potential effects of the COVID-19 pandemic. Clinical and preclinical development timelines, the probability of success and development costs can differ materially from expectations. We anticipate that we will make determinations as to which product candidates to pursue and how much funding to direct to each product candidate on an ongoing basis in response to the results of ongoing and future preclinical studies and clinical trials, regulatory developments and our ongoing assessments of each product candidate's commercial potential. We will need to raise substantial additional capital in the future. In addition, we cannot forecast which product candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

General and Administrative

General and administrative expenses consist primarily of personnel-related costs, insurance costs, facility costs and professional fees for legal, patent, consulting, investor and public relations, accounting and audit services. Personnel-related costs consist of salaries, benefits and stock-based compensation. We expect our general and administrative expenses will increase substantially as we: (i) incur additional costs associated with being a public company, including audit, legal, regulatory, and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums, and investor relations costs, (ii) hire additional personnel, and (iii) protect our intellectual property.

Other Income (Expense)

Change in Fair Value of Preferred Stock Warrant Liability

In connection with Private Onceternal's Series B-2 preferred stock financing in 2017, Private Onceternal issued warrants to purchase shares of its Series B-2 preferred stock. We classified these warrants as a liability on our condensed consolidated balance sheets through the Merger date of June 7, 2019, remeasured them to fair value at each reporting date, and recognized changes in the fair value of the warrant liability as a component of other income (expense), in our condensed consolidated statements of operations.

Upon the closing of the Merger, all outstanding warrants to purchase Private Onceternal Series B-2 preferred stock were converted into warrants to purchase our common stock. As a result, such warrants no longer require liability accounting and the fair value of the warrant liability has been reclassified to stockholders' equity.

Interest Income

Interest income consists of interest earned on our cash equivalents, which consist of money market funds. Our interest income has not been significant due to low interest earned on invested balances.

Results of Operations

Comparison of Three and Nine Months Ended September 30, 2020 and 2019

The following table summarizes our results of operations for the three and nine months ended September 30, 2020 and 2019:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
Grant revenue	\$ 585	\$ 544	\$ 41	\$ 1,787	\$ 1,689	\$ 98
Operating expenses:						
Research and development	3,047	3,108	(61)	9,558	7,591	1,967
In-process research and development	—	—	—	—	18,088	(18,088)
General and administrative	1,933	2,385	(452)	6,910	4,937	1,973
Total operating expenses	4,980	5,493	(513)	16,468	30,616	(14,148)
Loss from operations	(4,395)	(4,949)	554	(14,681)	(28,927)	14,246
Other income (expense):						
Change in fair value of warrant liability	—	—	—	—	(1,268)	1,268
Interest income	—	57	(57)	13	163	(150)
Total other income (expense)	—	57	(57)	13	(1,105)	1,118
Net loss	<u>\$ (4,395)</u>	<u>\$ (4,892)</u>	<u>\$ 497</u>	<u>\$ (14,668)</u>	<u>\$ (30,032)</u>	<u>\$ 15,364</u>

Comparison of Three Months Ended September 30, 2020 and 2019

Grant Revenue

Grant revenue was \$0.6 million and \$0.5 million for the three months ended September 30, 2020 and 2019, respectively. The increase of \$0.1 million was driven by higher research and development subaward related costs in 2020 as compared to 2019.

Research and Development Expenses

The following table summarizes our research and development expenses for the periods indicated:

(in thousands)	Three Months Ended September 30,		Increase/ (Decrease)
	2020	2019	
Cirmtuzumab	\$ 1,416	\$ 1,846	\$ (430)
TK216	682	203	479
Unallocated research and development expenses	949	1,059	(110)
Total research and development expenses	<u>\$ 3,047</u>	<u>\$ 3,108</u>	<u>\$ (61)</u>

Research and development expenses for the three months ended September 30, 2020 and 2019 were \$3.0 million and \$3.1 million, respectively, a decrease of \$0.1 million. The decrease was due to a nominal change in total direct product candidate costs, and a \$0.1 million decrease in unallocated expenses.

