

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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: 001-38052

FORTE BIOSCIENCES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
1124 W Carson Street
MRL Building 3-320
Torrance, California
(Address of principal executive offices)

26-1243872
(I.R.S. Employer
Identification No.)

90502
(Zip Code)

Registrant's telephone number, including area code: (310) 618-6994

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	FBRX	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

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

As of November 4, 2021, the registrant had 14,754,557 shares of common stock, \$0.001 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements

FORTE BIOSCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value data)

	<u>September 30, 2021</u> (unaudited)	<u>December 31, 2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,665	\$ 58,765
Prepaid expenses and other current assets	891	1,133
Total current assets	<u>46,556</u>	<u>59,898</u>
Property and equipment, net	—	97
Other assets	834	1,244
Total assets	<u>\$ 47,390</u>	<u>\$ 61,239</u>
Liabilities, convertible preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,330	\$ 1,240
Accrued liabilities	1,410	1,019
Total current liabilities	<u>3,740</u>	<u>2,259</u>
Commitments and contingencies (Note 5)		
Series A Convertible Preferred Stock, \$0.001 par value; 10,000,000 shares authorized and 0 shares issued and outstanding as of September 30, 2021 (unaudited) and December 31, 2020, respectively	—	—
Stockholders' equity:		
Common stock, \$0.001 par value: 200,000,000 shares authorized as of September 30, 2021 (unaudited) and December 31, 2020; 14,754,447 and 12,830,598 shares issued and outstanding at September 30, 2021 (unaudited) and December 31, 2020, respectively	15	13
Additional paid-in capital	113,459	110,424
Accumulated deficit	<u>(69,824)</u>	<u>(51,457)</u>
Stockholders' equity	<u>43,650</u>	<u>58,980</u>
Total liabilities, convertible preferred stock and stockholders' equity	<u>\$ 47,390</u>	<u>\$ 61,239</u>

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

FORTE BIOSCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except share and per share amounts)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Operating expenses:				
Research and development	\$ 5,656	\$ 3,688	\$ 12,501	\$ 6,979
General and administrative	2,043	1,320	5,686	2,753
In-process research and development assets acquired	—	—	—	32,057
Total operating expenses	<u>7,699</u>	<u>5,008</u>	<u>18,187</u>	<u>41,789</u>
Loss from operations	(7,699)	(5,008)	(18,187)	(41,789)
Other income (expense), net	(52)	(92)	(180)	(122)
Net loss	<u>\$ (7,751)</u>	<u>\$ (5,100)</u>	<u>\$ (18,367)</u>	<u>\$ (41,911)</u>
Per share information:				
Net loss per share - basic and diluted	\$ (0.54)	\$ (0.45)	\$ (1.34)	\$ (7.36)
Weighted average shares outstanding, basic and diluted	14,241,220	11,209,052	13,702,727	5,691,587

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

FORTE BIOSCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(unaudited)
(in thousands, except share data)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance — December 31, 2019	3,177,744	\$ 10,515	2,108,266	\$ 2	\$ 199	\$ (4,970)	\$ (4,769)
Exercise of stock options	—	—	52,706	—	45	—	45
Stock-based compensation	—	—	—	—	2	—	2
Net loss	—	—	—	—	—	(2,050)	(2,050)
Balance — March 31, 2020	3,177,744	10,515	2,160,972	2	246	(7,020)	(6,772)
Conversion of preferred stocks into common stock	(3,177,744)	(10,515)	3,177,744	3	10,512	—	10,515
Sale of common stock, net of issuance costs of \$43	—	—	4,215,929	4	24,012	—	24,016
Issuance of common stock in connection with reverse merger	—	—	1,656,076	2	31,807	—	31,809
Issuance of common stock upon vesting of restricted stock units	—	—	(16,294)	—	—	—	—
Exercise of stock options	—	—	3,888	—	47	—	47
Stock-based compensation	—	—	—	—	24	—	24
Net loss	—	—	—	—	—	(34,761)	(34,761)
Balance — June 30, 2020	—	—	11,198,315	11	66,648	(41,781)	24,878
Exercise of stock options	—	—	18,248	—	166	—	166
Stock-based compensation	—	—	—	—	375	—	375
Net loss	—	—	—	—	—	(5,100)	(5,100)
Balance — September 30, 2020	—	\$ —	\$ 11,216,563	\$ 11	\$ 67,189	\$ (46,881)	\$ 20,319
Balance — December 31, 2020	—	\$ —	12,830,598	\$ 13	\$ 110,424	\$ (51,457)	\$ 58,980
Exercise of stock options	—	—	7,655	—	27	—	27
Stock-based compensation	—	—	—	—	495	—	495
Cashless exercise of warrants	—	—	673,463	—	—	—	—
Net loss	—	—	—	—	—	(4,804)	(4,804)
Balance — March 31, 2021	—	—	13,511,716	13	110,946	(56,261)	54,698
Exercise of stock options	—	—	1,939	—	15	—	15
Issuance of common stock upon vesting of restricted stock units	—	—	5,000	—	—	—	—
Cashless exercise of warrants	—	—	560,402	1	(1)	—	—
Stock-based compensation	—	—	—	—	1,008	—	1,008
Net loss	—	—	—	—	—	(5,812)	(5,812)
Balance — June 30, 2021	—	—	14,079,057	14	111,968	(62,073)	49,909
Exercise of stock options	—	—	19,981	—	19	—	19
Cashless exercise of warrants	—	—	655,409	1	(1)	—	—
Stock-based compensation	—	—	—	—	1,473	—	1,473
Net loss	—	—	—	—	—	(7,751)	(7,751)
Balance — September 30, 2021	—	\$ —	14,754,447	\$ 15	\$ 113,459	\$ (69,824)	\$ 43,650

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

FORTE BIOSCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Cash flows from operating activities:		
Net loss	\$ (18,367)	\$ (41,911)
Adjustments to reconcile net loss to net cash used in operating activities:		
In-process research and development acquired	—	30,885
Depreciation expense	36	40
Impairment of property and equipment	61	—
Stock-based compensation expense	2,976	401
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	718	(322)
Accounts payable	1,090	(394)
Accrued liabilities	391	(3,319)
Net cash used in operating activities	<u>(13,095)</u>	<u>(14,620)</u>
Cash flows from investing activities:		
Cash and restricted cash acquired in reverse merger	—	3,582
Net cash provided by investing activities	<u>—</u>	<u>3,582</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	—	24,016
Payment of offering costs	(66)	—
Proceeds from exercise of stock options	61	258
Net cash (used in) provided by financing activities	<u>(5)</u>	<u>24,274</u>
Net (decrease) increase in cash and cash equivalents	<u>(13,100)</u>	<u>13,236</u>
Cash and cash equivalents — beginning of period	58,765	6,939
Cash and cash equivalents — end of period	<u>\$ 45,665</u>	<u>\$ 20,175</u>
Non-cash investing and financing activities:		
Conversion of preferred stock to common stock	<u>\$ —</u>	<u>\$ 10,515</u>
Issuance of common stock to Tocagen shareholders	<u>\$ —</u>	<u>\$ 31,809</u>
Unpaid offering costs	<u>\$ 40</u>	<u>\$ 297</u>

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

FORTE BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Description of Business

Forte Biosciences, Inc. (www.fortebiorx.com), together with its subsidiaries, referred to herein as the “Company”, is a biopharmaceutical company that had been focused on developing a topical live biotherapeutic for the treatment of inflammatory skin diseases with an initial focus on atopic dermatitis (“AD”). On September 2, 2021, the Company announced that the clinical trial of FB-401 for the treatment of AD failed to achieve statistical significance for its primary endpoint. Following the announcement of the FB-401 trial results, our board of directors continues to evaluate plans for FB-401 and also commenced a process of evaluating strategic alternatives to maximize stockholder value. We have engaged a financial advisory firm to help explore our available strategic alternatives, including a possible merger, business combination, asset acquisitions or sales, collaboration or licensing arrangements.

The Company entered into a business combination (“Merger”) between Forte Subsidiary, Inc. (“Forte Subsidiary”) a private entity, and Tocagen, Inc. (“Tocagen”), a publicly traded biotechnology company. The Merger closed on June 15, 2020, in which Telluride Merger Sub, Inc., a wholly-owned subsidiary of Tocagen, merged with and into Forte Subsidiary, with Forte Subsidiary surviving the Merger as a wholly-owned subsidiary of Tocagen. Immediately prior to the closing of the Merger, the shares of Tocagen common stock were adjusted with a reverse split ratio of 1-for-15. At the closing of the Merger, each share of Forte Subsidiary common stock outstanding immediately prior to the Merger was converted into the right to receive approximately 3.1624 shares of Tocagen common stock (before giving effect to the reverse split). All share and per share amounts have been retrospectively adjusted to give effect to the exchange of Forte Subsidiary common stock and the reverse split of Tocagen common stock. The par value per share of our capital stock was not adjusted as a result of the stock split. Immediately prior to the closing of the Merger, Tocagen changed its name to Forte Biosciences, Inc. The Company’s common stock is traded on the Nasdaq stock exchange under the ticker symbol “FBRX.” Immediately following the Merger, the former Forte Subsidiary and Tocagen security holders owned approximately 84.7% and 15.3% of the number of shares of the Company’s common stock, respectively.

