
**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 June 30, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 001-36152

Aerie Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3109565
(I.R.S. Employer
Identification Number)

4301 Emperor Boulevard, Suite 400
Durham, North Carolina 27703
(919) 237-5300
(Address of principal executive offices, zip code and telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Shares of common stock, par value \$0.001 per share	AERI	Nasdaq Global 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.

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

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

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

As of July 31, 2020, there were 46,514,430 shares of the registrant's common stock, par value \$0.001, outstanding.

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Unless otherwise indicated or the context requires, the terms “Aerie,” “Company,” “we,” “us” and “our” refer to Aerie Pharmaceuticals, Inc. and its subsidiaries. References to “approved products” means products approved by the U.S. Food and Drug Administration (“FDA”) or other regulatory authorities; references to “product candidates” means products that are in development but not yet approved by the FDA or other regulatory authorities; references to “future product candidates” means products that have not yet been developed.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We may, in some cases, use terms such as “predicts,” “believes,” “potential,” “proposed,” “continue,” “estimates,” “anticipates,” “expects,” “plans,” “intends,” “may,” “would,” “could,” “might,” “will,” “should,” “exploring,” “pursuing” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements.

Forward-looking statements appear in a number of places throughout this report and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things:

- the broad impact of the coronavirus (“COVID-19”) pandemic on our business;
- the sales of Rhopressa[®] (netarsudil ophthalmic solution) 0.02% (“Rhopressa[®]”) or of Rocklatan[®] (netarsudil and latanoprost ophthalmic solution) 0.02%/0.005% (“Rocklatan[®]”) in the United States, and the potential future sales in the United States of any product candidates or future product candidates, if approved;
- the potential future sales in jurisdictions outside of the United States of Rhopressa[®], named Rhokiinsa[®] (netarsudil ophthalmic solution) 0.02% (“Rhokiinsa[®]”) in Europe, or Rocklatan[®], named Roclanda[®] (netarsudil and latanoprost ophthalmic solution) 0.02%/0.005% (“Roclanda[®]”) in Europe, or their equivalents, and those of any product candidates or future product candidates;
- our commercialization, marketing, manufacturing and supply management capabilities and strategies in and outside of the United States;
- third-party payer coverage and reimbursement for our approved products and product candidates and any future product candidates, if approved;
- the glaucoma patient market size and the rate and degree of market adoption of our approved products and product candidates and any future product candidates, if approved, by eye care professionals and patients;
- the timing, cost or other aspects of the commercial launch of our approved products and product candidates and any future product candidates, if approved;
- the success, timing and cost of our ongoing and anticipated preclinical studies and clinical trials for our product candidates and any future product candidates, including statements regarding the timing of initiation and completion of the studies and trials;
- our expectations regarding the effectiveness of our approved products, product candidates and any future product candidates and our expectations regarding the results of any clinical trials and preclinical studies;
- the timing of and our ability to request, obtain and maintain FDA or other regulatory authority approval of, or other action with respect to our approved products, product candidates and any future product candidates in the United States, Europe, Japan and elsewhere, including the expected timing of, and regulatory and/or other review of, filings for such approved products, product candidates and any future product candidates;
- our expectations related to the use of proceeds from our financing activities;
- our estimates regarding anticipated operating expenses and capital requirements and our needs for additional financing;

- our plans to pursue development of additional product candidates and technologies in ophthalmology, including development of our approved products or product candidates for additional indications, and our preclinical retinal programs and other therapeutic opportunities;
- the potential advantages of our approved products, product candidates and any future product candidates;
- our ability to protect our proprietary technology and enforce our intellectual property rights; and
- our expectations regarding collaborations, licensing, acquisitions and strategic operations, including our ability to in-license or acquire additional ophthalmic products, product candidates or technologies.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics, industry change and other factors beyond our control, and depend on regulatory approvals and economic and other environmental circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. We discuss many of these risks in greater detail under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission (“SEC”) on February 24, 2020, and other documents we have filed or furnished with the SEC, including the risk factor associated with the COVID-19 pandemic included herein.

In particular, FDA approval of Rhopressa® and Rocklatan® do not constitute FDA approval of our product candidates or any future product candidates in the United States, and there can be no assurance that we will receive FDA approval for our product candidates or any future product candidates. In addition, neither the European Commission (“EC”) grant of a centralised marketing authorisation for Rhokiinsa® nor the European Medicines Agency (“EMA”) acceptance of the Marketing Authorisation Application (“MAA”) for Roclanda® constitutes an EC grant of a centralised marketing authorisation for Roclanda® and there can be no assurance that Roclanda® will receive approval by the EMA. FDA approval of Rhopressa® and Rocklatan® do not constitute regulatory approval of these products in jurisdictions outside of the United States and there is no assurance that we will receive regulatory approval for Rhopressa® and Rocklatan® in such jurisdictions. In addition, the preclinical research discussed in this report is preliminary and the outcome of such preclinical studies may not be predictive of the outcome of later clinical trials. Any future clinical trial results may not demonstrate safety and efficacy sufficient to obtain regulatory approval related to the preclinical research findings discussed in this report, and we may suspend or discontinue research programs at any time for any reason.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that we have a reasonable basis for each forward-looking statement contained in this report, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements contained in this report, they may not be predictive of results or developments in future periods.

Any forward-looking statements that we make in this report speak only as of the date of this report. Except as required by law, we are under no duty to update or revise any of the forward-looking statements, whether the result of new information, future events or otherwise, after the date of this report.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****AERIE PHARMACEUTICALS, INC.****Condensed Consolidated Balance Sheets****(Unaudited)**

(in thousands, except share data)

	JUNE 30, 2020	DECEMBER 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 151,299	\$ 143,940
Short-term investments	90,619	165,250
Accounts receivable, net	43,078	38,354
Inventory	19,092	21,054
Prepaid expenses and other current assets	8,991	7,744
Total current assets	313,079	376,342
Property, plant and equipment, net	56,177	58,147
Operating lease right-of-use assets	14,906	16,523
Other assets	1,093	1,596
Total assets	\$ 385,255	\$ 452,608
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 6,661	\$ 12,770
Accrued expenses and other current liabilities	71,886	65,376
Operating lease liabilities	5,314	5,502
Total current liabilities	83,861	83,648
Convertible notes, net	199,157	188,651
Long-term operating lease liabilities	10,501	12,102
Other non-current liabilities	1,924	1,257
Total liabilities	295,443	285,658
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized as of June 30, 2020 and December 31, 2019; none issued and outstanding	—	—
Common stock, \$0.001 par value; 150,000,000 shares authorized as of June 30, 2020 and December 31, 2019; 46,513,349 and 46,464,669 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	47	46
Additional paid-in capital	1,082,964	1,062,996
Accumulated other comprehensive income (loss)	117	(92)
Accumulated deficit	(993,316)	(896,000)
Total stockholders' equity	89,812	166,950
Total liabilities and stockholders' equity	\$ 385,255	\$ 452,608

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

AERIE PHARMACEUTICALS, INC.
**Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)**

(in thousands, except share and per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2020	2019	2020	2019
Product revenues, net	\$ 18,033	\$ 15,835	\$ 38,374	\$ 26,687
Total revenues, net	18,033	15,835	38,374	26,687
Costs and expenses:				
Cost of goods sold	7,326	705	13,418	1,086
Selling, general and administrative	33,237	34,482	70,139	70,764
Pre-approval commercial manufacturing	80	5,819	2,194	10,276
Research and development	19,943	20,904	39,116	38,788
Total costs and expenses	60,586	61,910	124,867	120,914
Loss from operations	(42,553)	(46,075)	(86,493)	(94,227)
Other (expense) income, net	(5,634)	(1,089)	(10,856)	(978)
Loss before income taxes	(48,187)	(47,164)	(97,349)	(95,205)
Income tax benefit	—	—	(33)	(90)
Net loss	\$ (48,187)	\$ (47,164)	\$ (97,316)	\$ (95,115)
Net loss per common share—basic and diluted	\$ (1.05)	\$ (1.04)	\$ (2.12)	\$ (2.10)
Weighted average number of common shares outstanding—basic and diluted	45,876,106	45,397,024	45,834,305	45,334,191
Net loss	\$ (48,187)	\$ (47,164)	\$ (97,316)	\$ (95,115)
Unrealized gain on available-for-sale investments, net	237	—	209	—
Comprehensive loss	\$ (47,950)	\$ (47,164)	\$ (97,107)	\$ (95,115)

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

AERIE PHARMACEUTICALS, INC.**Consolidated Statements of Stockholders' Equity
(Unaudited)**

(in thousands, except share data)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT			
Balances at December 31, 2018	45,478,883	\$ 45	\$ 924,180	\$ (696,419)	\$ 227,806
Issuance of common stock upon exercise of stock options and warrants	141,245	—	1,879	—	1,879
Issuance of common stock for restricted stock awards, net	301,848	1	(2,093)	—	(2,092)
Stock-based compensation	—	—	12,508	—	12,508
Net loss	—	—	—	(47,951)	(47,951)
Balances at March 31, 2019	45,921,976	\$ 46	\$ 936,474	\$ (744,370)	\$ 192,150
Issuance of common stock upon exercise of stock purchase rights	22,648	—	569	—	569
Issuance of common stock upon exercise of stock options and warrants	10,480	—	71	—	71
Issuance of common stock for restricted stock awards, net	(5,686)	—	(891)	—	(891)
Stock-based compensation	—	—	11,023	—	11,023
Net loss	—	—	—	(47,164)	(47,164)
Balances at June 30, 2019	45,949,418	\$ 46	\$ 947,246	\$ (791,534)	\$ 155,758

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

AERIE PHARMACEUTICALS, INC.

**Consolidated Statements of Stockholders' Equity
(Unaudited)**

(in thousands, except share data)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT				
Balances at December 31, 2019	46,464,669	\$ 46	\$ 1,062,996	\$ (92)	\$ (896,000)	\$ 166,950
Issuance of common stock upon exercise of stock options and warrants	5,811		44			44
Issuance of common stock for restricted stock awards, net	5,705		(1,466)			(1,466)
Stock-based compensation			10,838			10,838
Other comprehensive (loss) income				(28)		(28)
Net loss					(49,129)	(49,129)
Balances at March 31, 2020	46,476,185	\$ 46	\$ 1,072,412	\$ (120)	\$ (945,129)	\$ 127,209
Issuance of common stock upon exercise of stock purchase rights	23,494		295			295
Issuance of common stock upon exercise of stock options	31,615	1	118			119
Issuance of common stock for restricted stock awards, net	(17,945)		(150)			(150)
Stock-based compensation			10,289			10,289
Other comprehensive income (loss)				237		237
Net loss					(48,187)	(48,187)
Balances at June 30, 2020	46,513,349	\$ 47	\$ 1,082,964	\$ 117	\$ (993,316)	\$ 89,812

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

AERIE PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	SIX MONTHS ENDED	
	JUNE 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (97,316)	\$ (95,115)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	3,186	2,059
Amortization and accretion	13,358	5,051
Stock-based compensation	20,705	23,315
Other non-cash	7	(155)
Changes in operating assets and liabilities		
Accounts receivable, net	(4,724)	(22,936)
Inventory	2,397	(14)
Prepaid, current and other assets	(861)	(3,572)
Accounts payable, accrued expenses and other current liabilities	1,484	8,567
Operating lease liabilities	(2,929)	(2,309)
Net cash used in operating activities	(64,693)	(85,109)
Cash flows from investing activities		
Purchase of available-for-sale investments	(43,455)	—
Proceeds from sales and maturities of investments	118,357	—
Purchase of property, plant and equipment	(1,690)	(7,118)
Net cash provided by (used in) investing activities	73,212	(7,118)
Cash flows from financing activities		
Proceeds from loan	8,274	—
Repayment of loan	(8,274)	—
Payments related to issuance of stock for stock-based compensation arrangements, net	(1,160)	(968)
Payments of debt issuance costs	—	(396)
Proceeds from exercise of warrants	—	375
Other financing	—	(239)
Net cash used in financing activities	(1,160)	(1,228)
Net change in cash and cash equivalents	7,359	(93,455)
Cash and cash equivalents, at beginning of period	143,940	202,818
Cash and cash equivalents, at end of period	\$ 151,299	\$ 109,363
Non-cash investing and financing activities		
Purchase of property, plant and equipment	\$ 409	\$ 917

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

AERIE PHARMACEUTICALS, INC.**Notes to the Condensed Consolidated Financial Statements
(Unaudited)****1. The Company**

Aerie Pharmaceuticals, Inc. (“Aerie”), with its wholly-owned subsidiaries, Aerie Distribution, Inc., Aerie Pharmaceuticals Limited, Aerie Pharmaceuticals Ireland Limited, and Avizorex Pharma S.L. (“Aerie Distribution,” “Aerie Limited,” “Aerie Ireland Limited,” and “Avizorex,” respectively, together with Aerie, the “Company”), is an ophthalmic pharmaceutical company focused on the discovery, development and commercialization of first-in-class therapies for the treatment of patients with open-angle glaucoma, ocular surface diseases and retinal diseases. The Company has its principal executive offices in Durham, North Carolina, and operates as one business segment.

The Company has two U.S. Food and Drug Administration (“FDA”) approved products, Rhopressa® (netarsudil ophthalmic solution) 0.02% (“Rhopressa®”) and Rocklatan® (netarsudil and latanoprost ophthalmic solution) 0.02%/0.005% (“Rocklatan®”). Rhopressa® is a once-daily eye drop designed to reduce elevated intraocular pressure (“IOP”) in patients with open-angle glaucoma or ocular hypertension. Rocklatan® is a once-daily fixed-dose combination of Rhopressa® and latanoprost, the most widely-prescribed drug for the treatment of patients with open-angle glaucoma. The Company is commercializing Rhopressa®, which was launched in the United States in April 2018, and Rocklatan®, which was launched in the United States in May 2019. In November 2019, the Company released topline data from its Phase 4 Multi-center Open-label Study (“MOST”), which observed Rhopressa® efficacy in various real-world clinical settings, including as an adjunctive product and monotherapy. The results indicated positive IOP reduction in all settings, along with a favorable tolerability profile. In addition to actively promoting the products in the United States, the Company is pursuing its strategy to obtain regulatory approval for Rhopressa® and Rocklatan® in Europe and Japan. Rhopressa® and, if approved, Rocklatan® will be marketed under the names Rhokiinsa® and Roclanda®, respectively, if ultimately commercialized in Europe.