Direct expenses for cirmtuzumab decreased \$0.4 million for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, primarily due to a decrease in the number of CLL patients enrolled in the clinical trial as a result of our updated clinical strategy.

Direct expenses for TK216 increased \$0.5 million for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, primarily due to an increase in clinical trial costs related to our ongoing Phase 1 clinical trial of TK216 in refractory Ewing sarcoma.

Unallocated expenses decreased \$0.1 million for three months ended September 30, 2020, compared to the three months ended September 30, 2019, primarily due to a \$0.4 million decrease in license fees partially offset by \$0.3 million in higher personnel costs.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2020 and 2019 were \$1.9 million and \$2.4 million, respectively, a decrease of \$0.5 million. The decrease is primarily due to a \$0.9 million reduction in legal, professional and other public company expenses, that were partially offset by a \$0.4 million increase in personnel and director's and officer's insurance costs.

Other Income (Expense)

Other income was none and \$0.1 million for the three months ended September 30, 2020 and 2019, respectively.

Comparison of Nine Months Ended September 30, 2020 and 2019

Grant Revenue

Grant revenue for the nine months ended September 30, 2020 was \$1.8 million, compared to \$1.7 million for the nine months ended September 30, 2019. The increase of \$0.1 million was due to higher research and development subaward related costs incurred in 2020 as compared to 2019.

Research and Development Expenses

The following table summarizes our research and development expenses for the periods indicated:

(in thousands)	Nine Months Ended September 30,		Increase/ (Decrease)
	2020	2019	
Cirmtuzumab	\$ 4,967	\$ 4,731	\$ 236
TK216	1,724	992	732
Unallocated research and development expenses	2,867	1,868	999
Total research and development expenses	\$ 9,558	\$ 7,591	\$ 1,967

Research and development expenses for the nine months ended September 30, 2020 and 2019 were \$9.6 million and \$7.6 million, respectively, an increase of \$2.0 million. The increase was due to a \$1.0 million increase in direct product candidate costs, and a \$1.0 million increase in unallocated expenses.

Direct expenses for cirmtuzumab increased \$0.2 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, primarily due to the following offsetting factors: (i) a \$0.3 million increase in clinical trial costs related to our ongoing Phase 1/2 clinical trial of cirmtuzumab in combination with ibrutinib for the treatment of patients with B-cell lymphoid malignancies, including MCL and CLL, that commenced in the latter part of 2017, (ii) a \$0.7 million increase in manufacturing development costs, and (iii) a \$0.8 million decrease in non-clinical costs, primarily related to licensing fees.

Direct expenses for TK216 increased \$0.7 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, primarily due to a \$0.8 million increase in clinical trial costs related to our continuing Phase 1 clinical trial of TK216 in refractory Ewing sarcoma which was partially offset by lower preclinical costs of \$0.1 million.

Unallocated expenses increased \$1.0 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, primarily due to higher personnel costs that were partially offset by a decrease in license fees.

In-Process Research and Development Expenses

In-process research and development expenses decreased \$18.1 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, due to the in-process research development expenses being attributable solely to the assets acquired in the Merger.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2020 and 2019 were \$6.9 million and \$5.0 million, respectively, an increase of \$1.9 million. The increase is primarily due to the following partially offsetting factors: (i) higher personnel and professional related costs of \$1.4 million, (ii) an increase in director's and officer's insurance costs of \$0.5 million, (iii) higher corporate legal fees of \$0.4 million incurred to expand our intellectual property portfolios and for additional legal support incurred as a public company, and (iv) a decrease in other public company expenses of \$0.4 million.

Other Income (Expense)

Other income was \$13,000 and other expense was \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease was primarily due to a \$1.1 million decrease in the fair value of the preferred stock warrant liability.