Prior to the Merger, Forte Subsidiary was incorporated as Forte Biosciences, Inc. under the laws of the State of Delaware on May 3, 2017 as a privately-held company. Forte Biosciences, Inc. was renamed Forte Subsidiary, Inc. in connection with the Merger.

The Merger was accounted for as a reverse asset acquisition. Forte Subsidiary is deemed to be the accounting acquirer for accounting purposes and Tocagen the accounting acquiree (Note 4). Accordingly, for accounting purposes: (i) the Merger was treated as the equivalent of Forte Subsidiary issuing stock to acquire the net assets of Tocagen, (ii) the transaction price was allocated over the acquired Tocagen net assets based upon their relative fair value at the time of closing, (iii) the reported historical operating results of the combined company prior to the Merger are those of Forte Subsidiary and not of Tocagen, and (iv) for periods prior to the transaction, shareholders’ authorized capital of the combined company is presented using the historical authorized capital of Tocagen.

On February 12, 2021, the Company incorporated Forte Biosciences Emerald Limited in Dublin, Ireland, for the purpose of potentially undertaking clinical trials in the European Union.

Liquidity and Risks

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not reflect any adjustments relating to the recoverability and reclassification of assets and liabilities that might be necessary if the Company is unable to continue as a going concern. Since inception, the Company has incurred losses and negative cash flows from operations. As of September 30, 2021, the Company had an accumulated deficit

of \$69.8 million. The Company used \$13.1 million of cash in operating activities during the nine months ended September 30, 2021. Management expects to continue to incur additional losses in the foreseeable future as the Company explores its available strategic alternatives to maximize shareholder value following the announcement on September 2, 2021 of the unfavorable clinical trial results of FB-401.

The Company had cash and cash equivalents of approximately \$45.7 million as of September 30, 2021. The Company's cash and cash equivalents are held at financial institutions and exceed federally insured limits. The Company believes that its existing cash and cash equivalents will be sufficient to allow the Company to fund its operations for at least 12 months from the filing date of this Form 10-Q.

The Company will continue to need to raise additional capital or obtain financing from other sources. Management may fund future operations through the sale of equity and debt financings and may also seek additional capital through arrangements with strategic partners or other sources. There can be no assurance that additional funding will be available on terms acceptable to the Company, if at all. If the Company is unable to raise additional funding to meet its working capital needs in the future, it may be forced to delay or reduce the scope of its research and development programs and/or limit or cease its operations.

There are numerous risks and uncertainties associated with pharmaceutical development and the Company is unable to predict the timing or amount of increased expenses on the development of future product candidates or when or if it will start to generate revenues. Even if the Company does generate revenues, it may not be able to achieve or maintain profitability. If the Company fails to become profitable or is unable to sustain profitability on a continuing basis, then it may be unable to continue its operations at planned levels and may be forced to reduce its operations.

The pandemic caused by outbreaks of new strains of coronaviruses, or COVID-19 and its variants, has resulted, and may to continue to result, in significant national and global economic disruption and may adversely affect the Company's operations. The Company is actively monitoring the impact of COVID-19 and the possible effects on its financial condition, liquidity, operations, suppliers, industry, and workforce. However, the full extent, consequences, and duration of the COVID-19 pandemic and the resulting impact on the Company cannot currently be predicted. The Company will continue to evaluate the impact that these events could have on its operations, financial position, results of operations and cash flows during the remainder of 2021.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company should be read in conjunction with its audited financial statements and accompanying notes thereto as of and for the year ended December 31, 2020 included in the Company's Form 10-K as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 16, 2021. The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as found in the Accounting Standards Codification ("ASC"), the Accounting Standards Update ("ASU"), of the Financial Accounting Standards Board ("FASB"), and the rules and regulations of the US Securities and Exchange Commission ("SEC").

The Merger was accounted for as a reverse asset acquisition, as more fully described in Notes 1 and 4. Forte Subsidiary is deemed to be the acquirer for accounting purposes and Tocagen is the accounting acquiree.

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments that are of a normal and recurring nature and that are necessary for the fair presentation of the Company's financial position, the results of its operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for the full year or any future period.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Forte Subsidiary, Inc and Forte Biosciences Emerald Limited. All intercompany accounts and transactions have been eliminated in the preparation of the condensed consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include money market funds and deposits with commercial banks. Cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less at the date of purchase.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level hierarchy that prioritizes the inputs used in determining fair value by their reliability and preferred use as follows:

- *Level 1* - Valuations based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuations based on quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* – Valuations based on inputs that are both significant to the fair value measurements and are unobservable.

To the extent that a valuation is based on models or inputs that are less observable, or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized within Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

There have been no significant changes to the valuation methods utilized by the Company during the periods presented. There have been no transfers between Level 1, Level 2, and Level 3 in any periods presented.

The carrying amounts of financial instruments consisting of cash and cash equivalents, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities included in the Company's financial statements, are reasonable estimates of fair value, primarily due to their short maturities.

The company had \$34.9 million in money market funds as of September 30, 2021 which are classified within Level 1. Money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange. Money market funds were included as cash and cash equivalents in the condensed consolidated balance sheets at September 30, 2021 and December 31, 2020.

Use of Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities in the Company's financial statements and accompanying notes. Significant management estimates that affect the reported amounts of assets and liabilities include useful lives of property and equipment, stock-based compensation, accruals for clinical trials and drug manufacturing and deferred tax assets. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

Acquired In-Process Research and Development Expense

The Company acquired in-process research and development assets in connection with its Merger with Tocagen. As the acquired in-process research and development assets were deemed to have no current or alternative future use, an expense of \$32.1 million was recognized in the condensed consolidated statements of operations upon closing of the Merger on June 15, 2020.

Impairment of Property and Equipment

The Company reviews its property and equipment for impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Recoverability is measured by comparing the book values of the assets to future net undiscounted cash flows that the assets or the asset groups are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the book value of the assets exceed their fair value, which is measured based on the estimated discounted future net cash flows arising from the assets or asset groups. Impairment losses on property and equipment of \$61,000 have been recorded for the three and nine months ended September 30, 2021.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries and benefits of research and development personnel, costs related to research activities, preclinical studies, clinical trials and drug manufacturing. Non-refundable advance payments for goods or services that will be used in future research and development activities are deferred and capitalized and are only expensed when the goods have been received or when the service has been performed rather than when the payment is made.

Drug manufacturing and clinical trial costs are a component of research and development expenses. The Company expenses costs for its drug manufacturing activities performed by Contract Manufacturing Organizations (“CMOs”) and preclinical and clinical trial costs performed by Contract Research Organizations (“CROs”) and other service providers, as they are incurred, based upon estimates of the work completed over the life of the individual study in accordance with associated agreements. The Company uses information it receives from internal personnel and outside service providers to estimate the percentage of completion and therefore the expense to be incurred.

Comprehensive Loss

Comprehensive loss includes net loss and other comprehensive income (loss) for the period. The Company did not have other comprehensive income (loss) items such as unrealized gains and losses. Comprehensive loss was equal to net loss for the nine months ended September 30, 2021 and 2020.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents.

Diluted net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock and common stock equivalents outstanding during the period in accordance with the treasury stock method. The following number of unexercised stock options, warrants and restricted stock units, which are common stock equivalents, have been excluded from the diluted net loss calculation as their effect would have been anti-dilutive for all periods presented:

	Three and Nine Months Ended September 30,	
	2021	2020
Options	1,509,256	1,038,496
Warrants	4,434	2,756,980
Restricted stock units	15,000	20,000
Total	1,528,690	3,815,476

Recently Adopted Accounting Standards

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (“ASC 740”)*, which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period 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 guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The Company adopted this ASU as of January 1, 2021 and the adoption did not have a material impact on its financial position or results of operations.

Recently Issued Accounting Standards Not Yet Adopted

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies and adopted by us as of a specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company’s financial position or results of operations.

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in an Entity’s Own Equity (Subtopic 815-40) (“ASU 2020-06”)*. ASU 2020-06 eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity’s own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, ASU 2020-06 modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted earnings per share computation. The amendments in ASU 2020-06 are effective for smaller reporting companies as defined by the SEC for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but not earlier than fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of ASU 2020-06 on its consolidated financial statements and does not expect the adoption of this amended guidance to have a material impact on the Company’s consolidated financial statements.

3. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets as of September 30, 2021 and December 31, 2020 consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Prepaid manufacturing and clinical expenses	\$ 243	\$ 488
Prepaid insurance	504	395
Prepaid license	25	100
Prepaid taxes	—	74
Other	119	76
Total Prepaid Expenses and Other Current Assets	<u>\$ 891</u>	<u>\$ 1,133</u>

Other Assets

Other assets as of September 30, 2021 and December 31, 2020 consist of the following (in thousands).