In Europe, Rhokiinsa® was granted a centralised marketing authorisation by the European Commission (“EC”) in November 2019 and the Marketing Authorisation Application (“MAA”) for Roclanda® was accepted by the European Medicines Agency (“EMA”) in December 2019. The Phase 3 registration trial for Roclanda®, named Mercury 3, is a six-month efficacy and safety trial designed to compare Roclanda® to Ganfort®, a fixed-dose combination product marketed in Europe of bimatoprost (a prostaglandin analog), and timolol (a beta blocker). If successful, Mercury 3 is expected to improve the commercialization prospects of Roclanda® in Europe; it is not required for regulatory approval. The Mercury 3 results are expected to be an important determinant as the Company evaluates the commercialization and profitability potential of Rhokiinsa®, and particularly Roclanda®, in Europe. The Company currently expects to read out topline 90-day efficacy data for Mercury 3 later in the third quarter of 2020.

In Japan, with respect to the clinical progress of Rhopressa®, the Company completed a Phase 1 clinical trial, a successful pilot Phase 2 clinical study in the United States on Japanese and Japanese-American subjects, as well as a Phase 2 clinical trial conducted in Japan. These studies were designed to meet the requirements of Japan’s Pharmaceuticals and Medical Devices Agency (“PMDA”) for potential regulatory submission of Rhopressa® in Japan. Topline results of the Phase 2 trial indicated positive efficacy and tolerability results in the patient population. Clinical trials for Rocklatan® have not yet begun. The Company held a meeting with the Japanese PMDA in April 2020 to discuss Phase 3 trial designs for Rhopressa®, while continuing to prepare for the trials. The Company expects to initiate a Rhopressa® Phase 3 clinical trial in Japan in the fourth quarter of 2020. The Company expects to have three Phase 3 trials, two of which will be 28-day trials and one of which will be a 12-month safety trial. The Company continues to explore collaboration with a potential partner in Japan to advance the Company’s clinical development and ultimately commercialize Rhopressa® and Rocklatan® in Japan, and will continue to explore other potential opportunities elsewhere in Eastern Asia.

The Company is furthering the development of its product candidates focused on dry eye and retinal diseases, particularly AR-15512 (previously named AVX-012), AR-1105 and AR-13503 SR, described below. The Company acquired Avizorex, a Spanish ophthalmic pharmaceutical company, developing therapeutics for the treatment of dry eye disease. The active ingredient in AR-15512 is a potent and selective agonist of the TRPM8 ion channel, a cold sensor and osmolarity sensor that regulates ocular surface wetness and blink rate. The Company is planning to test two concentrations of AR-15512 in a 90-day Phase 2b clinical trial with 360 subjects, which could potentially be considered pivotal. The Company expects to initiate this clinical trial, named COMET-1, in the fourth quarter of 2020 after the completion of remaining preclinical activities.

The Company is developing two sustained-release implants focused on retinal diseases, AR-1105 and AR-13503 SR. AR-1105 is a dexamethasone steroid implant, for which the Company has recently completed a Phase 2 clinical trial in patients with

macular edema due to retinal vein occlusion (“RVO”) and the initial data readout indicates sustained efficacy of up to six months, an important achievement in validating the potential capabilities of Aerie’s sustained release platform. Detailed data will be presented at an upcoming ophthalmology conference. The Company is also developing AR-13503, a ROCK and Protein kinase C inhibitor that is the active ingredient in the AR-13503 sustained-release implant. The Investigational New Drug application (“IND”) for AR-13503 SR became effective in April 2019, allowing the Company to initiate human studies in the treatment of neovascular age-related macular degeneration (“nAMD”) and diabetic macular edema (“DME”). The Company initiated a first-in-human clinical study for AR-13503 SR in the third quarter of 2019 and currently expects to read out topline data in the second half of 2021.

The Company completed the build-out of its own manufacturing plant in Athlone, Ireland, for additional commercial production of Rhopressa® and Rocklatan® in the second quarter of 2019. In January 2020, the Company received FDA approval to produce Rocklatan® at the Athlone plant for commercial distribution in the United States. The manufacturing plant began production of commercial supplies of Rocklatan® during the first quarter of 2020. The Company filed a Prior Approval Supplement with the FDA in the second quarter of 2020 and expects FDA approval to produce Rhopressa® at the Athlone plant by the end of 2020.

The Company commenced generating product revenues related to sales in the United States of Rhopressa® in the second quarter of 2018 and Rocklatan® in the second quarter of 2019. The Company’s activities prior to the commercial launch of Rhopressa® had primarily consisted of developing product candidates, raising capital and performing research and development activities. The Company has incurred losses and experienced negative operating cash flows since inception. The Company had previously funded its operations primarily through the sale of equity securities and issuance of convertible notes prior to generating product revenues. In September 2019, the Company issued an aggregate principal amount of \$316.25 million of 1.50% convertible senior notes due 2024 (the “Convertible Notes”). See Note 10 for additional information.

If the Company does not successfully commercialize Rhopressa® and Rocklatan® or any product candidates or future product candidates, if approved, it may not generate sufficient cash flows and may be unable to achieve profitability. Accordingly, the Company may be required to obtain further funding through debt or equity offerings or other sources. Adequate additional funding may not be available to the Company on acceptable terms, or at all. Conditions in the financial and credit markets may limit the availability of additional liquidity or increase the costs of such liquidity. If the Company is unable to raise capital when needed or on acceptable terms, it may be forced to delay, reduce or eliminate its research and development programs or commercialization and manufacturing efforts.

2. Significant Accounting Policies

Basis of Presentation

The Company’s interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, the Company has made all necessary adjustments, which include normal recurring adjustments necessary for a fair presentation of the Company’s condensed consolidated financial position and results of operations for the interim periods presented. Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 24, 2020. The results for the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for a full year, any other interim periods or any future year or period.

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of Aerie and its wholly-owned subsidiaries. All intercompany accounts, transactions and profits have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of income and expenses during the reporting periods. Significant items subject to such estimates and assumptions include revenue recognition, stock-based compensation and fair value measurements. On March 11, 2020, the World Health Organization declared the coronavirus (“COVID-19”) outbreak a pandemic. The full extent to which COVID-19 will directly or indirectly impact our business, results

of operations and financial condition, including net product revenue, cost and expenses, reserves and allowances, manufacturing and clinical trials, 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 eye care professionals, patients, third parties and markets. Actual results could differ from the Company's estimates.

Segment Information

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

Concentration of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and investments. The Company's cash and cash equivalents, which include short-term highly liquid investments with original maturities of three months or less, are held at several financial institutions. The Company's investment policy permits investments in U.S. federal government and federal agency securities, corporate bonds or commercial paper, money market instruments, and certain qualifying money market mutual funds, and places restrictions on credit ratings, maturities, and concentration by type and issuer. The Company is exposed to credit risk in the event of a default by the financial institutions holding its cash, cash equivalents and investments to the extent recorded on the condensed consolidated balance sheets.

The Company relies on its third-party manufacturers to produce the active pharmaceutical ingredient ("API") and final drug product for Rhopressa® and Rocklatan® and may rely on third-party manufacturers for its current and future product candidates. In addition to the current contract manufacturers, the Company obtained FDA approval for an additional Rocklatan® drug product contract manufacturer in January 2020, which began to supply commercial product in the first quarter of 2020.

In addition, the Company has established its own manufacturing plant in Athlone, Ireland, for commercial production of Rocklatan® and future commercial production of Rhopressa®, if approved, and thereafter, potentially Rhokiinsa® and, if approved, Roclanda®. In January 2020, the Company received FDA approval to produce Rocklatan® at the Athlone plant for commercial distribution in the United States. The manufacturing plant began production of commercial supplies of Rocklatan® during the first quarter of 2020. The Company expects FDA approval to produce Rhopressa® at the Athlone plant by the end of 2020. The Company currently expects to continue to use product sourced from its contract manufacturers in addition to the Athlone plant.

Revenue Recognition

The Company accounts for its revenue transactions under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606"). In accordance with ASC Topic 606, the Company recognizes revenues when its customers obtain control of its product for an amount that reflects the consideration it expects to receive from its customers in exchange for that product. To determine revenue recognition for contracts that are determined to be in scope of ASC Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Once the contract is determined to be within the scope of ASC Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when such performance obligation is satisfied.

Aerie's customers include a limited number of national and select regional wholesalers (the "distributors"). These distributors subsequently resell the product, primarily to retail pharmacies that dispense the product to patients. Net product revenue is typically recognized when distributors obtain control of the Company's products, which occurs at a point in time, typically upon delivery of product to the distributors. The Company evaluates the creditworthiness of each of its distributors to determine whether it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur. The Company does not assess whether a contract has a significant financing component if the expectation is such that the period between the transfer of the promised goods to the customer and the receipt of payment will be less than one year. Standard credit terms do not exceed 75 days. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that would have been recognized is one year or less or the amount is immaterial.

Shipping and handling costs related to the Company's product sales are included in selling, general and administrative expenses.

The Company's net product revenues through June 30, 2020 were generated through sales of Rhopressa[®], which was commercially launched in the United States in April 2018, and sales of Rocklatan[®], which was commercially launched in the United States in May 2019. Product revenue is recorded net of trade discounts, allowances, commercial and government rebates, co-pay program coupons, chargebacks, U.S. government funding requirements for the coverage gap (commonly called the "donut hole") portion of the Medicare Part D program and estimated returns and other incentives. These reserves are classified as either reductions of accounts receivable or as current liabilities. The estimates of reserves established for variable consideration reflect current contractual and statutory requirements, known market events and trends, industry data, forecasted customer mix and lagged claims. The transaction price, which includes variable consideration reflecting the impact of discounts and allowances, may be subject to constraint and is included in the net product revenues only to the extent that it is probable that a significant reversal of the amount of the cumulative revenues recognized will not occur in a future period. Actual amounts may ultimately differ from these estimates. If actual results vary, estimates may be adjusted in the period such change in estimate becomes known, which could have an impact on earnings in the period of adjustment. See Note 3 for additional information.

Credit Losses

Trade accounts receivable: The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, creditworthiness of its customers, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

Available-for-sale investments: The Company's investments can consist of U.S. federal government and federal agency securities, corporate bonds or commercial paper, money market instruments and certain qualifying money market mutual funds. The investments are short-term in nature and are rated investment grade by at least one bond credit rating service.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company determines the cost of inventory using the first-in, first-out ("FIFO") method. The Company analyzes its inventory levels at least quarterly and writes down inventory that is expected to expire prior to being sold, inventory in excess of expected sales requirements and inventory that fails to meet commercial sale specifications, with a corresponding charge to cost of goods sold. The determination of whether inventory costs will be realizable requires estimates by management of future expected inventory requirements based on sales forecasts. If actual net realizable value is less than the estimated amount or if actual market conditions are less favorable than the Company's projections, additional inventory write-downs may be required. Charges for inventory write-downs are not reversed if it is later determined that the product is saleable. Production costs related to idle or underutilized capacity at the manufacturing plant in Athlone, Ireland, are not included in the cost of inventory but are charged directly to cost of goods sold on the condensed consolidated statements of operations and comprehensive loss in the period incurred. The idle capacity results from the manufacturing plant having commenced operations earlier in 2020 and not reaching full capacity.

Prior to the date the Company obtains regulatory approval for its product candidates or its manufacturing facilities such as its manufacturing plant in Athlone, Ireland, manufacturing costs related to commercial production are expensed as pre-approval commercial manufacturing expense on the condensed consolidated statements of operations and comprehensive loss. Once regulatory approval is obtained, the Company capitalizes such costs as inventory on the condensed consolidated balance sheets.

Property, Plant and Equipment, Net

Property, plant and equipment is recorded at historical cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Construction-in-progress reflects amounts incurred for property, plant or equipment construction or improvements that have not yet been placed in service and are not depreciated or amortized. Repairs and maintenance are expensed when incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the determination of net loss.

Estimated useful lives by major asset category are as follows:

Manufacturing equipment	10 years
Laboratory equipment	7 years
Furniture and fixtures	5 years
Software, computer and other equipment	3 years
Leasehold improvements	Lower of estimated useful life or term of lease

Leases

The Company determines if an arrangement is a lease at inception. For each lease, the lease term is determined at the commencement date and includes renewal options and termination options when it is reasonably certain that the Company will exercise that option. Operating leases with lease terms greater than one year are included in operating lease right-of-use (“ROU”) assets and current and long-term operating lease liabilities in the Company’s condensed consolidated balance sheets.

Operating lease ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term using an estimated rate of interest the Company would have to pay to borrow equivalent funds on a collateralized basis at the lease commencement date. The operating lease ROU assets are based on the liability adjusted for any prepaid or deferred rent and lease incentives. The incremental borrowing rate was utilized to discount lease payments over the expected term given that the Company’s operating leases do not provide an implicit rate. The Company estimates the incremental borrowing rate to reflect the profile of secured borrowing over the expected term of the leases based on the information available at the later of the date of adoption or the lease commencement date. Rent expense for the operating lease is recognized on a straight-line basis over the lease term.