Liquidity and Going Concern

From our inception through September 30, 2020, we have devoted substantially all of our efforts to organizational activities including raising capital, building infrastructure, acquiring assets, developing intellectual property, and conducting preclinical studies, clinical trials and product development activities. We have a limited operating history and the sales and income potential of our business and market are unproven. We have experienced recurring net losses and negative cash flows from operating activities. At September 30, 2020, we had an accumulated deficit of \$80.2 million and had cash and cash equivalents of \$21.3 million. We will need to continue to raise a substantial amount of funds until we are able to generate revenues to fund our development and operating activities.

We expect to continue to incur net losses into the foreseeable future. Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure. We have incurred net losses since inception and have relied on our ability to fund our operations through debt and equity financings and grant funding. These conditions raise substantial doubt about our ability to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business.

On May 21, 2020, we completed a registered direct offering pursuant to which we concurrently sold: (i) 1,943,636 shares of our common stock, and (ii) warrants to purchase up to an aggregate of 971,818 shares of common stock, at a combined price of \$2.5725 per share. The net proceeds to us from this offering were \$4.4 million, after deducting placement agent's cash commissions and other offering expenses, and excluding the proceeds, if any, from the exercise of the warrants.

On July 21, 2020, we completed a registered direct offering pursuant to which we concurrently sold: (i) 2,581,867 shares of our common stock, and (ii) warrants to purchase up to an aggregate of 1,290,933 shares of common stock, at a combined price of \$2.3825 per share. The net proceeds to us from this offering were \$5.7 million, after deducting the placement agent's cash commissions and other offering expenses, and excluding the proceeds, if any, from the exercise of the warrants.

On September 1, 2020, we completed an underwritten offering pursuant to which we sold 2,428,886 shares of our common stock at a price to the public of \$2.10 per share. The net proceeds to us from this offering were \$4.4 million, after deducting the underwriter's discounts and commissions and other offering expenses, and excluding the proceeds, if any, from the exercise of the underwriter's warrants.

We plan to continue to fund our losses from operations and capital funding needs through a combination of equity offerings, debt financings, government funding, or other sources, including potentially collaborations, licenses and other similar arrangements. There can be no assurance that we will be able to obtain any sources of financing on acceptable terms, or at all. To the extent that we

can raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct our business.

In February 2018, we entered into the ATM Sales Agreement, pursuant to which we were able to offer and sell, from time to time, through Stifel, shares of our common stock having an aggregate offering price of up to \$50.0 million. In connection with our sale of common stock and common stock warrants in July 2020, we agreed not to enter into other variable rate transactions prior to July 21, 2021, other than pursuant to a new at-the-market offering facility with the placement agent. In August 2020, we terminated the ATM Sales Agreement and can no longer offer and sell shares under the ATM Sales Agreement.

Under current SEC regulations, if at any time our public float is less than \$75.0 million, and for so long as our public float remains less than \$75.0 million, the amount we can raise through primary public offerings of securities in any twelve-month period using shelf registration statements is limited to an aggregate of one-third of our public float, which is referred to as the baby shelf rules. As of November 2, 2020, our public float calculated pursuant to the instructions set forth in Form S-3 was approximately \$38.3 million, based on 17,569,902 shares of outstanding common stock held by non-affiliates at a price of \$2.18 per share, which is the last reported sale price of our common stock on the Nasdaq Capital Market on September 8, 2020. As of September 30, 2020, we calculated our future capacity to issue up to approximately \$1.2 million of additional shares of common stock or other securities in one or more registered offerings. If our public float decreases, the amount of securities we may sell under our Form S-3 shelf registration statement will also decrease. Future sales of our common stock, if any, will depend on a variety of factors including, but not limited to, the expected timing for achieving key milestones, including completing and announcing results of clinical trials of cirmtuzumab and TK216 and announcing the first-in-human dosing of our CAR-T product candidate targeting ROR-1, currently in preclinical development, prevailing market conditions, the trading price of our common stock and our capital needs. There can be no assurance that we will be successful in consummating future sales of our securities based on prevailing market conditions or in the quantities or at the prices that we deem appropriate or that we will enter into a new at-the-market offering facility.