	September 30, 2021	December 31, 2020
Prepaid insurance	\$ 715	\$ 861
Deferred offering costs	106	289
Deposits for manufacturing components	—	82
Other	13	12
Total Other Assets	<u>\$ 834</u>	<u>\$ 1,244</u>

Accrued Liabilities

Accrued liabilities as of September 30, 2021 and December 31, 2020 consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Accrued legal and professional fees	\$ 69	\$ 86
Accrued manufacturing and clinical expenses	513	237
Accrued compensation	767	646
Other	61	50
Total Accrued Liabilities	<u>\$ 1,410</u>	<u>\$ 1,019</u>

4. Merger

On June 15, 2020, the Company completed the Merger (see Note 1). The Merger was accounted for as a reverse asset acquisition as Tocagen did not meet the definition of a business pursuant to *Topic 805, Business Combinations*, as Tocagen did not have the ability to create output, and substantially all of its fair value was concentrated in cash and in-process research and development (“IPR&D”) assets. Forte Subsidiary is deemed to be the acquirer for accounting purposes because immediately following the merger: (i) Forte Subsidiary stockholders owned a substantial majority of the voting rights of the combined company; (ii) Forte Subsidiary designated a majority of the initial members of the board of directors of the combined company; and (iii) Forte Subsidiary’s senior management held all key positions of the combined company and no employees were retained from Tocagen. Accordingly, for accounting purposes: (i) the Merger has been treated as the equivalent of Forte Subsidiary issuing stock to acquire the net assets of Tocagen, (ii) the transaction price has been allocated over the acquired Tocagen net assets based upon their relative fair value at the time of closing, (iii) the reported historical operating results of the combined company prior to the Merger are those of Forte Subsidiary, and (iv) for periods prior to the transaction, shareholders’ authorized capital of the combined company is presented using the historical authorized capital of Tocagen.

The following summarizes the estimated fair value of the assets and liabilities acquired on June 15, 2020, the date of the Merger (in thousands):

Cash	\$	2,997
Restricted cash		586
Prepaid and other assets		1,257
In-process research and development		32,057
Accounts payable and accrued expenses assumed		(3,916)
Purchase price	\$	<u>32,981</u>

The estimated fair value of total consideration given was \$33.0 million based on 1,594,670 shares of Tocagen common stock, 61,406 vested restricted stock awards and in-the-money options to purchase 26,968 shares of common stock of Tocagen outstanding immediately prior to the Merger date, multiplied by the Tocagen closing stock price of \$18.90 on the date of the Merger, and transaction costs of approximately \$1.2 million. The fair value of the IPR&D assets is expensed as a charge in the condensed consolidated statements of operations on the Merger date of June 15, 2020 as there was no alternative use to these assets.

5. Commitments and Contingencies

Concentrations of Credit Risk

Bank accounts in the United States are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Company’s cash accounts significantly exceed FDIC limits.

Indemnifications

As permitted under Delaware law, the Company indemnifies its officers, directors, and employees for certain events and occurrences while the officer, or director is, or was, serving at the Company’s request in such capacity.

License to Patented Technology

In December 2017, the Company entered into an exclusive license agreement with the Department of Health and Human Services (“DHHS”). Under the agreement, the DHHS granted the Company an exclusive, sublicensable, worldwide license to certain patent rights under which the Company may develop and commercialize pharmaceutical and biological compositions comprising Gram-negative bacteria for the topical treatment of dermatological diseases and conditions (the “DHHS License”). Under the DHHS License, the Company is obligated to meet certain development benchmarks within certain time periods. If the Company is unable to meet any of these development benchmarks, the DHHS could terminate the license. In addition, the DHHS may terminate or modify the DHHS License in the event of a material breach or upon certain insolvency events that remain uncured following a 90 day written notice of such material breach or insolvency event. The DHHS also has the right to require the Company to grant mandatory sublicenses to patent rights licensed from the DHHS to product candidates covered by other DHHS licenses under certain specified circumstances, including if it is necessary to meet health and safety needs or to meet requirements for public use as specified by federal regulations that the Company is not reasonably satisfying.

Under the DHHS License, as amended in May 2020, the Company was obligated to pay the DHHS a minimum annual payment of \$20,000 for 2020, which increased to \$100,000 beginning January 1, 2021. The Company is required to reimburse the DHHS for certain patent-related expenses and may also be obligated to make payments to the DHHS based upon achieving specified development and regulatory milestones for the first licensed product. Such development milestone payments are the completion of patient enrollment in a phase 3 clinical trial and the completion of a phase 3 clinical trial demonstrating a statistically significant efficacy benefit. The regulatory milestones are the receipt of the first FDA approval and the first non-USA regulatory agency approval. In addition, to the extent licensed products are approved for commercial sale, the Company is also obligated to pay the DHHS

royalties based on net sales of licensed products sold by the Company and if applicable, its sublicensees. No milestones have been met as of September 30, 2021.

The Company incurred \$25,000 and \$5,000 in minimum royalty expenses for the three months ended September 30, 2021 and 2020, and \$75,000 and \$25,000 for the nine months ended September 30, 2021 and 2020, respectively.

Lease Agreements

In April 2019, the Company entered into a lease agreement for certain office and laboratory space in Torrance, California. The lease agreement is cancellable by the Company at any time with a 30-day notice. In June 2021, the Company entered into a lease agreement for additional office space at a separate location for an initial lease of 6 months after which the lease term will be month-to-month. Total rent expense for all locations for the three and nine months ended September 30, 2021 was \$9,000 and \$0, respectively. Rent expense for the nine months ended September 30, 2021 included a credit of \$9,000 due to a refund for operating expenses from a previous Tocagen facility. Total rent expense for three and nine months ended September 30, 2020 was \$5,000 and \$19,000, respectively.

Clinical Supply Agreements

The Company has entered into various agreements with CMOs for the manufacture of clinical trial materials and CROs for clinical trial services. These agreements provide the terms and conditions under which the CMOs and CROs will formulate, fill, inspect, package, label and test the Company's drug product candidate, FB-401. Remaining commitment costs of \$493.3 thousand have been recorded in research and developments expenses for the 3 months ended September 30, 2021 and have been included in accrued liabilities in the condensed balance sheet as of September 30, 2021 after termination notices had been sent out to the vendors for these agreements as a result of the FB-401 clinical trial not meeting its primary endpoint.

6. Equity

Series A Convertible Preferred Stock

On November 27, 2018, the Company entered into a preferred stock purchase agreement with certain investors and issued 1,738,759 shares of Series A convertible preferred stock for net proceeds of \$5.7 million, including \$0.7 million from the conversion of convertible notes and accrued interest. In addition, on January 2, 2019, the Company completed a second round of the Series A preferred stock financing and issued 1,438,985 shares at \$3.41 per share for net proceeds of \$4.9 million. All outstanding shares of Series A convertible preferred stock were converted into shares of common stock on a one for one ratio in connection with the closing of the Merger on June 15, 2020.

Common Stock

In connection with the Merger, the Company issued 3,804,817 shares of its common stock and warrants to purchase 2,752,546 shares (the "Concurrent Financing Warrants") of the Company's common stock at an exercise price of \$10.56 per share, for net proceeds of \$19.4 million. In addition, on June 16, 2020, the Company issued an additional 411,112 shares of common stock for net proceeds of \$4.6 million.

Warrants to purchase 4,434 shares of the Company's common stock at an exercise price of \$140.25 per share which were previously issued by Tocagen, survived the Merger and remained outstanding as of September 30, 2021.

On September 4, 2020, the Company entered into an "at-the-market" equity offering program ("ATM Facility"), as amended on October 28, 2020, whereby the Company may from time to time offer and sell shares of its common stock up to an aggregate offering price of \$10.0 million during the term of the ATM Facility. The Company had not issued any shares of common stock under the ATM Facility which expired in May 2021. The

Company expensed \$0.3 million in offering costs related to this ATM Facility in the second quarter of 2021. The Company subsequently filed a new "shelf" registration statement on Form S-3 that went effective in June 2021 which will allow the Company to raise up to \$300 million in additional capital. The Company incurred \$106.4 thousand in offering costs related to this shelf registration statement which is recorded in Other Assets in the condensed consolidated balance sheet for the period ended September 30, 2021. The Company has not issued any securities under the new shelf registration statement as of the filing date of this Form 10-Q.

On November 2, 2020, the Company completed a public offering of 1,614,035 shares of its common stock at \$28.50 per share, which includes the over-allotment option exercised by the underwriters to purchase an additional 210,526 shares. Total net proceeds were \$42.7 million after deducting underwriting discounts and other offering expenses of approximately \$3.3 million.

In February 2021, Concurrent Financing Warrants to purchase 978,858 shares of common stock were exercised on a cashless basis resulting in 673,463 shares being issued. In June 2021, Concurrent Financing Warrants to purchase 760,572 shares of common stock were exercised on a cashless basis resulting in 560,402 shares being issued. In September 2021, Concurrent Financing Warrants to purchase 1,013,116 shares of common stock were exercised on a cashless basis resulting in 655,409 shares being issued. As of September 30, 2021, no Concurrent Financing Warrants were outstanding.