The Company’s lease agreements have lease and non-lease components, which are generally accounted for as a single lease component. Non-lease components include lease operating expenses, which are variable costs under the Company’s current leases. For vehicle leases, the Company accounts for the lease and non-lease components as a single lease component and applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Investments

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase. The Company’s investments are comprised of commercial paper and corporate bonds that are classified as available-for-sale in accordance with the ASC Topic 320, *Investments-Debt and Equity Securities*. The Company classifies investments available to fund current operations as current assets on its condensed consolidated balance sheets. Investments are classified as long-term assets on the condensed consolidated balance sheets if (i) the Company has the intent and ability to hold the investments for a period of at least one year and (ii) the contractual maturity date of the investments is greater than one year.

Available-for-sale investments in debt securities are recorded at fair value, with unrealized gains or losses included in comprehensive loss on the condensed consolidated statements of operations and comprehensive loss and in accumulated other comprehensive loss on the condensed consolidated balance sheets.

Realized gains and losses, interest income earned on the Company’s cash, cash equivalents and investments, and amortization or accretion of discounts and premiums on investments are included within other (expense) income, net. Interest income was \$0.5 million and \$1.6 million for the three and six months ended June 30, 2020, respectively, and \$0.5 million and \$1.4 million for the three and six months ended June 30, 2019. Realized gains and losses are determined using the specific identification method and are included as a component of other income (expense), net. Realized gains or losses were immaterial during the three and six months ended June 30, 2020 and 2019.

Fair Value Measurements

The Company records certain financial assets and liabilities at fair value in accordance with the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. As defined in the guidance, fair value, defined as an exit price, represents the amount that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering these assumptions, the guidance defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

- Level 1—Unadjusted quoted prices in active, accessible markets for identical assets or liabilities.

- Level 2—Other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's cash equivalents are carried at fair value according to the fair value hierarchy described above. The Company's investments were valued utilizing Level 2 inputs and the Convertible Notes were valued utilizing Level 2 inputs as of June 30, 2020. There were no transfers between the different levels of the fair value hierarchy during the six months ended June 30, 2020 and 2019.

Stock-Based Compensation

The estimated fair value of options to purchase common stock is determined on the date of grant using the Black-Scholes option pricing model. The fair value of restricted stock awards ("RSAs") and restricted stock units ("RSUs"), including restricted stock awards with non-market performance and service conditions ("PSAs") are based on the market value of Aerie's common stock on the date of grant. Stock-based compensation expense related to time-based stock options, RSAs and RSUs is expensed on a straight-line basis over the vesting period. For RSAs with non-market performance conditions, the Company evaluates the criteria for each grant to determine the probability that the performance condition will be achieved. Compensation expense for RSAs with non-market performance conditions is recognized over the respective service period when it is deemed probable that the performance condition will be satisfied. Upon issuance and at each reporting period, the fair value of each stock appreciation rights ("SARs") award is estimated using the Black-Scholes option pricing model and is marked to market through stock-based compensation expense. SARs are liability-based awards as they may only be settled in cash.

Convertible Notes Transaction

The Company separately accounts for the liability and equity components of convertible notes transactions that can be settled in cash by allocating the proceeds from issuance between the liability component and the embedded conversion option in accordance with accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The value of the equity component is calculated by first measuring the fair value of the liability component, using the interest rate of a similar liability that does not have a conversion feature, as of the issuance date. The difference between the proceeds from the convertible debt issuance and the amount measured as the liability component is recorded as the equity component with a corresponding discount recorded on the debt. The Company recognizes amortization of the resulting discount using the effective interest method as interest expense on the condensed consolidated statements of operations and comprehensive loss. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The Company allocates issuance costs incurred to the liability and equity components. Issuance costs attributable to the liability component are amortized to expense over the respective term of the convertible notes, and issuance costs attributable to the equity component are netted with the respective equity component in additional paid-in capital.

In September 2019, the Company purchased capped call options from financial institutions to minimize the impact of potential dilution of the Aerie's common stock upon conversion of the Convertible Notes. The capped call options meet the definition of a derivative in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"), however, qualify for derivative scope exception under ASC 815 for instruments indexed to a company's own stock. Accordingly, the premiums for the capped call options were recorded as additional paid-in capital on the Company's condensed consolidated balance sheets as the options are settleable in Aerie common stock at the election of the Company. See Note 10 for additional information.

Adoption of New Accounting Standards

In August 2018, the FASB issued Accounting Standards Updated ("ASU") 2018-13, *Fair Value Measurement (Topic 820-10): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which changes the fair value measurement disclosure requirements of ASC Topic 820. Under ASU 2018-13, certain disclosure requirements for fair value measurements are eliminated, amended or added. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The guidance became effective for the Company beginning on January 1, 2020 and prescribes different transition methods for the various provisions. The adoption of ASU 2018-13 did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. Currently, U.S. GAAP delays recognition of the full amount of credit

losses until the likelihood of the loss occurring is probable. Under this ASU, the income statement will reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses will be based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down of the security. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses* ("ASU 2018-19"), which clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. Further, in May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326), Targeted Transition Relief* ("ASU 2019-05"), which provides transition relief and allows entities to elect the fair value option on certain financial instrument. The guidance became effective for the Company beginning on January 1, 2020. The new guidance prescribes different transition methods for the various provisions. The adoption of ASU 2016-13, ASU 2018-19 or ASU 2019-05 did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The guidance is effective for the Company beginning on January 1, 2021 and prescribes different transition methods for the various provisions. The Company is currently evaluating the impact of ASU 2019-12 on its consolidated financial statements and disclosures.

Net Loss per Common Share

Basic net loss per common share ("Basic EPS") is calculated by dividing the net loss by the weighted average number of shares of common stock outstanding for the period, without consideration for potentially dilutive securities with the exception of warrants for common stock with a \$0.05 exercise price, which are exercisable for nominal consideration and are therefore included in the calculation of the weighted average number of shares of common stock as common stock equivalents. Diluted net loss per share ("Diluted EPS") gives effect to all dilutive potential shares of common stock outstanding during this period. For Diluted EPS, net loss used in calculating Basic EPS may be adjusted for certain items related to the dilutive securities.

For all periods presented, Aerie's potential common stock equivalents have been excluded from the computation of Diluted EPS as their inclusion would have had an anti-dilutive effect.

The potential common stock equivalents that have been excluded from the computation of Diluted EPS consist of the following:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2020	2019	2020	2019
Outstanding stock options	8,628,753	7,514,268	8,628,753	7,514,268
Stock purchase warrants	4,500	79,500	4,500	79,500
Non-vested restricted stock awards and performance share units	578,923	728,705	578,923	728,705
Non-vested restricted stock units	30,827	—	30,827	—
Total	9,243,003	8,322,473	9,243,003	8,322,473

3. Revenue Recognition

Net product revenues for the three and six months ended June 30, 2020 and 2019 were generated from sales of Rhopressa[®], which was commercially launched in the United States in April 2018, and Rocklatan[®], which was commercially launched in the United States in May 2019. For the six months ended June 30, 2020, three distributors accounted for 37%, 33% and 29% of total revenues, respectively. For the six months ended June 30, 2019, three distributors accounted for 36%, 33% and 28% of total revenues, respectively. Product affordability for the patient drives consumer acceptance, and this is generally managed

through coverage by third-party payers, such as government or private healthcare insurers and pharmacy benefit managers (“Third-party Payers”) and such product may be subject to rebates and discounts payable directly to those Third-party Payers.

Product revenue is recorded net of trade discounts, allowances, rebates, chargebacks, estimated returns and other incentives, discussed below. These reserves are classified as either reductions of accounts receivable or as current liabilities. Amounts billed or invoiced are included in accounts receivable, net on the condensed consolidated balance sheets. The Company did not have any contract assets (unbilled receivables) at June 30, 2020 or December 31, 2019, as customer invoicing generally occurs before or at the time of revenue recognition. The Company did not have any contract liabilities at June 30, 2020 or December 31, 2019, as the Company did not receive payments in advance of fulfilling its performance obligations to its customers. The Company calculates its net product revenue based on the wholesale acquisition cost that the Company charges its distributors for Rhopressa® and Rocklatan® less provisions for (i) trade discounts and allowances, such as discounts for prompt payment and distributor fees, (ii) estimated rebates to Third-party Payers, estimated payments for Medicare Part D prescription drug program coverage gap (commonly called the “donut hole”), patient co-pay program coupon utilization, chargebacks and other discount programs and (iii) reserves for expected product returns. Provisions for revenue reserves reduced product revenues by \$46.1 million and \$89.8 million for the three and six months ended June 30, 2020, respectively, a significant portion of which related to commercial and Medicare Part D rebates. Provisions for revenue reserves for the three and six months ended June 30, 2019 were \$26.6 million and \$42.8 million, respectively.

Trade Discounts and Allowances: The Company generally provides discounts on sales of Rhopressa® and Rocklatan® to its distributors for prompt payment and pays fees for distribution services and for certain data that distributors provide to the Company. The Company expects its distributors to earn these discounts and fees, and accordingly deducts the full amount of these discounts and fees from its gross product revenues at the time such revenues are recognized.

Rebates, Chargebacks and Other Discounts: The Company contracts with Third-party Payers for coverage and reimbursement of Rhopressa® and Rocklatan®. The Company estimates the rebates and chargebacks it expects to be obligated to provide to Third-party Payers and deducts these estimated amounts from its gross product revenue at the time the revenue is recognized. The Company estimates the rebates and chargebacks that it expects to be obligated to provide to Third-party Payers based upon (i) the Company’s contracts and negotiations with these Third-party Payers, (ii) estimates regarding the payer mix for Rhopressa® and Rocklatan® based on third-party data and utilization, (iii) inventory held by distributors and (iv) estimates of inventory held at the retail channel. Other discounts include the Company’s co-pay assistance coupon programs for commercially-insured patients meeting certain eligibility requirements. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to pay associated with product that has been recognized as revenue.

Product Returns: The Company estimates the amount of Rhopressa® and Rocklatan® that will be returned and deducts these estimated amounts from its gross revenue at the time the revenue is recognized. The Company currently estimates product returns based on historical industry information regarding rates for comparable pharmaceutical products and product portfolios, the estimated remaining shelf life of Rhopressa® and Rocklatan® shipped to distributors, and contractual agreements with the Company’s distributors intended to limit the amount of inventory they maintain. Reporting from the distributors includes distributor sales and inventory held by distributors, which provides the Company with visibility into the distribution channel to determine when product would be eligible to be returned.

4. Investments

Cash, cash equivalents and investments as of June 30, 2020 included the following:

(in thousands)	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Cash and cash equivalents:				
Cash and cash equivalents	\$ 151,297	\$ 2	\$ —	\$ 151,299
Total cash and cash equivalents	\$ 151,297	\$ 2	\$ —	\$ 151,299
Investments:				
Commercial paper (due within 1 year)	\$ 39,958	\$ 77	\$ (7)	\$ 40,028
Corporate bonds (due within 1 year)	50,546	70	(25)	50,591
Total investments	\$ 90,504	\$ 147	\$ (32)	\$ 90,619
Total cash, cash equivalents and investments	\$ 241,801	\$ 149	\$ (32)	\$ 241,918

Cash, cash equivalents and investments as of December 31, 2019 included the following:

(in thousands)	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Cash and cash equivalents:				
Cash and money market funds	\$ 143,940	\$ —	\$ —	\$ 143,940
Total cash and cash equivalents	\$ 143,940	\$ —	\$ —	\$ 143,940
Investments:				
Commercial paper (due within 1 year)	64,629	—	(7)	64,622
Corporate bonds (due within 1 year)	60,640	—	(76)	60,564
U.S. Government and government agencies (due within 1 year)	40,073	—	(9)	40,064
Total investments	\$ 165,342	\$ —	\$ (92)	\$ 165,250
Total cash, cash equivalents and investments	\$ 309,282	\$ —	\$ (92)	\$ 309,190

5. Fair Value Measurements

The following tables summarize the fair value of financial assets and liabilities that are measured at fair value and the classification by level of input within the fair value hierarchy:

(in thousands)	FAIR VALUE MEASUREMENTS AS OF			
	June 30, 2020			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents:				
Cash and cash equivalents	\$ 143,002	\$ 8,297	\$ —	\$ 151,299
Total cash and cash equivalents:	\$ 143,002	\$ 8,297	\$ —	\$ 151,299
Investments:				
Commercial paper	\$ —	\$ 40,028	\$ —	40,028
Corporate bonds	—	50,591	—	50,591
Total investments	\$ —	\$ 90,619	\$ —	\$ 90,619
Total cash, cash equivalents and investments:	\$ 143,002	\$ 98,916	\$ —	\$ 241,918

(in thousands)	FAIR VALUE MEASUREMENTS AS OF			
	December 31, 2019			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents:				
Cash and money market funds	\$ 133,931	\$ 10,009	\$ —	\$ 143,940
Total cash and cash equivalents:	\$ 133,931	\$ 10,009	\$ —	\$ 143,940
Investments:				
Commercial paper	\$ —	\$ 64,622	\$ —	\$ 64,622
Corporate bonds	—	60,564	—	60,564
U.S. Government and government agencies	—	40,064	—	40,064
Total investments	\$ —	\$ 165,250	\$ —	\$ 165,250
Total cash, cash equivalents and investments:	\$ 133,931	\$ 175,259	\$ —	\$ 309,190

The fair value of the Convertible Notes, which differs from their carrying value, is influenced by interest rates, stock price and stock price volatility and is determined by prices observed in market trading. The market for trading of the Convertible Notes is not considered to be an active market and therefore the estimate of fair value is based on Level 2 inputs. The estimated fair value of the Convertible Notes was \$283.6 million at June 30, 2020.