Cash Flows

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

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ (13,584)	\$ (13,701)
Investing activities	—	16,137
Financing activities	14,792	15
Net increase in cash and cash equivalents	\$ 1,208	\$ 2,451

Operating activities

During the nine months ended September 30, 2020, net cash used in operating activities was \$13.6 million, resulting from our net loss of \$14.7 million, which included non-cash charges of \$1.3 million related to stock-based compensation and lease expense, offset by a \$0.2 million change in our operating assets and liabilities. The \$0.2 million change in operating assets and liabilities primarily consisted of a \$0.8 million decrease in prepaid and other assets, a \$0.4 million decrease in deferred revenue, and a \$1.0 million increase in accounts payable and accrued expenses.

Investing activities

Net cash provided by investing activities was none and \$16.1 million for each of the nine months ended September 30, 2020 and 2019, respectively. Net cash provided by investing activities of \$16.1 million for the nine months ended September 30, 2019 primarily resulted from the net cash received in connection with the Merger.

Financing activities

Net cash provided by financing activities was \$14.8 million for the nine months ended September 30, 2020, which resulted from \$14.5 million in net proceeds received from registered direct offerings completed on May 21, 2020 and July 21, 2020, and a firm commitment underwritten offering completed on September 1, 2020, and \$0.3 million received under the Paycheck Protection Program. Net cash provided by financing activities was nominal for the nine months ended September 30, 2019. We expect that our existing cash and cash equivalents will be sufficient to fund our operations into the second quarter of 2021. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. We have based this estimate on plans that may change as circumstances evolve and assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect.

Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress, potential amendments or changes in protocols for our existing studies beyond our planned study protocols based in part on our clinical progress, and expenses in these trials is uncertain.

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

- the type, number, scope, progress, expansions, results, costs and timing of, our preclinical studies and clinical trials of our product candidates which we are pursuing or may choose to pursue in the future;
- the costs incurred as a result of the COVID-19 pandemic, including clinical trial delays; the costs and timing of manufacturing for our product candidates, including commercial manufacturing if any product candidate is approved;
- the costs of obtaining ibrutinib, for which we currently obtain supply at no cost under our clinical supply agreement with Pharmacyclics LLC, and vincristine to conduct our clinical trials of cirmtuzumab and TK216, respectively;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs of obtaining, maintaining and enforcing our patents and other intellectual property rights;
- the costs associated with hiring additional personnel and consultants as our preclinical and clinical activities increase;
- the costs and timing of establishing or securing sales and marketing capabilities if any product candidate is approved;
- our ability to achieve sufficient market acceptance, adequate coverage and reimbursement from third-party payors and adequate market share and revenue for any approved products;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements; and
- costs associated with any products or technologies that we may in-license or acquire.

Until such time, if ever, as we can generate substantial product revenues to support our cost structure, we expect to finance our losses from operations and capital funding needs through a combination of equity offerings, debt financings, government funding and other sources, including potentially collaborations, licenses and other similar arrangements. To the extent we raise additional capital through the sale of debt or equity securities, the ownership interest of our stockholders will be or could be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through collaborations, licenses and other similar arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us and/or may reduce the value of our common stock. If we are unable to raise additional funds through debt or equity financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market our product candidates even if we would otherwise prefer to develop and market such product candidates by ourselves. There can be no assurance that we will be able to obtain any sources of financing on acceptable terms, or at all.

Obligations and Commitments

We are party to a number of license agreements, pursuant to which we have payment obligations that are contingent upon future events such as our achievement of specified development, regulatory and commercial milestones and are required to make royalty payments in connection with the sale of products developed under those agreements. As of September 30, 2020, we were unable to estimate the timing or likelihood of achieving the milestones or making future product sales. See Note 4 to our condensed consolidated financial statements included elsewhere in this Quarterly Report for a description of these agreements.

We enter into contracts in the normal course of business with clinical trial sites and clinical supply manufacturers and with vendors for preclinical studies, research supplies and other services and products for operating purposes. These contracts generally provide for termination after a notice period.