7. Stock-Based Compensation

Equity Plans

In December 2018, Forte Subsidiary adopted the 2018 Equity Incentive Plan (the "2018 Incentive Plan"). The terms and conditions of stock-based awards were defined at the sole discretion of the Forte Subsidiary's Board of Directors. Service-based awards vesting over a defined period of service and performance-based awards that vest upon the achievement of defined conditions have been issued under the 2018 Incentive Plan. Service-based awards generally vest over a four-year period, with the first 25% of such awards vesting following twelve months of continued employment or service with the remaining awards vesting monthly in equal installments over the following thirty-six months. Stock options granted under the 2018 Incentive Plan expire ten years from the date of grant and the exercise price must be at least equal to the fair market value of common stock on the grant date. In connection with the Merger, all outstanding options under the 2018 Incentive Plan were exchanged into options to purchase common stock of Tocagen, which changed its name to Forte Biosciences Inc. upon the closing of the Merger. Subsequent to the Merger, the 2018 Incentive Plan was frozen and no more stock-based awards will be granted from that plan.

In connection with the Merger, the Company assumed Tocagen's 2017 Equity Incentive Plan, which was effective on April 12, 2017, was subsequently amended on September 30, 2018 and further amended on February 12, 2019 (the "2017 Plan"). Immediately upon closing of the Merger, 61,406 restricted stock awards and stock options to purchase 26,968 shares of common stock granted under the 2017 Plan prior to the Merger became fully vested in consideration for pre-merger services provided to Tocagen.

On July 26, 2020, the Company adopted the 2020 Inducement Equity Incentive Plan (the "2020 Inducement Plan") and reserved 500,000 shares for future grants under the 2020 Inducement Plan. As of September 30, 2021, there were 135,000 options available for issuance under the 2020 Inducement Plan.

In May 2021, the 2017 Plan was terminated and replaced by the 2021 Equity Incentive Plan (the "2021 Plan"). The 2017 Plan will continue to govern outstanding award issued under the 2017 Plan. The 2021 Plan had an initial reserve of 1,000,000 shares available for grant. The 2021 Plan provides for the grant of incentive stock options ("ISOs"), non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards, other forms of equity compensation and performance cash awards. ISOs may be granted only to employees. All other awards may be granted to employees, including officers, and to non-employee directors and consultants of the Company and its affiliates. Subsequent to the Merger, service-based awards generally vested over a four-year period, with the first 25% of such awards vesting following twelve months of continued employment or service with the remaining awards vesting monthly in equal installments over the following thirty-six months. For certain service-

based awards to the board of directors, vesting occurs in thirty-six equal monthly installments over a three-year period for initial grants and in twelve equal monthly installments over a twelve-month period for subsequent grants. As of September 30, 2021, there were 915,455 options available for issuance under the 2021 Plan.

Stock Options

The risk-free interest rate valuation assumption for options is based on the U.S. Treasury yield curve rate at the date of grant with a maturity approximating the expected term of the option.

The expected term assumption for options granted to employees is determined using the simplified method that represents the average of the contractual term of the option and the weighted average vesting period of the option. The Company uses the simplified method because it does not have sufficient historical option exercise data to provide a reasonable basis upon which to estimate expected term.

Due to the Company's limited trading of its common stock and lack of company-specific historical or implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies in the life sciences industry whose shares are publicly traded. The Company selects the peer group based on comparable characteristics, including development stage, product pipeline, and enterprise value. The Company computes historical volatility data using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards. The Company will continue to apply this process until sufficient amount of historical information regarding the volatility of its own stock price become available.

The assumed dividend yield is based upon the Company's expectation of not paying dividends in the foreseeable future. Prior to the Merger, the fair value per share was determined by the Company's Board of Directors, as of the date of each grant based on independent third-party valuations, taking into consideration various objective and subjective factors. Subsequent to the Merger, the fair value per share is the closing stock price on the option grant date.

The weighted average grant-date fair value of stock options granted in the three and nine months ended September 30, 2021 was \$18.49 and \$21.89, and \$13.34 and \$10.30 in the three and nine months ended September 30, 2020, respectively.

The weighted-average assumptions used to value these stock options using the Black-Scholes option-pricing model were as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Fair value of common stock	\$ 30.63	\$ 21.64	\$ 35.78	\$ 16.79
Risk-free interest rate	0.91%	0.36%	0.94%	0.49%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected term of options (years)	6.08	6.08	5.95	6.01
Expected Volatility	67.2%	70.0%	69.0%	70.0%

As of September 30, 2021, there was unrecognized stock-based compensation expense related to stock options with service conditions of \$14.3 million, which is expected to be recognized over a weighted-average period of 3.05 years. Total unrecognized stock-based compensation related to stock options with performance conditions were approximately \$233,000 and are not expected to meet performance conditions. The table below summarizes the stock option activity during the nine months ended September 30, 2021:

	Number of Shares Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2020	1,123,496	\$ 11.72	8.85	27,800
Granted	566,500	35.78	—	—
Exercised	(29,575)	2.07	—	366
Forfeited/Cancelled	(151,165)	24.09	—	—
Outstanding at September 30, 2021	<u>1,509,256</u>	<u>\$ 19.70</u>	<u>8.58</u>	<u>1,036</u>
Exercisable at September 30, 2021	<u>200,181</u>	<u>\$ 18.13</u>	<u>8.58</u>	<u>53</u>

The aggregate intrinsic value of options at September 30, 2021 is based on the Company's fair value of its stock price on that date of \$2.96 per share.

There were no restricted stock units granted during the three and nine months ended September 30, 2021. As of September 30, 2021, there were 15,000 unvested restricted stock units outstanding with an unrecognized stock-based compensation expense of approximately \$289,000 to be recognized over 2.71 years.

2017 Employee Stock Purchase Plan

In May 2021, the Company's board of directors reactivated the Company's 2017 Employee Stock Purchase Plan ("ESPP") which had previously been suspended. The ESPP allows eligible employees to withhold up to 15% of their earnings to purchase shares of the Company's common stock at a price per share equal to the lower of (i) 85% of the fair market value of a share of the Company's common stock on the first date of an offering or (ii) 85% of the fair market value of a share of the Company's common stock on the date of purchase. The Company had 176,694 shares available for future issuance under the ESPP as of September 30, 2021. The number of shares of common stock reserved for issuance will automatically increase on January 1 of each calendar year through January 1, 2027, by the lesser of (a) 1% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding calendar year, (b) 300,000 shares, or (c) a number determined by the Company's board of directors that is less than (a) and (b). No shares had been issued under the ESPP as of September 30, 2021 as the first six month offering period since the reactivation ends on January 2, 2022. The ESPP is considered a compensatory plan and the Company recorded stock-based compensation expense of \$20 thousand for the three and nine months ended September 30, 2021. No stock-based compensation expense related to the ESPP was recorded in 2020.

Stock-Based Compensation Expense

Stock-based compensation expenses included in the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2021 and 2020 were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Research and development	\$ 522	\$ 200	\$ 1,191	\$ 206
General and administrative	951	175	1,785	195
Total	<u>\$ 1,473</u>	<u>\$ 375</u>	<u>\$ 2,976</u>	<u>\$ 401</u>

8. Related Party Transactions

One member of the Company's board of directors received cash payments of \$1,000 for the three and nine months ended September 30, 2021. Two members of the Company's board of directors received cash payments of \$3,000 and \$27,000 for scientific consulting services during the three and nine months ended September 30, 2020, respectively.

Item 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read together with the consolidated financial statements of Forte Biosciences, Inc. (“Forte”, “we”, “our”) and the accompanying notes appearing elsewhere in the Form 10-Q and in our Form 10-K as filed with the Securities and Exchange Commission, or SEC, on March 16, 2021. This discussion of the financial condition and results of operations regarding matters that are not historical facts, are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and the Private Securities Litigation Act of 1995 and, known as the PSLRA. These include statements regarding management’s intention, plans, beliefs, expectations or forecasts for the future, and, therefore, you are cautioned not to place undue reliance on them. No forward-looking statement can be guaranteed, and actual results may differ materially from those projected. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except to the extent required by law. We use words such as “anticipates,” “believes,” “plans,” “expects,” “projects,” “intends,” “may,” “will,” “should,” “could,” “estimates,” “predicts,” “potential,” “continue,” “guidance,” and similar expressions to identify these forward-looking statements that are intended to be covered by the safe-harbor provisions of the PSLRA.

Such forward-looking statements are based on our expectations and involve risks and uncertainties; consequently, actual results may differ materially from those expressed or implied in the statements due to a number of factors, including, but not limited to, risks relating to the sufficiency of the Company’s cash balance to fund the Company’s activities, and the expectations with respect thereto; the business and prospects of the Company; Forte’s plans to develop and potentially commercialize its product candidates, including FB-401; the timing of initiation of Forte’s planned clinical trials; the timing of the availability of data from Forte’s clinical trials; the timing of any planned investigational new drug application or new drug application; Forte’s plans to research, develop and commercialize its current and future product candidates; Forte’s ability to successfully enter into collaborations, and to fulfill its obligations under any such collaboration agreements; the clinical utility, potential benefits and market acceptance of Forte’s product candidates; Forte’s commercialization, marketing and manufacturing capabilities and strategy; Forte’s ability to identify additional products or product candidates with significant commercial potential; developments and projections relating to Forte’s competitors and its industry; the impact of government laws and regulations; Forte’s ability to protect its intellectual property position; Forte’s estimates regarding future revenue, expenses, capital requirements and need for additional financing; and the impact of COVID-19 on the Company, the Company’s industry or the economy generally.