6. Inventory

Inventory consists of the following:

(in thousands)	JUNE 30, 2020	DECEMBER 31, 2019
Raw materials	\$ 2,033	\$ 1,400
Work-in-process	14,037	13,414
Finished goods	3,022	6,240
Total inventory	<u>\$ 19,092</u>	<u>\$ 21,054</u>

For the three and six months ended June 30, 2020, \$5.0 million and \$8.5 million, respectively, of idle capacity cost associated with our Athlone manufacturing plant was recorded to costs of goods sold. The idle capacity results from the manufacturing plant having commenced operations earlier in 2020 and not reaching full capacity.

7. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following:

(in thousands)	JUNE 30, 2020	DECEMBER 31, 2019
Manufacturing equipment	\$ 21,527	\$ 18,073
Laboratory equipment	7,811	7,525
Furniture and fixtures	1,664	1,648
Software, computer and other equipment	7,994	7,772
Leasehold improvements	30,026	29,720
Construction-in-progress	936	3,892
Property, plant and equipment	<u>69,958</u>	<u>68,630</u>
Less: Accumulated depreciation	(13,781)	(10,483)
Property, plant and equipment, net	<u>\$ 56,177</u>	<u>\$ 58,147</u>

Manufacturing Plant Build-Out

In the second quarter of 2019, the Company completed the build-out on its own manufacturing plant in Athlone, Ireland, for which it leases approximately 30,000 square feet of interior floor space and as such is not the legal owner of the space. However, in accordance with ASU 2016-02, *Leases*, the Company was deemed to be the owner of the leased space prior to completion of construction. Upon completion, the Company performed a sale-leaseback analysis and accounted for the transaction as a sale. The Company therefore derecognized the build-to-suit asset and the corresponding build-to-suit facility lease obligation of approximately \$4.4 million as of the completion date. No gain or loss arose from the derecognition. The Company concurrently recognized an operating lease ROU asset and a corresponding operating lease liability related to the leaseback of the facility. See Note 8 for additional information.

Also, upon completion of the build-out in the second quarter of 2019, amounts previously classified as construction-in-progress related to the manufacturing plant placed into service have been transferred to leasehold improvements and manufacturing equipment and are being amortized in accordance with the Company's policy. See Note 2 for additional information.

8. Leases

The Company has operating leases for corporate offices, research and development facilities, and a fleet of vehicles. The properties primarily relate to the Company's principal executive office and research facility located in Durham, North Carolina, regulatory, commercial support and other administrative activities located in Irvine, California, and clinical, finance and legal

operations located in Bedminster, New Jersey. The Durham, North Carolina, facility consists of approximately 61,000 square feet of laboratory and office space under leases that expire between June 2020 and June 2024 and the Irvine, California, location consists of approximately 37,300 square feet of office space under a lease that expires in January 2022. The Bedminster, New Jersey, location consists of approximately 34,000 square feet of office space under a lease that expires in October 2029. There are also small offices in Malta, Ireland, the United Kingdom and Japan.

The Company is leasing approximately 30,000 square feet of interior floor space for its manufacturing plant in Athlone, Ireland, which the Company has concluded is an operating lease upon completion of the build-out in the second quarter of 2019. As a result, the Company concurrently recognized an operating lease ROU asset and a corresponding operating lease liability related to the leaseback of the facility of approximately \$2.4 million upon completion of the build-out. The Company is reasonably certain it will remain in the lease through the end of its lease term in 2037, however, the Company is permitted to terminate the lease as early as September 2027.

The Company's operating leases have remaining lease terms of approximately 1 year to 17 years, some of which include options to extend the leases.

Balance sheet information related to leases was as follows:

(in thousands)	JUNE 30, 2020	DECEMBER 31, 2019
Operating Leases		
Operating lease right-of-use assets	\$ 14,906	\$ 16,523
Operating lease liabilities	\$ 5,314	\$ 5,502
Long-term operating lease liabilities	10,501	12,102
Total operating lease liabilities	\$ 15,815	\$ 17,604

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

(in thousands)	JUNE 30, 2020	DECEMBER 31, 2019
Accrued expenses and other current liabilities:		
Accrued compensation and benefits	\$ 9,750	\$ 11,169
Accrued consulting and professional fees	3,002	3,810
Accrued research and development expenses ⁽¹⁾	8,479	8,734
Accrued revenue reserves ⁽²⁾	47,149	38,450
Accrued other ⁽³⁾	3,506	3,213
Total accrued expenses and other current liabilities	\$ 71,886	\$ 65,376

⁽¹⁾ Comprised primarily of accruals related to fees for investigative sites, contract research organizations, contract manufacturing organizations and other service providers that assist in conducting preclinical research studies and clinical trials. Also included are liabilities incurred related to the Avizorex acquisition.

⁽²⁾ Comprised primarily of accruals related to commercial and government rebates as well as returns.

⁽³⁾ Comprised primarily of accruals related to interest payable as well as other business-related expenses.

10. Debt

Convertible Notes

In September 2019, the Company issued an aggregate principal amount of \$316.25 million of Convertible Notes to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The Convertible Notes, governed by an indenture between the Company and a trustee, are senior, unsecured obligations and do not include financial and operating

covenants nor any restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by Aerie or any of its subsidiaries. Interest on the Convertible Notes is payable semi-annually in cash in arrears at a rate of 1.50% per annum on April 1 and October 1 of each year, which began on April 1, 2020. The Convertible Notes will mature on October 1, 2024 unless they are redeemed, repurchased or converted prior to such date. Prior to April 1, 2024, the Convertible Notes will be convertible at the option of holders only during certain periods and upon satisfaction of certain conditions. On and after April 1, 2024, the Convertible Notes will be convertible at the option of the holders any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, the Convertible Notes may be settled in shares of Aerie common stock, cash or a combination, thereof, at the Company's election. The Company intends to settle the principal and interest amounts of the Convertible Notes in cash, and therefore, the Company currently does not expect the conversion to have a dilutive effect on the Company's earnings per share, as applicable.

The Convertible Notes have an initial conversion rate of 40.04 shares of Aerie common stock per \$1,000 principal amount of the Convertible Notes, which will be subject to customary anti-dilution adjustments in certain circumstances. This represents an initial effective conversion price of approximately \$24.98 per share, which represents a premium of approximately 35% to the \$18.50 per share closing price of Aerie common stock on September 4, 2019, the date the Company priced the offering.

The Company may redeem all or any portion of the Convertible Notes, at its option, on or after October 3, 2022, at a cash redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price of Aerie common stock exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately before the date the Company provides written notice of redemption; and the trading day immediately before the notice is sent.

Holders of Convertible Notes may require the Company to repurchase their Convertible Notes upon the occurrence of certain events that constitute a fundamental change under the indenture governing the Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

During the three months ended June 30, 2020, the conditions allowing holders of the Convertible Notes to elect to convert had not been met. As of June 30, 2020, the if-converted value of the Convertible Notes did not exceed the principal amount of the Convertible Notes.

In connection with the issuance of the Convertible Notes, the Company incurred debt issuance costs of \$9.2 million for the three months ended December 31, 2019. In accordance with ASC Topic 470, *Debt*, these costs were allocated to debt and equity components in proportion to the allocation of proceeds. Issuance costs of \$5.5 million were recorded as debt issuance costs in the net carrying value of Convertible Notes. The debt issuance costs are amortized on an effective interest basis over the term of the Convertible Notes. The remaining issuance costs of \$3.7 million were recorded as additional paid-in capital, net with the equity component and such amounts are not subject to amortization.

The following table summarizes the carrying value of the Convertible Notes as of June 30, 2020:

(in thousands)	JUNE 30, 2020	DECEMBER 31, 2019
Gross proceeds	\$ 316,250	\$ 316,250
Unamortized debt discount and issuance costs	(117,093)	(127,599)
Carrying value	<u>\$ 199,157</u>	<u>\$ 188,651</u>

The estimated fair value of the liability component of the Convertible Notes at the time of issuance was \$187.9 million, and was determined based on a discounted cash flow analysis and a binomial lattice model. The valuation required the use of Level 3 unobservable inputs and subjective assumptions, including but not limited to the stock price volatility and bond yield. The equity component of the Convertible Notes was recognized at issuance and represents the difference between the principal amount of the Convertible Notes and the fair value of the liability component of the Convertible Notes at issuance. The equity component was approximately \$128.4 million at the time of issuance and its fair value is not remeasured as long as it continues to meet the conditions for equity classification.

Separately, the Company entered into privately negotiated capped call options with financial institutions. The capped call options cover, subject to customary anti-dilution adjustments, the number of shares of Aerie common stock that initially underlie the Convertible Notes. The cap price of the capped call options is \$37.00 per share of Aerie common stock, representing a premium of 100% above the closing price of \$18.50 per share of Aerie common stock on September 4, 2019, and is subject to certain adjustments under the terms of the capped call options. The capped call options are generally intended to

reduce or offset potential dilution to Aerie common stock upon conversion of the Convertible Notes with such reduction and/ or offset, as the case may be, subject to a cap based on the cap price. The Company paid a total of \$32.9 million in premiums for the capped call options, which was recorded as additional paid-in capital, using a portion of the gross proceeds from the issuance and sale of the Convertible Notes. The capped call options are excluded from diluted earnings per share because the impact would be anti-dilutive.

Interest expense related to the Convertible Notes, including stated interest and amortization of debt discount and issuance costs, was \$6.5 million and \$12.9 million for the three and six months ended June 30, 2020.

Credit facility

In September 2019, the Company terminated its \$200 million senior secured delayed draw term loan facility (the “credit facility”) with certain entities affiliated with Deerfield Management Company L.P. (“Deerfield”) pursuant to which \$100 million of delayed draw term loan commitments were provided by Deerfield in July 2018 (the “July 2018 tranche”) and \$100 million of delayed draw term loan commitments were provided by Deerfield in May 2019 (the “May 2019 tranche”). Upon termination, the Company paid aggregate fees of \$6.5 million to Deerfield in respect of the fee on undrawn amounts and the exit fee for each of the July 2018 tranche and May 2019 tranche. No funds were drawn under either tranche at the time of termination.

Interest expense was \$6.5 million and \$12.9 million for the three and six months ended June 30, 2020, and included amortization of debt discount and issuance costs related to the Convertible Notes. Interest expense was \$1.6 million and \$2.4 million for the three and six months ended June 30, 2019, and included issuance costs and fees related to the credit facility.

11. Stock-Based Compensation

Stock-based compensation expense for options granted, RSAs, PSAs, RSUs and SARs is reflected in the condensed consolidated statements of operations and comprehensive loss as follows:

(in thousands)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2020	2019	2020	2019
Cost of goods sold	\$ 670	\$ —	\$ 1,167	\$ —
Selling, general and administrative	6,900	7,091	13,808	16,212
Pre-approval commercial manufacturing	22	834	316	1,683
Research and development	2,584	2,770	5,414	5,420
Total	\$ 10,176	\$ 10,695	\$ 20,705	\$ 23,315

Equity Plans

The Company maintains three equity compensation plans, the 2005 Aerie Pharmaceutical Stock Plan (the “2005 Plan”), the 2013 Omnibus Incentive Plan (the “2013 Equity Plan”), which was amended and restated as the Aerie Pharmaceuticals, Inc. Second Amended and Restated Omnibus Incentive Plan (the “Second Amended and Restated Equity Plan”), as described below, and the Aerie Pharmaceuticals, Inc. Inducement Award Plan (the “Inducement Award Plan”), as described below. The 2005 Plan, the Second Amended and Restated Equity Plan and the Inducement Award Plan are referred to collectively as the “Plans.” The 2005 Plan was frozen in 2013 and no additional awards have been or will be made under the 2005 Plan.

On June 7, 2018, Aerie’s stockholders approved the adoption of the Second Amended and Restated Equity Plan to increase the number of shares issuable under the plan by 4,500,000. The Second Amended and Restated Equity Plan provides for the granting of up to 10,229,068 equity awards in respect of Aerie common stock.

On December 7, 2016, Aerie’s Board of Directors approved the Inducement Award Plan which provides for the granting of up to 418,000 equity awards in respect of common stock of Aerie and was subsequently amended during 2017 to increase the equity awards that may be issued by an additional 874,500 shares. On December 5, 2019, the Inducement Award Plan was further amended by the Company’s Board of Directors to increase the number of shares issuable under the plan by 100,000 shares. Awards granted under the Inducement Award Plan are intended to qualify as employment inducement awards under NASDAQ Listing Rule 5635(c)(4).

Options to Purchase Common Stock

The following table summarizes the stock option activity under the Plans:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE (000's)
Options outstanding at December 31, 2019	8,425,551	\$ 29.06		
Granted	556,133	19.20		
Exercised	(43,676)	6.59		
Canceled	(309,255)	41.62		
Options outstanding at June 30, 2020	8,628,753	\$ 28.09	6.4	\$ 17,178
Options exercisable at June 30, 2020	5,945,696	\$ 25.69	5.3	\$ 17,066

As of June 30, 2020, the Company had \$57.8 million of unrecognized compensation expense related to options granted under its equity plans. This expense is expected to be recognized over a weighted average period of 2.3 years as of June 30, 2020.

Restricted Stock Awards

The following table summarizes the RSAs, including PSAs, activity under the Plans:

	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE PER SHARE
Non-vested RSAs at December 31, 2019	754,415	\$ 43.07
Granted	100,852	19.72
Vested	(231,443)	44.84
Canceled	(44,901)	41.71
Non-vested RSAs at June 30, 2020	578,923	\$ 38.41

As of June 30, 2020, the Company had \$18.1 million of unrecognized compensation expense related to unvested RSAs. This expense is expected to be recognized over the weighted average period of 2.4 years as of June 30, 2020.

The vesting of the RSAs is time and service based with terms of one to four years. During the year ended December 31, 2017, the Company granted 98,817 PSAs with non-market performance conditions that vest upon the satisfaction of certain performance conditions and service conditions. As of June 30, 2020, all PSAs were vested.