Government Contracts, Grant Agreements and Incentive Programs

The CIRM Award

In August 2017, CIRM awarded an \$18.3 million grant to researchers at UC San Diego, to advance our Phase 1/2 clinical trial evaluating cirmtuzumab in combination with ibrutinib for the treatment of patients with B-cell lymphoid malignancies, including MCL and CLL. We: (i) are conducting this study in collaboration with UC San Diego, (ii) estimate we will receive approximately

\$14.0 million in development milestones under research subaward agreements throughout the award project period, estimated to be from October 1, 2017, to March 31, 2022, (iii) are committed to certain co-funding requirements, (iv) received subaward payments of none and \$1.2 million in three months ended September 30, 2020 and 2019, respectively, and \$1.4 million and \$4.8 million the for nine months ended September 30, 2020 and 2019, respectively, and (v) are required to provide UC San Diego progress and financial update reports throughout the award project period. The subaward does not bear a royalty payment commitment, nor is the subaward otherwise refundable. For the nine months ended September 30, 2020 and 2019, we recorded revenue of \$1.8 million and \$1.7 million, respectively. Related qualifying subaward costs during the three months ended September 30, 2020 and 2019 were \$1.3 million and \$1.1 million, respectively. As of September 30, 2020, we believe we have met our obligations under the CIRM award and UC San Diego subawards.

In October 2017, CIRM awarded a \$5.8 million grant to the researchers at UC San Diego to develop a novel anti-cancer stem cell targeted therapy for patients with advanced solid and hematological malignancies. In connection with such CIRM award, we agreed to provide up to \$1.0 million in contingency funds if required during the grant period, which expired in April 2020. We recorded no research and development expense under such CIRM award for the three and nine months ended September 30, 2020 and 2019.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of the financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods.

Our estimates are based on our historical experience, trends and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider our critical accounting policies and estimates to be related to research and development expenses and accruals, the valuation of warrants to purchase convertible preferred stock (which did convert at the Merger closing), and revenue recognition. There have been no material changes to our critical accounting policies and estimates during the three months ended September 30, 2020 from those disclosed in "Oncternal's Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies," included in the Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act, and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, who serve as our principal executive officer and principal financial officer, respectively, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

Changes in Disclosure Controls and Procedures

There were no changes in our internal control over financial reporting during the three months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS***Litigation Related to the Merger***

Between April 10 and May 1, 2019, three putative class action lawsuits and one individual lawsuit were filed in the U.S. District Court for the District of Delaware (the “Delaware Actions”). In 2019, the Delaware Actions were voluntarily dismissed with prejudice. On April 11 and 23, 2019, two putative class actions were filed in the U.S. District Court for the Southern District of New York (the “New York Actions”). The New York Actions name as defendants us and our former board of directors. The New York Actions allege that defendants violated Sections 14(a) and 20(a) of the Exchange Act, as well as Rule 14a-9 promulgated thereunder, in connection with our filing of the Registration Statement in connection with the Merger. On September 16, 2019, plaintiffs in the New York Actions filed an amended complaint, alleging violations of Sections 14(a) and 20(a) of the Exchange Act related to the value GTx’s stockholders received in the Merger. The amended complaint seeks damages and other unspecified relief. On January 10, 2020, the defendants filed their motion to dismiss the amended complaint, on January 31, 2020, the plaintiffs filed their opposition to defendants’ motion to dismiss, and on February 14, 2020, the defendants filed a reply in support of their motion to dismiss. On June 23, 2020, the court granted our motion to dismiss, and the plaintiff did not amend his complaint by the July 14, 2020 deadline. On July 22, 2020, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit. On September 28, 2020, the plaintiff withdrew the appeal with prejudice, and the case is now dismissed.

Zappia vs. GTx Incorporated

On October 15, 2019, Joseph Zappia and Karen Zappia filed a lawsuit against us in the U.S. District Court for the District of Delaware. The complaint alleges that our former management (prior to the Merger) engaged in illegal insider trading and false, manipulative and deceptive practices in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder), with respect to the timing of the disclosure of failed clinical trial results of GTx’s enobosarm product candidate in September 2018. The plaintiffs seek damages, interest, costs, attorneys' fees. We believe that this lawsuit is without merit and intend to vigorously defend this matter. We cannot predict the outcome of or estimate the possible loss or range of loss from this matter.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019, other than as disclosed in Part II, Item 1A “Risk Factors” in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 and the changes to the risk factors below.