The known risks and uncertainties are described in detail under the caption “Risk Factors” and elsewhere in this Form 10-Q and our Form 10-K filed with the SEC on March 16, 2021. Forward-looking statements included in this Form 10-Q are based on information available to Forte as of the date of this Form 10-Q. Accordingly, our actual results may materially differ from our current expectations, estimates and projections. Forte undertakes no obligation to update such forward-looking statements to reflect events or circumstances after the date of this presentation.

Overview

Forte Biosciences, Inc. and its subsidiaries (www.fortebiorx.com) (“Forte”, “we”, “our”) is a biopharmaceutical company that had been advancing through clinical trials its product candidate, FB-401, which is a topical live biotherapeutic for the treatment of inflammatory skin diseases, including pediatric and adult patients with atopic dermatitis (“AD”). FB401 was developed in collaboration with the National Institutes of Health (“NIH”), and the National Institute of Allergy and Infectious Diseases (“NIAID”). On September 2, 2021, Forte announced that the clinical trial of FB-401 for the treatment of AD failed to achieve statistical significance for its primary endpoint of EASI-50 (the proportion of patients with at least a 50% improvement in atopic dermatitis disease severity as measured by EASI). Following the announcement of the FB-401 trial results, our board of directors continues to evaluate plans for FB-401 and also commenced a process of evaluating strategic alternatives to maximize stockholder value. We have engaged a financial advisory firm to help explore our available strategic alternatives, including a possible merger, business combination, asset acquisitions or sales, collaboration or licensing arrangements.

On June 15, 2020, Forte completed a business combination (“Merger”) with Tocagen, Inc. (“Tocagen”), a publicly traded biotechnology company, with Forte being the surviving business. As part of the Merger, the then outstanding Tocagen common stock was adjusted with a reverse split ratio of 1-for-15 and each share of Forte’s common stock was converted into the right to receive approximately 3.1624 shares of Tocagen common stock (prior to giving effect to the reverse split). Immediately prior to the closing of the Merger, the Tocagen legal entity that survived the Merger changed its name to Forte Biosciences, Inc. Our common stock is publicly traded on the Nasdaq Capital Market under the ticker symbol FBRX. Prior to the Merger, Forte was a privately held company incorporated in Delaware on May 3, 2017.

On September 4, 2020, we entered into an “at-the-market” equity offering program (“ATM Facility”), as amended on October 28, 2020, whereby we may from time to time offer and sell shares of our common stock up to an aggregate offering price of \$10,000,000 during the term of the ATM Facility. We did not issue any shares of common stock under the ATM Facility which expired in May 2021. We subsequently filed a new “shelf” registration statement on Form S-3 that went effective in June 2021 which will allow us to raise up to \$300 million in additional capital. We incurred \$106.4 thousand in offering costs related to this shelf registration statement which is recorded in the condensed consolidated balance sheet as of September 30, 2021. We have not issued any securities under the new shelf registration statement as of the filing date of this Form 10-Q.

On November 2, 2020, we closed an underwritten public offering of 1,614,035 shares of common stock at \$28.50 per share, which included the over-allotment option exercised by the underwriters to purchase an additional 210,526 shares. Total net proceeds were \$42.7 million after deducting underwriting discounts and other offering expenses of approximately \$3.3 million.

We issued 673,463, 560,402 and 655,409 shares of our common stock pursuant to cashless exercises by certain warrant holders in February, June and September of 2021, respectively.

Intellectual Property

We own or exclusively license eleven U.S. patents which provide extensive protection covering the composition, manufacture, and method of use of our Gram-negative bacteria technology which is focused on inflammatory skin conditions.

In December 2017, Forte entered into an exclusive license agreement with the Department of Health and Human Services (“DHHS”), as amended in May 2020. Under the agreement, the DHHS granted Forte an exclusive, sublicensable and worldwide license to certain patent rights under which we may develop and commercialize pharmaceutical and biological compositions comprising Gram-negative bacteria for the topical treatment of dermatological diseases and conditions.

Components of Operating Results

Revenue

We have no products approved for commercial sale and have not generated any revenue from product sales. In the future, we may generate revenue from product sales, royalties on product sales, license fees, milestones, or other upfront payments if we enter into any collaborations or license agreements. We expect that our future revenue will fluctuate from quarter to quarter for many reasons, including the uncertain timing and amount of any such payments and sales.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries and benefits of research and development personnel and costs related to research activities, preclinical studies, clinical trials, drug manufacturing, wind down costs incurred following the announcement of our unfavorable clinical trial results and the write-off of manufacturing property and equipment. Non-refundable advance payments for goods or services that will be used in future research and development activities are deferred

and capitalized and are only expensed when the goods have been received or when the service has been performed rather than when the payment is made.

Drug manufacturing and clinical trial costs are a component of research and development expenses. The Company expenses costs for its drug manufacturing activities performed by Contract Manufacturing Organizations (“CMOs”), costs for its preclinical and clinical trial activities performed by Contract Research Organizations (“CROs”) and other service providers, as they are incurred, based upon estimates of the work completed over the life of the individual study in accordance with associated agreements. The Company uses information it receives from internal personnel and outside service providers to estimate the percentage of completion and therefore the expense to be incurred.

The Company intends to significantly reduce its research and development expenses as it considers its future plans regarding FB-401 and strategic alternatives.

General and Administrative Expenses

General and administrative expenses consist primarily of professional fees for legal, auditing, tax and business consulting services, personnel expenses and travel costs. We expect to incur significant costs associated with being a SEC registrant such as legal fees, costs associated with Sarbanes-Oxley compliance, accounting fees, directors’ and officers’ liability insurance premiums, and other expenses. Our general and administrative expenses may increase due to increases in professional and advisory fees as we evaluate our strategic alternatives.

Acquired In-Process Research and Development Expense

The Company acquired in-process research and development assets in connection with its Merger with Tocagen. As the acquired in-process research and development assets were deemed to have no current or alternative future use, an expense of \$32.1 million was recognized in the condensed consolidated statements of operations on the Merger date of June 15, 2020.

Other Income (Expense), Net

Other income (expense), net, consists of foreign exchange gains or losses and franchise taxes, partially offset by interest earned on our cash and cash equivalents balances.

Critical Accounting Policies and Estimates

There have been no significant changes during the nine months ended September 30, 2021 to our critical accounting policies, significant judgments and estimates as disclosed in our management’s discussion and analysis of financial condition and results of operations included in our Annual Report on our Form 10-K for the year ended December 31, 2020 as filed with the SEC on March 16, 2021.

COVID-19

The pandemic caused by an outbreak of a new strain of coronavirus, or COVID-19 and its variants, has resulted, and is likely to continue to result, in significant national and global economic disruption and may adversely affect our operations. We are actively monitoring the impact of COVID-19 and the possible effects on our financial condition, liquidity, operations, suppliers, industry, and workforce. However, the full extent, consequences, and duration of the COVID-19 pandemic and the resulting impact on us cannot currently be predicted. We will continue to evaluate the impact that these events could have on our operations, financial position, results of operations and cash flows during the remainder of fiscal year 2021.

Results of Operations

Comparison of Three and Nine months ended September 30, 2021 and 2020

The following tables summarize our results of operations for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Change in \$	Change in %
	2021	2020		
Operating expenses:				
Research and development	\$ 5,656	\$ 3,688	\$ 1,968	53%
General and administrative	2,043	1,320	723	55%
Total operating expenses	7,699	5,008	2,691	54%
Other income (expense), net	(52)	(92)	40	-43%
Net loss	\$ (7,751)	\$ (5,100)	\$ (2,651)	52%

	Nine Months Ended September 30,		Change in \$	Change in %
	2021	2020		
Operating expenses:				
Research and development	\$ 12,501	\$ 6,979	\$ 5,522	79%
General and administrative	5,686	2,753	2,933	107%
In-process research and development assets acquired	—	32,057	(32,057)	-100%
Total operating expenses	18,187	41,789	(23,602)	-56%
Other income (expense), net	(180)	(122)	(58)	48%
Net loss	\$ (18,367)	\$ (41,911)	\$ 23,544	-56%

Research and Development Expenses

Research and development expenses were \$5.7 million for the three months ended September 30, 2021, compared to \$3.7 million for the same period in 2020. The increase of \$2.0 million was primarily due to a net increase of approximately \$1.5 million in manufacturing, clinical, regulatory and other expenses as we advanced our FB-401 program through US FDA clinical trials, the subsequent wind down costs incurred following the announcement of our unfavorable clinical trial results, and an increase of approximately \$0.5 million in payroll and related expenses including stock-based compensation expense as a result of increased headcount.

Research and development expenses were \$12.5 million for the nine months ended September 30, 2021, compared to \$7.0 million for the same period in 2020. The increase of \$5.5 million was primarily due to a net increase of approximately \$3.2 million in manufacturing, clinical, regulatory and other expenses as we advanced our FB-401 program through US FDA clinical trials, the subsequent wind down costs incurred following the announcement of our unfavorable clinical trial results, and an increase of approximately \$2.3 million in payroll and related expenses including stock-based compensation expense as a result of increased headcount.