In 2019, 43,071 non-vested RSAs were cancelled and replaced with a corresponding number of RSUs. The RSUs were issued with the same vesting provisions as the cancelled RSAs. The total number of RSUs outstanding at June 30, 2020 was 30,827. As of June 30, 2020, the weighted average fair value per RSU was \$19.26, and the associated unrecognized compensation expense totaled \$1.6 million. This expense is expected to be recognized over the weighted average period of 2.2 years as of June 30, 2020.

Stock Appreciation Rights

The following table summarizes the SARs activity under the Plans:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE (000's)
SARs outstanding at December 31, 2019	163,016	\$ 41.70		
Granted	23,000	16.89		
Canceled	(18,122)	42.87		
SARs outstanding at June 30, 2020	167,894	\$ 38.17	3.6	\$ 4
SARs exercisable at June 30, 2020	38,107	\$ 51.32	3.0	\$ —

Holders of the SARs are entitled under the terms of the Plans to receive cash payments calculated based on the excess of the Company's common stock price over the exercise price in their award; consequently, these awards are accounted for as liability-classified awards and the Company measures compensation cost based on their estimated fair value at each reporting date, net of actual forfeitures, if any.

12. Commitments and Contingencies

The Company may periodically become subject to legal proceedings and claims arising in connection with its business. The Company is not a party to any known litigation, is not aware of any material unasserted claims and does not have contingency reserves established for any litigation liabilities.

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

The following management’s discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this report and with our audited financial statements and related notes and management’s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the SEC on February 24, 2020 (“2019 Form 10-K”). This management’s discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see “Special Note Regarding Forward-Looking Statements” for additional factors relating to such statements and see “Risk Factors” in our 2019 Form 10-K and other documents we have filed or furnished with the SEC for a discussion of certain risk factors applicable to our business, financial condition and results of operations. Past operating results are not necessarily indicative of operating results in any future periods.

Overview

We are an ophthalmic pharmaceutical company focused on the discovery, development and commercialization of first-in-class therapies for the treatment of patients with open-angle glaucoma, ocular surface diseases and retinal diseases. Our strategy is to successfully commercialize our U.S. Food and Drug Administration (“FDA”) approved products, Rhopressa[®] (netarsudil ophthalmic solution) 0.02% (“Rhopressa[®]”) and Rocklatan[®] (netarsudil and latanoprost ophthalmic solution) 0.02%/0.005% (“Rocklatan[®]”) in the United States. We have a commercial team responsible for sales of Rhopressa[®] and Rocklatan[®] that includes approximately 100 sales representatives targeting high prescribing eye care professionals throughout the United States.

Outside the United States

Our strategy also includes developing our business opportunities outside of the United States, including obtaining regulatory approval in Europe and Japan for Rhopressa[®] and Rocklatan[®]. In Europe, Rhokiinsa[®] (marketed as Rhopressa[®] in the United States) was granted a centralised marketing authorisation by the European Commission (“EC”) in November 2019 and the Marketing Authorisation Application (“MAA”) for Roclanda[®] (marketed as Rocklatan[®] in the United States) was accepted by the European Medicines Agency (“EMA”) in December 2019. To optimize the commercial opportunity, we may launch Roclanda[®], if approved, before Rhokiinsa[®] in Europe as the European market is oriented more toward fixed-dose combination products. The Mercury 3 trial comparing Roclanda[®] to Ganfort[®], commenced in Europe during the third quarter of 2017. We currently expect to read out topline 90-day efficacy data for Mercury 3 later in the third quarter of 2020, as discussed in “—Products” below. The Mercury 3 results are expected to be an important determinant as we evaluate the commercialization and profitability potential of Rhokiinsa[®], and particularly Roclanda[®], in Europe.

In Japan, we plan to pursue regulatory approval for Rhopressa[®] and Rocklatan[®]. With respect to the clinical progress of Rhopressa[®] in Japan, we completed a Phase 1 clinical trial, a successful pilot Phase 2 clinical study in the United States on Japanese and Japanese-American subjects, as well as a successful Phase 2 clinical trial conducted in Japan. Topline results of the Phase 2 trial indicated positive efficacy and tolerability in the patient population. Clinical trials for Rocklatan[®] have not yet begun. We held a meeting with the Japanese Pharmaceuticals and Medical Devices Agency (“PMDA”) in April 2020 to discuss Phase 3 trial designs for Rhopressa[®], while continuing to prepare for the trials. We expect to initiate a Rhopressa[®] Phase 3 clinical trial in Japan in the fourth quarter of 2020. We continue to explore collaboration with a potential partner in Japan for Rhopressa[®] to advance our clinical development and ultimately commercialize Rhopressa[®] and Rocklatan[®] in Japan, as discussed in “—Products” below.

Glaucoma Product Manufacturing

We currently use contract manufacturers to produce commercial supplies of Rhopressa[®] and Rocklatan[®] for distribution in the United States. In the second quarter of 2019, we completed the build-out of our own manufacturing plant in Athlone, Ireland, for further commercial production of Rhopressa[®] and Rocklatan[®]. In January 2020, we received FDA approval to produce Rocklatan[®] at the Athlone plant for commercial distribution in the United States. This approval follows a successful pre-approval inspection of the manufacturing plant and FDA review of the New Drug Application (“NDA”) Prior Approval Supplement (“PAS”), which added the Athlone manufacturing plant as a drug product manufacturer for Rocklatan[®]. As the Athlone plant commenced operations earlier in 2020, it has not yet reached full capacity. The manufacturing plant began production of commercial supplies of Rocklatan[®] during the first quarter of 2020. We have filed a PAS with the FDA in the second quarter of 2020 and expect FDA approval to produce Rhopressa[®] at our Athlone plant by the end of 2020. We also expect that the Athlone manufacturing plant will have adequate capacity to produce Rhokiinsa[®] and, if approved, Roclanda[®], as well as clinical supplies needed for Phase 3 clinical trials in Japan and ultimately commercial product, if approved for commercial distribution in the Japanese market.

Pipeline Opportunities

We also seek to enhance our longer-term commercial potential by identifying and advancing additional product candidates through our internal discovery efforts, our entry into potential research collaborations or in-licensing arrangements or our acquisition of additional ophthalmic products or technologies or product candidates that complement our current product portfolio. As discussed in “—*Product Candidates*” below, some examples include our collaboration with DSM, a global science-based company headquartered in the Netherlands, whereby we have access to their bio-erodible polymer technology, and our acquisition of assets from Envisia, designed to advance our progress in developing potential future sustained-release product candidates to treat retinal diseases and our acquisition of Avizorex, which expands our footprint in ophthalmology by developing a therapeutic for the treatment of dry eye disease.

Intellectual Property Portfolio

We own the worldwide rights to all indications for Rhopressa® and Rocklatan®. We have patent protection for Rhopressa® and Rocklatan® in the United States through early 2034 and internationally through 2030, and have filed for patent protection in the United States and internationally through 2037. In addition, through the acquisition of Avizorex, we are the exclusive licensee through 2031 of issued U.S. patents providing patent protection for pharmaceutical compositions comprising AR-15512 (previously named AVX-012) and methods of its use, including ophthalmic uses. The Avizorex acquisition also enabled Aerie to be the exclusive licensee of pending foreign counterparts to the issued U.S. patents regarding AR-15512. Should these foreign counterparts approve such patents, they will provide patent protection for pharmaceutical compositions in such jurisdictions comprising AR-15512 and methods of its use, including ophthalmic uses, through 2031. Furthermore, we have an issued U.S. patent for AR-1105, which provides patent protection for AR-1105 in the United States through 2036, as well as pending foreign counterparts that upon issuance will provide patent protection internationally through 2036. We also have patent protection for AR-13503 in the United States and internationally, which extends to 2030, and have filed for patent protection in the United States and internationally through dates ranging from 2030 to 2037. Our intellectual property portfolio contains patents and pending patent applications related to composition of matter, pharmaceutical compositions, methods of use, and synthetic methods.

Impact of the COVID-19 Pandemic

In December 2019, there was an outbreak of a new strain of coronavirus (“COVID-19”) and on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation due to “shelter-in-place” restrictions by various governments worldwide and created significant volatility and disruption of financial markets.

The health and safety of our employees, patients, prescribers and community are of utmost importance during this time and we are complying with all requirements and mandates from various agencies and governments. We are taking precautionary measures to protect our employees and our stakeholders and adapting company policy to maintain the continuity of our business. We continue to operate effectively as most of our manufacturing plant personnel are working at the manufacturing plant with precautionary measures in place, while the balance of our workforce is primarily working from home.

While many eye care professionals’ offices are operating at reduced capacity, we are using a combination of in-person and virtual tools and resources to remain in contact with eye care professionals. Aerie territory managers are experiencing successful engagement with eye care professionals through either traditional face-to-face office meetings or virtual resources. Our sales force is interactively communicating with physicians via different technological platforms and local speaker meetings outside the office are being replaced with webinars. As part of the support of the eye care community, our territory managers are either delivering or arranging for delivery of product samples to the eye care professionals’ offices when needed. Further, with the recent addition of a contract sales organization and a separate telesales team we are able to reach over 14,000 eye care professionals.

We have observed no disruptions to date in the supply chain for the production of Rhopressa® and Rocklatan®. We believe we have approximately three years of starting materials and active pharmaceutical ingredient (“API”) in inventory, and adequate supply of finished product on hand to support our commercial efforts for at least the next six months. Production of Rhopressa® and Rocklatan® is continuing.

Although there was a decline in total prescription volumes in April 2020, as seen within the entire pharmaceutical market according to IQVIA data primarily due to the impact of the COVID-19 pandemic, our sales volumes in the second quarter of 2020 were consistent with the volumes during the first quarter of 2020 for both Rhopressa® and Rocklatan®. We are diligently managing our expenses, including reducing travel and meeting expenses.

Regarding our globalization strategy, as discussed in “—Products” below, the regulatory review in Europe of Roclanda® remains on track, while the 90-day efficacy data for the Mercury 3 trial for Roclanda®, which is designed to gauge commercialization prospects in Europe, is expected later in the third quarter of 2020. We held a meeting with the Japanese PMDA in April 2020 to discuss Phase 3 trial designs for Rhopressa®, while continuing to prepare for the trials and exploring partnership opportunities. From a pipeline perspective, the early stage retina implant trials remain on track, and we are planning to initiate our Phase 2b clinical trial for dry eye product candidate AR-15512, named COMET-1, in the fourth quarter of 2020, as discussed in “—Product Candidates” below.

Our cash and cash equivalents and investments totaled \$241.9 million as of June 30, 2020. We believe that our cash and cash equivalents and investments and projected cash flows from revenues will continue to provide sufficient resources for our current ongoing needs through at least the next twelve months, as discussed in “—Liquidity and Capital Resources” below.

Products, Product Candidates and Pipeline Opportunities

Products

Rhopressa®, our first FDA-approved product, has demonstrated that it reduces intraocular pressure (“IOP”) through Rho kinase (“ROCK”) inhibition. Using this mechanism of action (“MOA”), Rhopressa® increases the outflow of aqueous humor through the trabecular meshwork (“TM”), which accounts for approximately 80% of fluid drainage from the healthy eye and is the diseased tissue responsible for elevated IOP in glaucoma. Our second FDA-approved product, once-daily Rocklatan®, is a fixed-dose combination of Rhopressa® and latanoprost, reduces IOP through the same MOA as Rhopressa® and through a second MOA, utilizing the ability of latanoprost to increase the outflow of aqueous humor through the uveoscleral pathway, the eye’s secondary drain. Both Rhopressa® and Rocklatan® are taken once-daily in the evening and have shown in preclinical and clinical trials to be effective in reducing IOP, with a favorable safety profile.

Rhopressa®

Rhopressa® is a once-daily eye drop designed to reduce elevated IOP in patients with open-angle glaucoma or ocular hypertension. The active ingredient in Rhopressa®, netarsudil, is an Aerie-owned ROCK inhibitor. We believe that Rhopressa® represents the first of a new drug class for reducing IOP in patients with glaucoma in over 20 years. Rhopressa® is competing primarily in the adjunctive therapy market, which represents approximately one-half of the U.S. glaucoma prescription market, according to IQVIA. Initial indications point to healthcare professionals prescribing Rhopressa® as a concomitant therapy to prostaglandins or non-PGA (prostaglandin analog) medications when additional IOP reduction is desired. Currently marketed therapies that are used adjunctively to PGAs are older generation products that are generally dosed between two and three times a day, have MOA(s) focused on reducing fluid production, often have lower efficacy levels and have systemic side effects. We believe that Rhopressa® may also become a preferred therapy where PGAs are contraindicated, for patients who do not respond to PGAs and for patients who choose to avoid the cosmetic issues associated with PGA products. In November 2019, we released topline data from our Phase 4 Multi-center Open-label study (“MOST”) trial, which observed Rhopressa® efficacy in various real-world clinical settings, including as an adjunctive product or monotherapy. The results indicated positive IOP reduction in all settings along with a favorable tolerability profile.

Rhopressa® in the United States

We launched Rhopressa® in the United States in April 2018. Rhopressa® is being sold to national and regional U.S. pharmaceutical distributors, and patients have access to Rhopressa® through pharmacies across the United States. We have obtained formulary coverage for Rhopressa® for the majority of lives covered under commercial and Medicare Part D plans.

Rhopressa® Outside of the United States

In Europe, in November 2019, the EC granted a centralised marketing authorisation for Rhokiinsa®. This follows the EMA Committee for Medicinal Products in Human Use (“CHMP”) adopting a positive opinion recommending approval of the MAA for Rhokiinsa® in September 2019.