We will require substantial additional financing to achieve our goals, and a failure to obtain this necessary capital when needed and on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our product development programs, commercialization efforts or other operations.

The development of biopharmaceutical product candidates is capital-intensive. We expect our expenses to increase in connection with our ongoing activities, particularly as we conduct our ongoing and planned clinical trials of cirmtuzumab and TK216, continue research and development and initiate clinical trials of our other development programs and seek regulatory approval for our current product candidates and any future product candidates we may develop. In addition, as our product candidates progress through development and toward commercialization, we will need to make milestone payments to the licensors and other third parties from whom we have in-licensed or acquired our product candidates, including cirmtuzumab, TK216 and ROR1 CAR-T. If we obtain regulatory approval for any of our product candidates, we also expect to incur significant commercialization expenses related to product manufacturing, marketing, sales and distribution. Because the outcome of any clinical trial or preclinical study is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates. Furthermore, following the completion of the Merger, we have incurred additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

We have based our estimates on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. Our operating plans and other demands on our cash resources may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned, through a combination of equity financings, debt financings, government funding or other capital sources, including potentially collaborations, licenses and other similar arrangements. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. Attempting to secure additional financing may divert our management from our day-to-day activities, which may adversely affect our ability to develop our product candidates.

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

- the costs incurred as a result of the COVID-19 pandemic, including clinical trial delays;
- the type, number, scope, progress, expansions, results, costs and timing of, our clinical trials of cirmtuzumab and TK216, and preclinical studies or clinical trials of other product candidates that we may choose to pursue in the future;
- the costs and timing of manufacturing for our product candidates, including commercial manufacturing if any product candidate is approved;
- the costs of obtaining ibrutinib, for which we currently obtain supply at no cost under our clinical supply agreement with Pharmacyclics LLC, and vincristine to conduct our clinical trials of cirmtuzumab and TK216, respectively;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs of obtaining, maintaining and enforcing our patents and other intellectual property rights;
- our efforts to evaluate, develop or partner the SARD assets; our efforts to enhance operational systems and hire additional personnel to satisfy our obligations as a public company, including enhanced internal controls over financial reporting;
- the costs associated with hiring additional personnel and consultants as our clinical and other development activities increase;
- the timing and amount of the milestone or other payments we must make to the licensors and other third parties from whom we have in-licensed or acquired our product candidates or technology;
- the costs and timing of establishing or securing sales and marketing capabilities if any of our product candidates are approved;
- our ability to achieve sufficient market acceptance, coverage and adequate reimbursement from third-party payors and adequate market share and revenue for any approved products;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements; and
- costs associated with any products or technologies that we may in-license or acquire.

Conducting clinical trials and preclinical studies is a time consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain regulatory approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all.

Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all. For example, due to limitations imposed by SEC regulations on the amount we can raise through primary public offerings of securities, as discussed below, we terminated our At-the-Market Equity OfferingSM Sales Agreement, with Stifel, Nicolaus & Company, Incorporated in August 2020 and have not replaced it with any similar equity financing arrangement. In addition, we may seek additional capital due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans.