The Company intends to significantly reduce its research and development expenses as it considers its future plans regarding FB-401 and strategic alternatives.

General and Administrative Expenses

General and administrative expenses were \$2.0 million for the three months ended September 30, 2021, compared to \$1.3 million for the same period in 2020. The increase of \$0.7 million was primarily due to an increase

of approximately \$0.9 million in payroll expenses including stock-based compensation expense, partially offset by a \$0.2 million reduction in legal, professional, insurance and other expenses.

General and administrative expenses were \$5.7 million for the nine months ended September 30, 2021, compared to \$2.8 million for the same period in 2020. The increase of \$2.9 million was primarily due to an increase of approximately \$2.1 million in payroll and related expenses including stock-based compensation expense as we increased our headcount and an increase of approximately \$0.8 million in legal, professional, insurance and other expenses as a result of being a public company.

Our general and administrative expenses may increase due to increases in professional and advisory fees as we evaluate our strategic alternatives.

In-process research and development assets acquired

In connection with the Merger, we recognized a charge of \$0 and \$32.1 million of acquired in-process research and development expenses for assets with no alternative use for the three and nine months ended September 30, 2020, respectively. There was no corresponding expense in the three or nine months ended September 30, 2021.

Other Income (Expense), net

The net decrease in other expense of approximately \$40 thousand for the three months ended September 30, 2021, compared with the same period in the prior year were primarily due to reduced foreign currency transaction losses related to contracts denominated in currencies other than the U.S. dollar due to differences between the exchange rates on the billing and payment dates, partially offset by higher franchise taxes.

The net increase in other expense of approximately \$58 thousand for the nine months ended September 30, 2021, compared with the same period in the prior year were primarily due to an increase in franchise taxes partially offset by reduced foreign currency transaction losses.

Liquidity and Capital Resources

We have no products approved for commercial sale and have not generated any revenue from product sales or out-licenses. We have never been profitable and have incurred operating losses each year since inception. Our net loss was approximately \$18.4 million for the nine months ended September 30, 2021. As of September 30, 2021, we had an accumulated deficit of approximately \$69.8 million. On September 2, 2021, we announced that the clinical trial of FB-401 for the treatment of AD failed to meet statistical significance for its primary endpoint. Following the announcement of the FB-401 trial results, our board of directors continues to evaluate plans for FB-401 and also commenced a process of evaluating strategic alternatives to maximize stockholder value.

We expect to incur expenses and operating losses for the foreseeable future as we evaluate future plans for FB-401 and our strategic alternatives.

Prior to the closing of the Merger, we had raised net cash proceeds of approximately \$9.9 million in a Series A financing round from private placements of preferred stock. In connection with the Merger, we issued 3,804,817 shares of our common stock and warrants ("Concurrent Financing Warrants") to purchase 2,752,546 shares of our common stock (in each case, after giving effect to the exchange ratio and reverse split contemplated by the Merger) for net proceeds of \$19.4 million. In addition, on June 16, 2020, we issued an additional 411,112 shares of common stock for net proceeds of \$4.6 million.

On September 4, 2020, we entered into an "at-the-market" equity offering program ("ATM Facility"), as amended on October 28, 2020, whereby we could from time to time offer and sell shares of our common stock up to an aggregate offering price of \$10,000,000 during the term of the ATM Facility. We did not issue any shares of common stock under the ATM Facility which expired in May 2021. We subsequently filed a new "shelf" registration statement on Form S-3 that went effective in June 2021 which will allow us to raise up to \$300 million in additional capital. We incurred \$106.4 thousand in offering costs related to this shelf registration statement which

is recorded in Other Assets in the condensed consolidated balance sheet for the period ended September 30, 2021. We have not issued any securities under the new shelf registration statement as of the filing date of this Form 10-Q.

On November 2, 2020, we closed an underwritten public offering of 1,614,035 shares of common stock at \$28.50 per share, which includes the over-allotment option exercised by the underwriters to purchase an additional 210,526 shares. Total net proceeds were \$42.7 million after deducting underwriting discounts and other offering expenses of approximately \$3.3 million.

We issued 673,463, 560,402 and 655,409 shares of our common stock pursuant to cashless exercises by certain warrant holders in February, June and September of 2021, respectively. As of September 30, 2021, no Concurrent Financing Warrants were outstanding.

We had cash and cash equivalents of approximately \$45.7 million as of September 30, 2021. We believe that our existing cash and cash equivalents will be sufficient to allow us to fund our operations for at least 12 months from the filing date of this Form 10-Q.

Future Capital Requirements

We have not generated any revenue from product sales or from out-licensing. We do not know when, or if, we will generate any revenue. We expect to incur ongoing expenses as we evaluate our plans for FB-401 and strategic alternatives after we announced on September 2, 2021 that the clinical trial of FB-401 for the treatment of atopic dermatitis failed to meet statistical significance for its primary endpoint. We have paused further advancement of the development of FB-401 and have no other product candidate undergoing clinical trials. Our future capital requirements are difficult to forecast and will depend on many factors, including but not limited to the terms and timing of any strategic alternatives including a merger or business combination, asset acquisitions or sales, collaborations or licensing arrangements.

If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Any future debt financing may impose upon us covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Any equity or debt financing may contain terms that are not favorable to us or our stockholders. If we are unable to raise additional funds when needed, we may be required to delay, reduce or terminate some or all of our development programs and clinical trials. We may also be required to sell or license to other parties' rights to develop or commercialize our drug candidates that we would prefer to retain.

See the "Risk Factors" section on this Form 10-Q for additional risks associated with our substantial capital requirements.

The following table shows a summary of our cash flows for the nine months ended September 30, 2021 and 2020 (in thousands):

	Nine Months Ended September 30,	
	2021	2020
Net cash (used in) provided by:		
Operating activities	\$ (13,095)	\$ (14,620)
Investing activities	—	3,582
Financing activities	(5)	24,274
Net (decrease) increase in cash and cash equivalents	<u>\$ (13,100)</u>	<u>\$ 13,236</u>

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2021 was \$13.1 million and consisted primarily of a net loss of \$18.4 million adjusted for non-cash items of \$3.1 million which were primarily related to stock-based compensation and decreases in net operating assets of \$2.2 million.

Net cash used in operating activities for the nine months ended September 30, 2020 was \$14.6 million and consisted primarily of a net loss of \$41.9 million adjusted for non-cash items primarily related to \$30.9 million of IPR&D write off in connection with the Merger and \$0.4 million for stock-based compensation, and increases in net operating assets of \$4.0 million.

Investing activities

Cash provided from investing activities for the nine months ended September 30, 2020 was \$3.6 million, which primarily consisted of cash acquired from the reverse merger with Tocagen, Inc. that closed on June 15, 2020.

Financing Activities

Net cash used by financing activities of \$5 thousand for the nine months ended September 30, 2021 was primarily from \$66 thousand in additional fees paid for our shelf registration statement partially offset by net proceeds of \$61 thousand received from the exercise of stock options.

Net cash provided by financing activities of \$24.3 million for the nine months ended September 30, 2020 was primarily from net proceeds of \$24.0 million received from the sale of the company's common stock and \$0.3 million of proceeds received from the exercise of stock options

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Contractual Obligations

See Note 5 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Recent Accounting Standards

See Note 2 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative and Quantitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2021.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting even though some of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Part II. OTHER INFORMATION

Item 1: Legal Proceedings

From time to time, we may become involved in various claims and legal proceedings. Regardless of outcome, litigation and other legal and administrative proceedings can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. We are not currently a party to any material pending litigation or other material legal proceeding.

Item 1A: Risk Factors

You should consider carefully the following information about the risks described below, together with the other information contained in this Quarterly Report on Form 10-Q and in our other public filings, in evaluating our business. If any of the following risks actually occur, our business, financial condition, results of operations, and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline.