In support of a potential regulatory submission for Rhopressa® in Japan, we conducted a Phase 1 clinical trial, a successful pilot Phase 2 clinical study in the United States on Japanese and Japanese-American subjects, as well as a successful Phase 2 clinical trial conducted in Japan. In July 2019, we completed enrollment of a Phase 2 clinical trial in Japan and topline results were released in November 2019. These studies were designed in accordance with the requirements of the PMDA on Japanese patients in Japan to support subsequent Phase 3 registration trials that are also expected to be conducted in Japan. Topline results of the Phase 2 clinical trial indicated positive efficacy and tolerability results for the patient population. We held a meeting with the Japanese PMDA in April 2020 to discuss Phase 3 trial designs for Rhopressa®, while continuing to prepare for

the trials. We expect to initiate a Rhopressa® Phase 3 clinical trial in Japan in the fourth quarter of 2020. We expect to have three Phase 3 trials, two of which will be 28-day trials and one of which will be a 12-month safety trial. We continue to explore collaboration with a potential partner in Japan to advance our clinical development and ultimately commercialize Rhopressa® and Rocklatan® in Japan, and will continue to explore other potential opportunities elsewhere in Eastern Asia.

Rocklatan®

Rocklatan® is a once-daily fixed-dose combination of Rhopressa® and latanoprost, the most widely-prescribed drug for the treatment of patients with open-angle glaucoma or ocular hypertension, and was approved by the FDA in March 2019. We believe that Rocklatan® has the potential to provide a greater IOP-reducing effect than any currently marketed glaucoma medication. Therefore, we believe that Rocklatan® competes with both PGA and non-PGA therapies for patients requiring maximal IOP reduction, including those with higher IOPs and those who present with significant disease progression despite using currently available therapies.

Rocklatan® in the United States

We launched Rocklatan® in the United States in May 2019. Rocklatan® is now being sold to national and regional U.S. pharmaceutical distributors, and patients have access to Rocklatan® through pharmacies across the United States. We have obtained formulary coverage for Rocklatan® for the majority of lives covered under commercial and Medicare Part D plans.

Rocklatan® Outside of the United States

In Europe, the clinical trials Mercury 1 and Mercury 2 represent the basis for potential European approval of Roclanda®. We also initiated a Phase 3 registration trial for Roclanda®, named Mercury 3, in Europe during the third quarter of 2017. Mercury 3, a six-month efficacy and safety trial, is designed to compare Roclanda® to Ganfort®, a fixed-dose combination product marketed in Europe consisting of bimatoprost (a PGA) and timolol (a beta blocker). If successful, Mercury 3 is expected to improve our commercialization prospects in Europe; it is not required for regulatory approval. The Mercury 3 results are expected to be an important determinant as we evaluate the commercialization and profitability potential of Rhokiinsa®, and particularly Roclanda®, in Europe. We currently expect to read out topline 90-day efficacy data for Mercury 3 later in the third quarter of 2020. In December 2019, the MAA for Roclanda® was accepted by the EMA. An opinion from the CHMP is expected in the fourth quarter of 2020 and the final decision by the EC to grant a centralised marketing authorisation is expected in late 2020 or early 2021. Since Roclanda® is a fixed-dose combination product that includes Rhokiinsa®, the MAA submission for Roclanda® was predicated on the receipt of a centralised marketing authorisation for Rhokiinsa®, which the EC granted in November 2019. In Japan, clinical trials for Rocklatan® have not yet begun.

Product Candidates

To complement our internal research through business development opportunities, we acquired from Avizorex the clinical-stage dry eye product candidate AR-15512. Furthermore, we have also acquired worldwide ophthalmic rights to a bio-erodible polymer technology from DSM and PRINT® (Particle Replication in Non-wetting Templates) implant manufacturing technology, which is a proprietary technology capable of creating precisely-engineered sustained-release products utilizing fully-scalable manufacturing processes, from Envisia. Using these technologies, we have created a sustained-release ophthalmology platform and are currently developing two sustained-release implants focused on retinal diseases, AR-1105 and AR-13503 SR, and in the future we believe this technology may be useful as we explore additional sustained-release applications.

AR-15512 (TRPM8 receptor)

In December 2019, we acquired Avizorex, a Spanish ophthalmic pharmaceutical company, developing therapeutics for the treatment of dry eye disease. Avizorex completed a Phase 2a study in dry eye subjects in 2019 for its lead product candidate AVX-012 (now named AR-15512). The active ingredient in AR-15512 is a potent and selective agonist of the TRPM8 ion channel, a cold sensor and osmolarity sensor that regulates ocular surface wetness and blink rate. By stimulating these processes in a physiological manner, TRPM8 agonists have the potential to restore tear film stability and reduce discomfort in patients with dry eye. Positive results from the Phase 2a study support the therapeutic potential of AR-15512 to treat signs and symptoms of dry eye. We met with the FDA in June 2020 and are planning to test two concentrations of AR-15512 in a 90-day Phase 2b clinical trial with 360 subjects, which could potentially be considered pivotal. For this upcoming trial, known as COMET-1, we expect the primary endpoints to be ocular discomfort and tear production. We are planning to initiate COMET-1 in the fourth quarter of 2020 after completion of remaining preclinical activities and are targeting a topline readout in the third quarter of 2021.

AR-1105 Implant (dexamethasone steroid)

In October 2017, we acquired the rights to use PRINT® technology in ophthalmology and certain other assets from Envisia. In addition, we acquired Envisia's intellectual property rights relating to a preclinical dexamethasone steroid implant using a biodegradable polymer-based drug delivery system that comprised of a blend of different poly D, L-lactic-co-glycolic acid ("PLGA") polymers and PRINT® technology for the potential treatment of macular edema due to retinal vein occlusion ("RVO") and diabetic retinopathy, which we refer to as AR-1105. We submitted the Investigational New Drug application ("IND") for AR-1105 in December 2018. In January 2019, we announced that the FDA reviewed the IND for AR-1105 and it is now in effect. We initiated a Phase 2 clinical trial of AR-1105 in patients with macular edema due to RVO during March 2019 and completed enrollment in October 2019. The initial readout indicates sustained efficacy of up to six months, an important achievement in validating the potential capabilities of Aerie's sustained release platform. Detailed data will be presented at an upcoming ophthalmology conference.

AR-13503 SR Implant (ROCK and Protein kinase inhibitor)

Our owned small molecule, AR-13503, is a ROCK and Protein kinase C inhibitor and is the active ingredient in our AR-13503 sustained-release implant. AR-13503 SR has potential for the treatment of diabetic macular edema ("DME"), wet age-related macular degeneration ("AMD") and other diseases of the retina. AR-13503, which has the same active metabolite as Rhopressa®, has been shown to reduce lesion size in an in vivo preclinical model of wet AMD at levels similar to the current market-leading wet AMD anti-vascular endothelial growth factor (vascular endothelial growth factor, "VEGF") product. When used in combination preclinically with the market-leading anti-VEGF product, AR-13503 produced greater lesion size reduction than the anti-VEGF product alone in a model of proliferative diabetic retinopathy. Pending additional studies, AR-13503 may have the potential to provide an entirely new mechanism and pathway to treat DME, wet AMD and related diseases of the retina, potentially as an adjunctive therapy to current anti-VEGF therapies.

Since AR-13503 is a small molecule with a short half-life when injected into the back of the eye, and the aforementioned diseases are located in the back of the eye, a delivery mechanism was needed to deliver the molecule to the back of the eye for a sustained delivery period.

Using our licensed technology from DSM, AR-13503 has been combined with a polyesteramide polymer to produce an injectable, thin fiber implant that is minute in size. Preclinical experiments with the AR-13503 SR implant have demonstrated linear, sustained elution rates over several months and achievement of target retinal drug concentrations. The IND for AR-13503 SR became effective in April 2019, allowing us to initiate human studies in the treatment of neovascular age-related macular degeneration ("nAMD") and DME. We initiated a first-in-human clinical study for AR-13503 SR in the third quarter of 2019 and currently expect to read out topline data in the second half of 2021.

Pipeline Opportunities

We are also preliminarily evaluating the use of PRINT® technology platform for sustained-release of therapies for other ophthalmic indications. We commenced operation of our current good manufacturing practices-validated manufacturing facility for production of ophthalmic implants using PRINT® technology in our Durham, North Carolina, facility in October 2018.

We may continue to enter into research collaboration arrangements, license, acquire or develop additional product candidates and technologies to broaden our presence in ophthalmology, and we continually explore and discuss potential additional opportunities for new ophthalmic products, delivery alternatives and new therapeutic areas with potential partners and on our own.

We own over 4,000 ROCK inhibitor molecules, some of which have additional features including the inhibition of other kinases such as Janus kinase and those in the IκB family and we evaluate this library on an ongoing basis for additional development opportunities. Early stage evaluations of these molecules are underway for other ophthalmic indications. We continue to evaluate outside business development opportunities to provide access to technologies developed outside of Aerie to complement our internal research.

Corporate Citizenship

We are dedicated to the principles of environmental stewardship, social responsibility and good corporate governance. We consider these to be among our most important values and we seek to integrate these values into our ongoing and strategic activities.

As it relates to the environment and sustainability, we seek to employ green processes, materials, practices, equipment and technologies where possible throughout our operations to foster conservation and reduce waste. We also seek to minimize energy consumption using various power-saving technologies designed to consume electrical power only when needed. The majority of our office space in the United States is Leadership in Energy and Environmental Design (“LEED”) certified, our new manufacturing plant in Athlone, Ireland is LEED silver certified, and both our manufacturing plant in Athlone, Ireland and our implant manufacturing facility in Durham, North Carolina, were built from end-to-end with sustainability and good manufacturing practices in mind. We have also instituted environmentally conscious programs into the work environment for our employees by implementing recycling and composting programs, offering water dispensers to reduce plastic bottle waste and providing electric automobile charging stations in our employee parking areas, as examples.

From a social responsibility perspective, even though we have not yet attained profitability as a company, we have donated tens of thousands of dollars to causes that we believe are important to society. These donations were directed to support glaucoma research, providing free eye care to low-income or indigent patients in the United States and beyond, a national educational symposium for glaucoma patients, supporting women in ophthalmology and other donations to causes of interest to areas beyond our immediate scope, such as for organizations that support needy children in Harlem, New York.

In light of the circumstances created by the COVID-19 pandemic, we took precautionary measures to protect our employees and our stakeholders and adapted company policies that maintain the continuity of our business in the best interest of our eye care professionals and patients. We implemented a work from home policy, where possible, and practiced social distancing to minimize potential transmission for employees who are performing essential laboratory, manufacturing or administrative tasks. Our sales force is interactively communicating with physicians via different technological platforms and local speaker meetings outside the office are being replaced with webinars.

We also strive to be socially conscious in our practices. We support diversity in our hiring practices and follow a management philosophy that integrates social responsibility and the highest governance standards. Our Audit Committee is comprised of independent and competent directors as applicable under the guidance, and our most recent stockholder vote on executive compensation practices received nearly 95% support. As we continue to build our company, we will continue to seek to keep the environment, our social responsibility and governance considerations at top of mind.

Financial Overview

Our cash and cash equivalents and investments totaled \$241.9 million as of June 30, 2020. We believe that our cash and cash equivalents and investments and projected cash flows from revenues will provide sufficient resources for our current ongoing needs through at least the next twelve months, though there may be need for additional financing activity as we continue to grow. See “—Liquidity and Capital Resources” below and Note 10 to our condensed consolidated financial statements included in this report for further discussion.

We have incurred net losses since our inception in June 2005. Until 2018, when we commenced commercial operations, our business activities were primarily limited to developing product candidates, raising capital and performing research and development activities. As of June 30, 2020, we had an accumulated deficit of \$993.3 million. We recorded net losses of \$48.2 million and \$97.3 million for the three and six months ended June 30, 2020. For the three and six months ended June 30, 2019 we recorded net losses of \$47.2 million and \$95.1 million. Our capital resources and business efforts are largely focused on activities relating to the commercialization of Rhopressa[®] and Rocklatan[®], advancing our product candidates and pipeline, international expansion and operating our manufacturing plant in Athlone, Ireland. We expect to continue to incur operating losses until our products generate adequate commercial revenue to render Aerie profitable. If we do not successfully commercialize Rhopressa[®], Rocklatan[®] or any product candidates or future product candidates, if approved, we may be unable to generate adequate product revenues to achieve such profitability. We may be required to obtain further funding through debt or equity offerings or other sources. Adequate additional funding may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on acceptable terms, we may be forced to delay, reduce or eliminate our research and development programs or commercialization or manufacturing efforts.

Product Revenues, Net

We launched Rhopressa[®] in the United States in April 2018 and commenced generating product revenues from sales of Rhopressa[®] during the second quarter of 2018. We launched Rocklatan[®] in the United States in May 2019 and commenced generating product revenues from sales of Rocklatan[®] in the second quarter of 2019. Product affordability for the patient drives consumer acceptance, and this is generally managed through coverage by third-party payers, such as government or private healthcare insurers and pharmacy benefit managers (“Third-party Payers”) and such product may be subject to rebates and discounts payable directly to those Third-party Payers. Our product revenues are recorded net of provisions relating to estimates

for (i) trade discounts and allowances, such as discounts for prompt payment and distributor fees, (ii) estimated rebates to Third-party Payers, estimated payments for Medicare Part D prescription drug program coverage gap (commonly called the “donut hole”), patient co-pay program coupon utilization, chargebacks and other discount programs and (iii) reserves for expected product returns. These estimates reflect current contractual and statutory requirements, known market events and trends, industry data, forecasted customer mix and lagged claims. Actual amounts may ultimately differ from these estimates. If actual results vary, estimates may be adjusted in the period such change in estimate becomes known, which may have an impact on earnings in the period of adjustment.

We will not generate any revenue from any product candidates or future product candidates unless and until we obtain regulatory approval and commercialize such products.