Under current SEC regulations, if at any time our public float is less than \$75.0 million, and for so long as our public float remains less than \$75.0 million, the amount we can raise through primary public offerings of securities in any twelve-month period using shelf registration statements is limited to an aggregate of one-third of our public float, which is referred to as the baby shelf rules. As of November 2, 2020, our public float calculated pursuant to the instructions set forth in Form S-3 was approximately \$38.3 million, based on 17,569,902 shares of outstanding common stock held by non-affiliates at a price of \$2.18 per share, which is the last reported sale price of our common stock on the Nasdaq Capital Market on September 8, 2020. As of September 30, 2020, we calculated our future capacity to issue up to approximately \$1.2 million of additional shares of common stock or other securities in one or more registered offerings. If our public float decreases, the amount of securities we may sell under our Form S-3 shelf registration statement will also decrease.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Form	Incorporated by Reference		Exhibit Number	Filed Herewith
			File Number	Date of Filing		
3.1	Restated Certificate of Incorporation of the Registrant	S-3	333-127175	August 4, 2005	4.1	
3.2	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	8-K	000-50549	May 6, 2011	3.2	
3.3	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	8-K	000-50549	May 9, 2014	3.3	
3.4	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	10-Q	000-50549	May 11, 2015	3.4	
3.5	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	8-K	000-50549	December 5, 2016	3.1	
3.6	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	8-K	000-50549	June 10, 2019	3.1	
3.7	Certificate of Amendment of Restated Certificate of Incorporation of the Registrant	8-K	000-50549	June 10, 2019	3.2	
3.8	Amended and Restated Bylaws of the Registrant	8-K	000-50549	June 10, 2019	3.3	
4.1	Specimen of Common Stock Certificate	10-Q	000-50549	August 9, 2019	4.2	
4.2	Form of Common Stock Warrant, issued by Registrant pursuant to the Purchase Agreement, dated September 25, 2017, between Registrant and the purchasers identified in Exhibit A therein	S-3	333-221040	October 20, 2017	4.9	
4.3	Form of Warrant to purchase shares of Series B-2 Preferred Stock of Oncternal Therapeutics, Inc.	S-4	333-230758	April 8, 2019	4.11	
4.4	Form of Amendment to Warrant to Purchase shares of Series B-2 Preferred Stock of Oncternal Therapeutics, Inc.	10-Q	000-50549	August 9, 2019	4.1	
4.5	Form of Common Stock Warrant, issued by Registrant pursuant to the Securities Purchase Agreement, dated May 19, 2020, between the Registrant the purchasers signatory thereto	8-K	000-50549	May 21, 2020	4.1	
4.6	Form of Placement Agent Warrant, issued by Registrant pursuant to the Securities Purchase Agreement, dated May 19, 2020, between the Registrant the purchasers signatory thereto	8-K	000-50549	May 21, 2020	4.2	
4.7	Form of Common Stock Warrant, issued by Registrant pursuant to the Securities Purchase Agreement, dated July 17, 2020, between the Registrant the purchasers signatory thereto	8-K	000-50549	July 21, 2020	4.1	
4.8	Form of Placement Agent Warrant, issued by Registrant pursuant to the Securities Purchase Agreement, dated July 17, 2020, between the Registrant the purchasers signatory thereto	8-K	000-50549	July 21, 2020	4.2	

Exhibit Number	Description of Exhibit	Incorporated by Reference			Exhibit Number	Filed Herewith
		Form	File Number	Date of Filing		
4.9	Form of Underwriter Warrant, issued by Registrant pursuant to the Amended and Restated Underwriting Agreement, dated August 27, 2020, between the Registrant and H.C. Wainwright & Co., LLC	8-K	000-50549	August 31, 2020	4.1	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					X

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not subject to the liability of that section. These certifications are not to be incorporated by reference into any filing of Oncternal Therapeutics, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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

I, James B. Breitmeyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Oncternal 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 consolidated 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.

/s/ James B. Breitmeyer
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 4, 2020

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

I, Richard G. Vincent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Oncternal 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 consolidated 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.

/s/ Richard G. Vincent
Chief Financial Officer
(Principal Financial Officer)

Dated: November 4, 2020

CERTIFICATION
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

In connection with the Quarterly Report on Form 10-Q of Oncternal Therapeutics, Inc. (the "Company") for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James B. Breitmeyer, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ James B. Breitmeyer
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 4, 2020

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

In connection with the Quarterly Report on Form 10-Q of Oncternal Therapeutics, Inc. (the "Company") for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard G. Vincent, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ Richard G. Vincent
Chief Financial Officer
(Principal Financial Officer)

Dated: November 4, 2020

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.