Our ability to execute on our business strategy is subject to a number of risks, which are discussed more fully below in this section. You should carefully consider these risks before making an investment in our common stock. These risks include, among others, the following:

- Forte's activities to evaluate and pursue strategic alternatives may not be successful .
- If Forte does not successfully consummate a strategic transaction, its board of directors may decide to pursue a dissolution and liquidation of the company. In such an event, the amount of cash available for distribution to Forte's stockholders will depend heavily on the timing of such liquidation as well as the amount of cash that will need to be reserved for commitments and contingent liabilities.
- Forte's business to date has been almost entirely dependent on the success of FB-401 and Forte has recently decided to discontinue the advancement of FB-401 and devote significant time and resources to identifying and evaluating strategic alternatives, which may not be successful.
- Forte is substantially dependent on its remaining employees to facilitate the consummation of a strategic transaction. Forte could lose such key employees, in particular, as a result of the FB-401 data.
- Forte's prospects were highly dependent on a single product candidate, FB-401, and Forte does not expect to be able to complete the development or commercialize FB-401.
- Forte has no approved products and has a limited operating history, which may make it difficult to evaluate its technology and product development capabilities and predict its future performance.
- Forte has incurred net losses in every year since its inception and anticipates that it will continue to incur net losses in the future.
- Although Forte has discontinued the advancement of FB-401, if Forte resumes its FB-401 product development or the development of any new product, Forte will require additional capital to fund its operations and if Forte fails to obtain necessary financing, Forte will not be able to complete the development and commercialization of its product candidate, FB-401.
- If Forte fails to comply with its obligations under the license agreement with the U.S. Department of Health and Human Services ("DHHS"), as represented by the National Institute of Allergy and Infectious Diseases or otherwise experience disruptions to its business relationship with DHHS, Forte could lose license rights that are important to its business.
- Topical live biotherapeutic is a novel approach and negative perception of any product candidate that Forte develops could adversely affect its ability to conduct its business or obtain regulatory approvals for such product candidate.
- Although Forte has discontinued the advancement of FB-401, even if Forte resumes product development activities, Forte's ability to successfully develop any product candidate is highly uncertain

- Clinical development is a lengthy and expensive process, with an uncertain outcome. Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities of FB-401 or any other product candidate, Forte may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of any product candidate.
- Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, Forte's future clinical trials or those of its future collaborators may reveal significant adverse events not seen in its preclinical studies or other clinical trials and may result in a safety profile that could inhibit regulatory approval or market acceptance of any of its product candidates. If Forte resume product development activities, interim top-line and preliminary data from its clinical trials that Forte announces or publishes from time to time may change as more patient data become available and are subject to audit and verification procedures that could result in material changes in the final data.
- If Forte is unable to obtain and maintain patent protection for any product candidate Forte develops, its competitors could develop and commercialize products or technology similar or identical to Forte's, and its ability to successfully commercialize any product candidate Forte may develop, and its technology, may be adversely affected.
- The market price of Forte's common stock is expected to be volatile. In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies.
- A variety of risks associated with public health threats and epidemics, including the COVID-19 pandemic and related public health emergency could materially adversely affect Forte's business.

Risks related to Forte's Evaluation of Strategic Alternatives

Forte's activities to evaluate and pursue strategic alternatives may not be successful.

In September 2021, Forte announced that topline data from its Phase 2 clinical trial of FB-401 for the treatment of atopic dermatitis failed to meet statistical significance for the primary endpoint of EASI-50 (the proportion of patients with at least a 50% improvement in atopic dermatitis disease severity as measure by EASI) and that, given that result, Forte would not be advancing the development of FB-401. Following the announcement of the FB-401 trial results, in addition to evaluating and analyzing Forte's plans regarding FB-401, Forte's board of directors commenced a process of evaluating strategic alternatives to maximize stockholder value. Forte has engaged a financial advisory firm to help explore its available strategic alternatives, including a possible merger, business combination, asset acquisitions or sales, and collaboration and licensing arrangements. Forte has significantly reduced its research and development activities to reduce operating expenses while it evaluates these opportunities. Forte expects to devote significant time and resources to identifying and evaluating strategic transactions; however, there can be no assurance that such activities will result in any agreements or transactions that will enhance stockholder value. In addition, potential strategic transactions that require stockholder approval may not be approved by Forte's stockholders or a counterparty's stockholders. Further, any strategic transaction that is completed ultimately may not deliver the anticipated benefits or enhance stockholder value.

Forte also may acquire additional businesses, products or product candidates. Integrating any newly acquired business, product or product candidate could be expensive and time-consuming. Forte may not be able to integrate any acquired business, product or product candidate successfully. If Forte does acquire any additional business, products, or product candidates, Forte's future financial performance will depend, in part, on its ability to manage any future growth effectively and its ability to integrate any such acquired businesses, products or product candidates.

Any strategic transaction may require Forte to incur non-recurring or other charges, may increase its near- and long-term expenditures and may pose significant integration challenges or disrupt its management or business, which could adversely affect its operations and financial results. For example, these transactions may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- incurrence of substantial debt or dilutive issuances of equity securities to pay for acquisitions;
- higher than anticipated acquisition and/or integration costs;
- write downs of assets or goodwill or impairment charges;
- increased amortization expenses;
- difficulty and cost in combining the operations and personnel of any acquired businesses with Forte's operations and personnel;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- the inability to retain key employees or other service providers of Forte or any acquired businesses.

Accordingly, there can be no assurance that Forte will undertake or successfully complete any strategic transactions of the nature described above and any transactions that Forte does complete may be subject to the foregoing or other risks and could have a material adverse effect on its business, financial condition and prospects.

If Forte does not successfully consummate a strategic transaction, its board of directors may decide to pursue a dissolution and liquidation of the company. In such an event, the amount of cash available for distribution to Forte's stockholders will depend heavily on the timing of such liquidation as well as the amount of cash that will need to be reserved for commitments and contingent liabilities.

There can be no assurance that the process to identify a strategic transaction will result in a successfully consummated transaction. If no transaction is completed, Forte's board of directors may decide to pursue a dissolution and liquidation of the company. In such an event, the amount of cash available for distribution to Forte's stockholders will depend heavily on the timing of such decision and, ultimately, such liquidation, since the amount of cash available for distribution will continue to decrease as Forte funds its operations while it evaluates its strategic alternatives. In addition, if Forte's board of directors were to approve and recommend, and its stockholders were to approve, a dissolution and liquidation of the company, Forte would be required under Delaware corporate law to pay its outstanding obligations, as well as to make reasonable provision for contingent and unknown obligations, prior to making any distributions in liquidation to its stockholders. Forte's commitments and contingent liabilities may include (i) regulatory and clinical obligations; (ii) obligations under Forte's employment and related agreements with certain employees that provide for severance and other payments following a termination of employment occurring for various reasons, including a change in control; (iii) potential litigation against Forte, and other various claims and legal actions arising in the ordinary course of business; and (iv) non-cancelable facility lease obligations. As a result of this requirement, a portion of Forte's assets may need to be reserved pending the resolution of such obligations. In addition, Forte may be subject to litigation or other claims related to a dissolution and liquidation of the company. If a dissolution and liquidation were pursued, Forte's board of directors, in consultation with its advisors, would need to evaluate these matters and make a determination about a reasonable amount to reserve. Accordingly, holders of Forte's common stock could lose all or a significant portion of their investment in the event of a liquidation, dissolution or winding up of the company.

Forte's business to date has been almost entirely dependent on the success of FB-401 and Forte has recently decided to discontinue the advancement of FB-401 and devote significant time and resources to identifying and evaluating strategic alternatives, which may not be successful.

To date, Forte has invested substantially all of its efforts and financial resources into the research and development of FB-401, which was its only product candidate to enter clinical trials. In September 2021, Forte announced that it would not be continuing the advancement of FB-401.

Forte is evaluating strategic alternatives with a goal to enhance stockholder value, including the possibility of a merger or sale of the company, and intends to suspend most of its research and development activities to reduce operating expenses while evaluating these opportunities.

There can be no assurance that Forte's process to identify and evaluate potential strategic alternatives will result in any definitive offer to consummate a strategic transaction, or if made, what the terms thereof will be or that any transaction will be approved or consummated. If any definitive offer to consummate a strategic transaction is received, there can be no assurance that a definitive agreement will be executed or that, if a definitive agreement is executed, the transaction will be consummated. In addition, there can be no assurance that any transaction involving Forte and/or its assets that is consummated would enhance stockholder value.

Forte is substantially dependent on its remaining employees to facilitate the consummation of a strategic transaction. Forte could lose such key employees, in particular, as a result of the FB-401 data.

Forte's cash conservation activities may yield unintended consequences, such as attrition and reduced employee morale, which may cause remaining employees to seek alternative employment. Forte's ability to successfully complete a strategic transaction depends in large part on its ability to retain certain personnel, particularly Paul A. Wagner, Ph.D, Forte's Chief Executive Officer, and Tony Riley, Forte's Chief Financial Officer. Despite Forte's efforts to retain these employees, one or more may terminate their employment on short notice. The loss of the services of any of these employees could potentially harm Forte's ability to evaluate and pursue strategic alternatives, as well as fulfill Forte's reporting obligations as a public company.

Competition among biotechnology companies for qualified employees is intense, and Forte's ability to retain its key employees is critical to its ability to effectively manage its resources and consummate a strategic transaction. Although Forte has suspended most of its research and development activities, if Forte resumes the advancement of FB-401 or commences development of new product candidates, such development would require expertise from a number of different disciplines, some of which are not widely available. The failure of the FB-401 clinical trial will likely make it more challenging to retain qualified personnel and more difficult to recruit personnel in the future, if necessary. If Forte fails to attract new personnel or fails to retain and motivate its current personnel, Forte's business and future growth prospects and its ability to consummate a strategic transaction would be harmed.

Risks related to Forte's business, technology and industry

Forte's prospects were highly dependent on a single product candidate, FB-401, and Forte does not expect to be able to complete the development of or commercialize FB-401.

Forte's long-term prospects were highly dependent on future acceptance and revenues from a single product, FB-401. As discussed above, in September 2021, Forte announced that topline data from its Phase 2 clinical trial of FB-401 for the treatment of atopic dermatitis failed to meet statistical significance for the primary endpoint of EASI-50 (the proportion of patients with at least a 50% improvement in atopic dermatitis disease severity as measured by EASI) and that, given that result, Forte would not be continuing development of FB-401. Any further development of FB-401 would require substantial capital and time to complete and there is no guarantee that any future clinical trial, if pursued, would be timely or successful, or that FB-401 would be approved or, if approved, that commercialization would be successful.