Cost of Goods Sold

Cost of goods sold consists of direct and indirect costs to procure and manufacture product sold, including third-party manufacturing costs. Prior to receiving FDA approval, these costs for Rhopressa® and Rocklatan® were expensed as pre-approval commercial manufacturing expenses (as defined below). We began capitalizing inventory costs for Rhopressa® and Rocklatan® after receipt of FDA approval. In January 2020, we received FDA approval to produce Rocklatan® at the Athlone plant for commercial distribution in the United States. We expect FDA approval to produce Rhopressa® at our Athlone plant by the end of 2020. The manufacturing plant began production of commercial supplies of Rocklatan® during the first quarter of 2020. Production costs related to idle or underutilized capacity at the manufacturing plant in Athlone, Ireland, are not included in the cost of inventory but are charged directly to cost of goods sold on the condensed consolidated statements of operations and comprehensive loss in the period incurred. We expect cost of goods sold in 2020 to continue to be unfavorably impacted by idle capacity costs due to the underutilization at the Athlone manufacturing plant as a result of the manufacturing plant having just recently become operational and not yet reaching full capacity, along with the potential for future inventory obsolescence write-offs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of employee-related expenses, including salaries, benefits and stock-based compensation for all officers and employees in general management, sales and marketing, finance and administration. Other significant expenses include selling and marketing expenses, facilities expenses, shipping and handling costs and professional fees for audit, tax, legal and other services.

Pre-approval Commercial Manufacturing Expenses

Pre-approval commercial manufacturing expenses consist of costs incurred for commercial-related manufacturing activities for Rhopressa® and Rocklatan® prior to FDA approval. These costs include those associated with the manufacturing of inventory in anticipation of commercial launch, expenses associated with the establishment of both our manufacturing plant in Athlone, Ireland, and our additional API and drug product contract manufacturers as well as employee-related expenses, which includes salaries, benefits and stock-based compensation for commercial-related manufacturing personnel prior to regulatory approval.

We obtained regulatory approval to produce Rocklatan® in early 2020 in our Athlone, Ireland plant for commercial distribution in the United States as well as approval for our additional API and drug product contract manufacturers during 2019 and early 2020.

Research and Development Expenses

We expense research and development costs to operations as incurred. Research and development expenses consist primarily of costs incurred for the research and development of our preclinical and clinical candidates, including employee-related expenses for research and development personnel.

Other (Expense) Income, Net

Other (expense) income primarily includes interest expense, interest income, foreign exchange gains and losses, and other income and expense. Interest expense consists of interest expense under the 1.50% convertible senior notes due 2024 (the “Convertible Notes”), including the amortization of debt discounts and issuance costs incurred. Prior to the termination of the \$200 million senior secured delayed draw term loan facility (the “credit facility”) in September 2019, interest expense also included the amortization of issuance costs and commitment fees incurred on the July 2018 and May 2019 tranches of the credit facility. Interest income primarily consists of interest earned on our cash, cash equivalents and investments. See “—Liquidity and Capital Resources” below and Note 10 to our condensed consolidated financial statements included in this report for further

discussion. Foreign exchange gains and losses are primarily due to the remeasurement of our lease liabilities, which are denominated in a foreign currency and held by a subsidiary with a U.S. dollar functional currency.

Critical Accounting Policies and Use of Estimates

Our management’s discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, costs and expenses and related disclosures. We evaluate our estimates and judgments on an ongoing basis. Significant estimates include assumptions used in the determination of revenue recognition, stock-based compensation and fair value measurements. We base our estimates on historical experience and on 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.

Our critical accounting policies and significant estimates have not materially changed since the date we filed our 2019 Form 10-K. For more information on our critical accounting policies and estimates, refer to our 2019 Form 10-K.

Results of Operations

Comparison of the Three Months Ended June 30, 2020 and 2019

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

	THREE MONTHS ENDED JUNE 30,		CHANGE	% CHANGE
	2020	2019		
	(in thousands, except percentages)			
Product revenues, net	\$ 18,033	\$ 15,835	\$ 2,198	14 %
Total revenues, net	18,033	15,835	2,198	14 %
Costs and expenses:				
Cost of goods sold	7,326	705	6,621	*
Selling, general and administrative expenses	33,237	34,482	(1,245)	(4) %
Pre-approval commercial manufacturing	80	5,819	(5,739)	(99) %
Research and development expenses	19,943	20,904	(961)	(5) %
Total costs and expenses	60,586	61,910	(1,324)	(2) %
Loss from operations	(42,553)	(46,075)	3,522	(8) %
Other (expense) income, net	(5,634)	(1,089)	(4,545)	*
Loss before income taxes	\$ (48,187)	\$ (47,164)	\$ (1,023)	2 %

*Percentage not meaningful

Product revenues, net

Product revenues, net were \$18.0 million and \$15.8 million for the three months ended June 30, 2020 and 2019, respectively. Revenues recorded during the three months ended June 30, 2020 relate to sales of Rhopressa® and Rocklatan®, which we launched in the United States in April 2018 and in May 2019, respectively. The year-over-year revenue increase is primarily attributable to sales of Rocklatan®, which had its U.S. launch in May 2019. The revenue increase was partially offset by the impact of higher rebates associated with government sponsored programs, which contributed to a lower net sales per unit. Although there was a decline in total prescription volumes in April 2020, as seen within the entire pharmaceutical market according to IQVIA data primarily due to the impact of the COVID-19 pandemic, our sales volumes in second quarter of 2020 were consistent with the volumes during the first quarter of 2020.

Cost of goods sold

Cost of goods sold was \$7.3 million for the three months ended June 30, 2020, compared to \$0.7 million in the prior year period. Our gross margin percentage was 59.4% and 95.5% for the three months ended June 30, 2020 and 2019, respectively.

Our cost of goods sold and gross margin percentage for the three months ended June 30, 2020 were unfavorably impacted by idle capacity costs due to underutilization at the Athlone manufacturing plant due to the startup of the facility and inventory write-offs, which increased the cost of goods sold by \$5.0 million and \$0.8 million, respectively, and lowered the gross margin percentage by 27.6% and 4.8%, respectively. We expect the underutilization to continue to have an unfavorable impact on cost of goods sold that will decrease over time as the manufacturing plant reaches full capacity. In January 2020, we received FDA approval to produce Rocklatan® at the Athlone plant for commercial distribution in the United States. Prior to this approval, costs incurred for commercial-related manufacturing activities for Rocklatan® at the Athlone plant were recorded to pre-approval commercial manufacturing expenses.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$1.2 million for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019, primarily due to a decrease of \$3.4 million in sales and marketing expenses for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019. The decrease included lower travel expenses as a result of COVID-19 related travel restrictions. This decrease was partially offset by a \$1.1 million increase in employee-related expenses for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019.

Pre-approval commercial manufacturing expenses

Pre-approval commercial manufacturing expenses decreased by \$5.7 million for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019. Expenses were lower primarily due to the receipt of regulatory approval in January 2020 to produce Rocklatan® at our Athlone manufacturing plant as the cost of Rocklatan® produced by the Athlone plant for commercial distribution following regulatory approval was capitalized as inventory or expensed to cost of goods sold. Further, expenses were lower due to regulatory approval for our additional Rocklatan® drug product contract manufacturer, which began to supply commercial product in the first quarter of 2020, and our additional API and Rhopressa® drug product contract manufacturers, which began to supply commercial API and Rhopressa®, respectively, in the second quarter of 2019. The cost of commercial Rhopressa® and Rocklatan®, respectively, produced by these manufacturers following regulatory approval were capitalized as inventory. We expect to continue to incur pre-approval commercial manufacturing expenses for Rhopressa® production at our Athlone manufacturing plant in the second half of 2020, which are not expected to be material.

Research and development expenses

Research and development expenses decreased by \$1.0 million for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019. This decrease was primarily due to a decline of \$1.5 million in expenses associated with Rhopressa®, as noted below, as well as a decrease of \$1.1 million related to the development of our retina program. In addition, there was a decline in travel expenses as a result of COVID-19 related travel restrictions. The decrease was partially offset by an increase of \$2.6 million in spend for the development of AR-15512 as well as an increase in employee-related expenses primarily due to additional headcount to support clinical trials principally for markets outside of the United States.

Research and development expenses for Rhopressa® were \$0.4 million for the three months ended June 30, 2020 and \$1.9 million for three months ended June 30, 2019. Expenses for Rhopressa® decreased primarily due to a decrease in costs associated with the Phase 2 clinical trial conducted in Japan. Research and development expenses for Rocklatan® were \$2.4 million and \$2.2 million for the three months ended June 30, 2020 and 2019, respectively. Expenses for Rocklatan® during the three months ended June 30, 2020 primarily include costs related to the Mercury 3 registration trial in Europe.

Other (expense) income, net

Other (expense) income, net consists of the following:

	THREE MONTHS ENDED JUNE 30,		
	2020	2019	CHANGE
	(in thousands)		
Interest income	\$ 524	\$ 540	\$ (16)
Interest expense	(6,513)	(1,559)	(4,954)
Other (expense) income	355	(70)	425
Other (expense) income, net	\$ (5,634)	\$ (1,089)	\$ (4,545)

The change in other (expense) income, net of \$4.5 million for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019 primarily relates to interest expense under the Convertible Notes issued in September 2019, including the amortization of debt discounts and issuance costs incurred. The interest expense increased by \$5.0 million during the three months ended June 30, 2020 related to the amortization of debt discounts and issuance costs incurred on the Convertible Notes, which were issued in September 2019. This increase in interest expense was partially offset by costs in the prior year for the amortization of issuance costs and fees incurred on the credit facility.

Comparison of the Six Months Ended June 30, 2020 and 2019

The following table summarizes the results of our operations for the six months ended June 30, 2020 and 2019:

	SIX MONTHS ENDED		CHANGE	% CHANGE
	JUNE 30,			
	2020	2019		
	(in thousands, except percentages)			
Product revenues, net	\$ 38,374	\$ 26,687	\$ 11,687	44 %
Total revenues, net	38,374	26,687	11,687	44 %
Costs and expenses:				
Cost of goods sold	13,418	1,086	12,332	*
Selling, general and administrative expenses	70,139	70,764	(625)	(1)%
Pre-approval commercial manufacturing	2,194	10,276	(8,082)	(79)%
Research and development expenses	39,116	38,788	328	1 %
Total costs and expenses	124,867	120,914	3,953	3 %
Loss from operations	(86,493)	(94,227)	7,734	(8)%
Other (expense) income, net	(10,856)	(978)	(9,878)	*
Loss before income taxes	\$ (97,349)	\$ (95,205)	\$ (2,144)	2 %

*Percentage not meaningful

Product revenues, net

Product revenues, net were \$38.4 million and \$26.7 million for the six months ended June 30, 2020 and 2019, respectively. Revenues recorded during the six months ended June 30, 2020 relate to sales of Rhopressa® and Rocklatan®, which we launched in the United States in April 2018 and in May 2019, respectively. The year-over-year revenue increase is primarily attributable to sales of Rocklatan®, which had its U.S. launch in May 2019. This increase is offset by a decline in net sales per unit due to higher rebates associated with government sponsored programs.

Cost of goods sold

Cost of goods sold was \$13.4 million and \$1.1 million for the six months ended June 30, 2020 and 2019, respectively. Our gross margin percentage was 65.0% and 95.9% for the six months ended June 30, 2020 and 2019, respectively. Our cost of goods sold and gross margin percentage for the six months ended June 30, 2020 were unfavorably impacted by idle capacity costs due to underutilization at the Athlone manufacturing plant due to the startup of the facility and inventory write-offs, which increased the cost of goods sold by \$8.5 million and \$2.3 million, respectively, and lowered the gross margin percentage by 22.2% and 6.1%, respectively. We expect the underutilization to continue to have an unfavorable impact on cost of goods sold that will decrease over time as the manufacturing plant reaches full capacity. In January 2020, we received FDA approval to produce Rocklatan® at the Athlone plant for commercial distribution in the United States. Prior to this approval, costs incurred for commercial-related manufacturing activities for Rocklatan® at the Athlone plant were recorded to pre-approval commercial manufacturing expenses.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$0.6 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. This decrease was primarily associated with a decrease of \$1.3 million in sales and marketing expenses for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. In addition, there was a decrease in stock compensation expense and lower travel expenses as a result of COVID-19 related travel

restrictions from the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. This decrease was partially offset by higher commercialization costs for Rhopressa® and Rocklatan®.

Pre-approval commercial manufacturing expenses

Pre-approval commercial manufacturing expenses decreased by \$8.1 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. Expenses were lower primarily due to the receipt of regulatory approval in January 2020 to produce Rocklatan® at our Athlone manufacturing plant as the cost of Rocklatan® produced by the Athlone plant for commercial distribution following regulatory approval was capitalized as inventory or expensed to cost of goods sold. Further, expenses were lower due to regulatory approval for our additional Rocklatan® drug product contract manufacturer, which began to supply commercial product in the first quarter of 2020, and our additional API and Rhopressa® drug product contract manufacturers, which began to supply commercial API and Rhopressa®, respectively, in the second quarter of 2019. The cost of commercial Rhopressa® and Rocklatan®, respectively, produced by these manufacturers following regulatory approval were capitalized as inventory. We expect to continue to incur pre-approval commercial manufacturing expenses for Rhopressa® production at our Athlone manufacturing plant in the second half of 2020, which are not expected to be material.

Research and development expenses

Research and development expenses increased by \$0.3 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019. This increase primarily related to an increase of \$3.4 million in spend for the development of AR-15512 as well as an increase in employee-related expenses primarily due to additional headcount to support clinical trials principally for markets outside of the United States. This increase is partially offset by a decline of \$2.8 million in expenses associated with Rhopressa®, as noted below, as well as a decrease of \$0.9 million related to the development of our retina program. In addition, there was a decline in travel expenses as a result of COVID-19 related travel restrictions.

Research and development expenses for Rhopressa® were \$0.5 million for the six months ended June 30, 2020 and totaled \$3.3 million for six months ended June 30, 2019. Expenses for Rhopressa® decreased primarily due to a decrease in costs associated with the Phase 2 clinical trial conducted in Japan. Research and development expenses for Rocklatan® totaled \$3.5 million and \$3.5 million for the six months ended June 30, 2020 and 2019, respectively. Expenses for Rocklatan® during the six months ended June 30, 2020 primarily include costs related to the Mercury 3 registration trial in Europe.

Other (expense) income, net

Other (expense) income, net consists of the following:

	SIX MONTHS ENDED JUNE 30,		
	2020	2019	CHANGE
	(in thousands)		
Interest income	\$ 1,620	\$ 1,352	\$ 268
Interest expense	\$ (12,888)	\$ (2,357)	\$ (10,531)
Other (expense) income	\$ 412	\$ 27	\$ 385
Other (expense) income, net	\$ (10,856)	\$ (978)	\$ (9,878)

The change in other (expense) income, net of \$9.9 million for the six months ended June 30, 2020 as compared to the six months ended June 30, 2019 primarily relates to interest expense under the Convertible Notes issued in September 2019, including the amortization of debt discounts and issuance costs incurred. The interest expense increased by \$10.5 million during the six months ended June 30, 2020 related to the amortization of debt discounts and issuance costs incurred on the Convertible Notes, which were issued in September 2019. This increase in interest expense was partially offset by costs in the prior year for the amortization of issuance costs and fees incurred on the credit facility.

Liquidity and Capital Resources

Since our inception, we have funded operations primarily through the sale of equity securities and the issuance of convertible notes. We commenced generating product revenues related to sales of Rhopressa® in the second quarter of 2018 and Rocklatan® in the second quarter of 2019. We have incurred losses and experienced negative operating cash flows since our inception and anticipate that we will continue to incur losses until such a time when our products are commercially successful, if at all. We

will not generate any revenue from any product candidates or future product candidates unless and until we obtain regulatory approval and commercialize such products.

Sources of Liquidity

Our product revenue, net amounted to \$38.4 million for the six months ended June 30, 2020, which relate to sales of Rhopressa® and Rocklatan®. Accounts receivable, net amounted to \$43.1 million as of June 30, 2020.

As of June 30, 2020, our principal sources of liquidity were our cash, cash equivalents and investments, which totaled approximately \$241.9 million. In September 2019, we issued an aggregate principal amount of \$316.25 million of Convertible Notes. See Note 10 to our condensed consolidated financial statements included in this report for additional information. We believe that our cash, cash equivalents and investments and projected cash flows from revenues will provide sufficient resources for our current ongoing needs through at least the next twelve months. See “—Operating Capital Requirements.”

Cash Flows

The following table summarizes our sources and uses of cash:

	SIX MONTHS ENDED JUNE 30,	
	2020	2019
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (64,693)	\$ (85,109)
Investing activities	73,212	(7,118)
Financing activities	(1,160)	(1,228)
Net change in cash and cash equivalents	\$ 7,359	\$ (93,455)

Operating Activities

During the six months ended June 30, 2020, net cash used in operating activities of \$64.7 million related to a net loss of \$97.3 million, adjusted for non-cash items of \$37.3 million primarily related to stock-based compensation expense, amortization and accretion and depreciation, offset by a net cash outflow of \$4.6 million related to changes in operating assets and liabilities. During the six months June 30, 2019, net cash used in operating activities of \$85.1 million related to a net loss of \$95.1 million, adjusted for non-cash items of \$30.3 million primarily related to stock-based compensation expense, amortization and accretion, depreciation and a net cash outflow of \$20.3 million related to changes in operating assets and liabilities.

Investing Activities

During the six months ended June 30, 2020, our investing activities provided net cash of \$73.2 million related to sales and maturities of available-for-sale investments of \$118.4 million offset by purchases of available-for-sale investments of \$43.5 million and purchases of property, plant and equipment of \$1.7 million primarily related to the build-out of our manufacturing plant in Ireland. During the six months ended June 30, 2019, our investing activities used net cash of approximately \$7.1 million related to purchases of property, plant and equipment.

Financing Activities

During the six months ended June 30, 2020 and 2019, our financing activities used net cash of \$1.2 million in both periods. The net cash used in financing activities of \$1.2 million for six months ended June 30, 2020 was primarily related to tax payments made on employees' behalf through withholding of shares on restricted stock awards.

The net cash used in financing activities for the six months ended June 30, 2019 was primarily related to net payments of \$1.0 million from stock-based compensation arrangements, mainly from employee exercises of stock options, partially offset by taxes paid on employees' behalf through withholding of shares on restricted stock awards and option exercises.

Operating Capital Requirements

We expect to incur ongoing operating losses until such a time when Rhopressa® or Rocklatan® or any other product, if approved in the future, generates adequate revenues to render Aerie profitable.

Our principal liquidity requirements are for: working capital; operating expenses, including for commercialization and manufacturing activities; expenses associated with developing our pipeline opportunities, including pursuing strategic growth opportunities; costs associated with executing our international expansion strategy, including clinical and potential commercialization activities in Europe and Japan; contractual obligations; and capital expenditures.

We believe that our cash and cash equivalents and investments and projected cash flows from revenues, will provide sufficient resources to support our operations through at least the next twelve months. We are required to make semi-annual interest payments in cash in arrears on the Convertible Notes at a rate of 1.50% per annum on April 1 and October 1 of each year, which began on April 1, 2020.

Our future funding requirements will depend on many factors, including, but not limited to the following:

- commercial performance of Rhopressa[®] and Rocklatan[®] or any product candidates or future product candidates, if approved, including any effects associated with the COVID-19 pandemic;
- costs of commercialization activities for Rhopressa[®] and Rocklatan[®] and any product candidates or future product candidates, if approved;
- costs of building inventory to support sales growth and other associated working capital needs;
- costs, timing and outcome of seeking regulatory approval;
- timing and costs of our ongoing and future clinical trials and preclinical studies including those related to our international expansion;
- costs of any follow-on development or products, including the exploration and/or development of any additional indications or additional opportunities for new ophthalmic product candidates, delivery alternatives and new therapeutic areas;
- terms and timing of any acquisitions, collaborations, or other arrangements;
- costs related to the Convertible Notes; and
- costs related to filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims.

We based our projections on assumptions that may prove to be incorrect or unreliable or may change due to circumstances beyond our control, and as a result, we may consume our available capital resources earlier than we originally projected. Accordingly, we may be required to obtain further funding through debt or equity offerings or other sources. If such funding is required, we cannot guarantee that it will be available to us on favorable terms, if at all.

Outstanding Indebtedness

In September 2019, we issued an aggregate principal amount of \$316.25 million of Convertible Notes and simultaneously terminated the credit facility. No funds were drawn on the credit facility at the time of termination.

The Convertible Notes are senior, unsecured obligations with interest payable semi-annually in cash in arrears at a rate of 1.50% per annum on April 1 and October 1 of each year, which began on April 1, 2020. The Convertible Notes will mature on October 1, 2024 unless they are redeemed, repurchased or converted prior to such date. Prior to April 1, 2024, the Convertible Notes will be convertible at the option of holders only during certain periods and upon satisfaction of certain conditions. On and after April 1, 2024, the Convertible Notes will be convertible at the option of the holders any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Upon conversion, the Convertible Notes may be settled in shares of our common stock, cash or a combination, thereof, at our election. We currently intend to settle the principal and interest amounts of the Convertible Notes in cash.

See Note 10 to our condensed consolidated financial statements included in this report for additional information.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments as included in our 2019 Form 10-K.

Off-Balance Sheet Arrangements

None.

Recent Accounting Pronouncements

For a discussion of recently issued accounting standards, see Note 2 to our condensed consolidated financial statements included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have market risk exposure to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. Our cash, cash equivalents and investments totaled \$241.9 million and \$309.2 million as of June 30, 2020 and December 31, 2019, respectively. Given the short-term nature of our cash and cash equivalents and investments, we do not believe that a change in market interest rates would have a material impact on our financial condition or results of operations. We do not currently engage in any hedging activities against changes in interest rates.

We face market risks attributable to fluctuations in foreign currency exchange rates and exposure on the remeasurement of foreign currency-denominated monetary assets or liabilities into U.S. dollars. In particular, our operations and subsidiary in Ireland may enter into certain obligations or transactions in Euros or other foreign currencies but has a U.S. dollar functional currency. We do not currently have a foreign currency hedging program. To date and during the six months ended June 30, 2020, foreign currency exposure and foreign currency financial instruments have not been material.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)), as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2020, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief 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 its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may periodically become subject to legal proceedings and claims arising in connection with our business. We are not a party to any known litigation, are not aware of any material unasserted claims and do not have contingency reserves established for any litigation liabilities.

Item 1A. Risk Factors

You should consider carefully the risks set forth under “Risk Factors” in our 2019 Form 10-K, and other documents that we have filed or furnished with the SEC. Except as set forth below, there have been no material changes to these risk factors.

The widespread outbreak of an illness or any other communicable disease, or any other public health crisis, such as COVID-19, could adversely affect our business, results of operations and financial condition.

We could be negatively impacted by the widespread outbreak of an illness or any other communicable disease, or any other public health crisis that results in economic and trade disruptions, including the disruption of global supply chains. In December 2019, there was an outbreak of a new strain of coronavirus (“COVID-19”). On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and workforce participation due to “shelter-in-place” and “stay at home” restrictions by various governments worldwide and created significant volatility and disruption of financial markets.

The COVID-19 pandemic may continue to affect demand for our products because quarantines or other government restrictions on movements have caused and continue to cause changes in demand. Many eye care professionals’ offices are operating with reduced capacity and there is uncertainty if or when they will return to full capacity. Patients may continue to change the quantities in, or the frequency with, which they order our products. Additionally, patients may not visit their eye care professionals for an extended period of time due to logistical issues or safety concerns, resulting in fewer new diagnoses or prescriptions as the COVID-19 pandemic continues to progress. Our sales force is also limited in its ability to meet with current and potential prescribers, which may negatively affect sales. Our current efforts to utilize virtual tools to remain in contact with eye care professionals, in addition to face-to-face meetings, may not be adequate to address any negative effect on sales. If the overall economy is negatively affected, including by entering into a recession, current and potential patients may alter their spending patterns and may have less disposable income with which to spend on prescriptions, amongst other changes. The changes in eye care professional and patient behavior could have a material adverse effect on our results of operations.

The COVID-19 pandemic may also disrupt our third party partners’ ability to meet their obligations to us, which may negatively affect our operations. These third parties include the suppliers of our active pharmaceutical ingredient, suppliers of our finished product and clinical research organizations. While we have not observed disruptions to date with respect to any such third party, as the COVID-19 pandemic progresses as a result of transport restrictions related to quarantines, travel bans or other governmental actions may cause our global supply to become constrained.

The progress of the COVID-19 pandemic may disrupt our clinical operations and regulatory approvals. We are in the process of advancing our products towards approval in jurisdictions outside the United States and advancing our product candidates towards regulatory approval. We also have applications for regulatory approval pending, such as our marketing authorisation application (“MAA”) with the European Medicines Agency (“EMA”). We do not yet know whether or how the progress of the COVID-19 pandemic will affect our clinical operations, including enrollment of clinical trials, or the timing of regulatory approvals, including the approval by the EMA of our MAA.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration and spread of COVID-19; the effect on eye care professionals and patients and demand for our products; our ability to sell and provide our products, including as a result of people staying home and any closures of our offices and our manufacturing plant in Athlone, Ireland, our eye care professionals’ offices and regulatory agencies, all of which are uncertain and cannot be predicted. In addition, the financial markets are currently volatile due to the market conditions discussed above. Conditions in the financial and credit markets may limit the availability of liquidity or increase the cost of such liquidity, which could adversely affect our business, financial position and results of operations. COVID-19, and the volatile economic conditions stemming from the pandemic, as well as reactions to future pandemics or resurgences of COVID-19, could also precipitate or aggravate the other risk factors that we identify in our Annual Report on Form 10-K, including our ability to achieve market acceptance of our products, our competitiveness, our reliance on third parties, our dependence on key personnel, our risks related to security breaches and other cybersecurity risks and our manufacturing

capabilities. An extended period of global supply chain and economic disruption could materially adversely affect our business, our results of operations, our access to sources of liquidity, our financial condition and the price of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema Document.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB***	XBRL Taxonomy Extension Label Linkbase Database.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

** Furnished herewith.

*** Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language):

(i) Condensed Consolidated Balance Sheets at June 30, 2020 and December 31, 2019 (unaudited), (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2020 and 2019 (unaudited), (iii) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2020 and 2019 (unaudited), (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (unaudited) and (v) Notes to Condensed Consolidated Financial Statements (unaudited).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2020

AERIE PHARMACEUTICALS, INC.

/s/ RICHARD J. RUBINO

Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Vicente Anido, Jr., Ph.D., certify that:

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

Date: August 7, 2020

/s/ VICENTE ANIDO, JR., PH.D.

Vicente Anido, Jr., Ph.D.

Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

CERTIFICATION

I, Richard J. Rubino, certify that:

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

Date: August 7, 2020

/s/ RICHARD J. RUBINO

Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the filing of the Quarterly Report on Form 10-Q of Aerie Pharmaceuticals, Inc., a Delaware corporation (the “Company”), for the period ended June 30, 2020 (the “Report”), the undersigned, Vicente Anido, Jr., Ph.D., Chief Executive Officer and Chairman of the Board of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: August 7, 2020

/s/ VICENTE ANIDO, JR., PH.D.

Vicente Anido, Jr., Ph.D.
Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

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

In connection with the filing of the Quarterly Report on Form 10-Q of Aerie Pharmaceuticals, Inc., a Delaware corporation (the “Company”), for the period ended June 30, 2020 (the “Report”), the undersigned, Richard J. Rubino, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: August 7, 2020

/s/ RICHARD J. RUBINO

Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)