Forte has no approved products and has a limited operating history, which may make it difficult to evaluate its technology and product development capabilities and predict its future performance.

Prior to discontinuing the advancement of FB-401, Forte was early in its development efforts. Prior to the closing of the reverse merger ("Merger") with Tocagen Inc. on June 15, 2020, Forte's predecessor company was formed in 2017 as a privately held company. Forte has no products approved for commercial sale and has not generated any revenue from product sales. Forte's ability to generate product revenue or profits was dependent on the successful development and eventual commercialization of FB-401. Given the failure of the FB-401 trial and the suspension of the advancement of FB-401, Forte may never be able to develop or commercialize a marketable product.

Forte's current and future programs and product candidates will require additional discovery research, preclinical development, clinical development, regulatory approval to commercialize the product, manufacturing validation, obtaining manufacturing supply, capacity and expertise, building of a commercial and distribution organization, substantial investment and significant marketing efforts before Forte generates any revenue from product sales. In addition, any drug product candidate must be approved for marketing by the FDA or certain other health regulatory agencies before Forte may commercialize any product in the respective jurisdictions.

Forte's limited operating history may make it difficult to evaluate its, or any new, technology and industry and predict its future performance. Forte's short history as an operating company makes any assessment of its future success or viability subject to significant uncertainty. Forte will encounter risks and difficulties frequently experienced by early-stage companies in evolving fields, for example the failure of the FB-401 trial. If Forte does not address these risks successfully, its business will suffer. Similarly, Forte expects that its financial condition and operating results will fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond its control. As a result, its stockholders should not rely upon the results of any quarterly or annual period as an indicator of future operating performance.

Forte has incurred net losses in every year since its inception and anticipates that it will continue to incur net losses in the future.

Forte is a healthcare company with a limited operating history. Investment in product development in the healthcare industry, including of biopharmaceutical products, is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval and become commercially viable. Forte has no products approved for commercial sale and has not generated any revenue from product sales to date. As a result, Forte is not profitable and has incurred losses in each period since its inception in 2017. For the nine months ended September 30, 2021, Forte reported a net loss of \$18.4 million. For the year ended December 31, 2020, Forte reported a net loss of \$46.5 million, which includes a \$32.1 million charge for in-process research and development expenses. As of September 30, 2021, Forte had an accumulated deficit of \$69.8 million.

Although Forte has discontinued the advancement of FB-401, to become and remain profitable, Forte or any potential future collaborator must develop and eventually commercialize products with significant market potential at an adequate profit margin after cost of goods sold and other expenses. This will require Forte to be successful in a range of challenging activities, including completing clinical trials, manufacturing, marketing and selling products for which Forte may obtain marketing approval and satisfying any post-marketing requirements. Forte may never succeed in any or all of these activities and, even if Forte does, Forte may never generate revenue that is significant enough to achieve profitability. If Forte does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. Forte's failure to become and remain profitable would decrease the value of the company and could impair its ability to raise capital, maintain its research and development efforts, expand its business or continue its operations.

Forte may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect its business. The size of its future net losses will depend, in part, on the rate of future growth of its expenses and its ability to generate revenue. Forte's prior losses and expected future losses have had and will continue to have an adverse effect on its stockholders' equity and working capital.

Although Forte has discontinued the advancement of FB-401, if Forte resumes its FB-401 product development activities or the development of any new product, Forte will require additional capital to fund its operations and if Forte fails to obtain necessary financing, Forte will not be able to complete the development and commercialization of product candidates.

Forte's operations have consumed substantial amounts of cash since inception. Although Forte has discontinued the advancement of FB-401, Forte expects to continue to spend a considerable amount of resources on pursuing strategic opportunities. Furthermore, if Forte resumes the development of FB-401 or any other product candidates, Forte would be required to spend substantial amounts to conduct clinical trials of such programs, to validate the manufacturing process and specifications for any such product candidate, to seek regulatory approvals for such product candidate and to launch and commercialize any products for which Forte receives regulatory approval, including potentially building its own commercial organization. As of September 30, 2021, Forte had \$45.7 million of cash and cash equivalents on hand. Based on its current operating plan, Forte believes that its current cash available will enable it to fund its operating expenses and capital expenditure requirements through at

least twelve months from the issuance date of this Form 10-Q. However, its future capital requirements and the period for which its existing resources will support its operations may vary significantly from what Forte currently expects and may change if Forte's business plan changes from its current expected operating plan. Forte's monthly spending levels will vary based on development and corporate activities. Because of the uncertainty regarding Forte's future development pathway, Forte is unable to estimate the actual funds it will require for development of any potential product candidate and any approved marketing and commercialization activities. Forte's future funding requirements, both near and long-term, will depend on many factors, including, but not limited to:

- the timing and structure of any strategic options that we pursue;
- the terms of any collaboration agreements Forte may choose to initiate or conclude;
- the outcome, timing and cost of meeting regulatory requirements established by the U.S. Food and Drug Administration ("FDA"), and other comparable foreign regulatory authorities;
- delay or failure in obtaining the necessary approvals from regulators or institutional review boards ("IRBs") in order to commence a clinical trial at a prospective trial site, or their suspension or termination of a clinical trial once commenced;
- failure of third-party contractors, such as contract research organizations ("CROs"), or investigators to comply with regulatory requirements, including Good Clinical Practices ("GCPs");
- governmental or regulatory delays and changes in regulation or policy relating to the development and commercialization of a product candidate by the FDA or other comparable foreign regulatory authorities;
- undertaking and completing additional pre-clinical studies to generate data required to support the clinical development of a product candidate;
- inability to enroll sufficient patients to complete a protocol;
- difficulty in having patients complete a trial or return for post-treatment follow-up;
- clinical sites deviating from trial protocol or dropping out of a trial;
- problems with biopharmaceutical product candidate storage, stability and distribution;
- its inability to add new or additional clinical trial sites;
- varying interpretations of the data generated from its preclinical or clinical trials;
- inability to manufacture, or obtain from third parties, adequate supply of biopharmaceutical product candidate sufficient to complete its preclinical studies and clinical trials;
- the costs of establishing, maintaining, and overseeing a quality system compliant with current good manufacturing practice requirements ("cGMPs") and a supply chain for the development and manufacture of its product candidate;
- the cost of defending intellectual property disputes, including patent infringement actions brought by third parties against Forte;
- the effect of competing technological and market developments;
- the cost and timing of establishing, expanding and scaling manufacturing capabilities;
- the cost of establishing sales, marketing and distribution capabilities for any product candidate for which Forte may receive regulatory approval in regions where Forte chooses to commercialize its products on its own; and
- potential unforeseen business disruptions or market fluctuations that delay its product development or clinical trials and increase its costs or expenses, such as business or operational disruptions, delays, or system failures due to malware, unauthorized access, terrorism, war, natural disasters, strikes, geopolitical conflicts, restrictions on trade, import or export restrictions, or public health crises, such as the current COVID-19 outbreak.

Forte does not have any committed external source of funds or other support for its development efforts, and Forte cannot be certain that additional funding will be available on acceptable terms, or at all. Until Forte can generate sufficient product or royalty revenue to finance its cash requirements, which Forte may never do, Forte expects to finance its future cash needs through a combination of public or private equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements and other marketing or distribution arrangements. If Forte raises additional funds through public or private equity offerings, the terms of these securities may include liquidation or other preferences that adversely affect its stockholders' rights. Further, to the extent that Forte raises additional capital through the sale of common stock or securities convertible into or exchangeable for common stock, each existing investors' ownership interest will be diluted. If Forte raises additional capital through debt financing, Forte would be subject to fixed payment obligations and may be subject to covenants limiting or restricting its ability to take specific actions, such as incurring additional debt, making capital expenditures, declaring dividends or acquiring or licensing intellectual property rights. If Forte raises additional capital through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, Forte may have to relinquish certain valuable rights to its product candidate, technologies, future revenue streams or research programs or grant licenses on terms that may not be favorable to it. Forte also could be required to seek collaborators for one or more of its current or future product candidates at an earlier stage than otherwise would be desirable or relinquish its rights to product candidates or technologies that Forte otherwise would seek to develop or commercialize itself. If Forte is unable to raise additional capital in sufficient amounts or on terms acceptable to it, Forte may have to significantly delay, scale back or discontinue the development or commercialization of one or more of its other research and development initiatives. Any of the above events could significantly harm its business, prospects, financial condition and results of operations and cause the price of its common stock to decline.

If Forte fails to comply with its obligations under the license agreement with the U.S. Department of Health and Human Services, as represented by the National Institute of Allergy and Infectious Diseases ("DHHS") or otherwise experience disruptions to its business relationship with DHHS, Forte could lose its license rights to FB-401.

Forte's DHHS license agreement imposes various diligence, milestone payment, royalty and other obligations on Forte. If Forte fails to comply with its obligations under these agreements, or Forte is subject to a bankruptcy, the licensor may have the right to terminate the license, in which event Forte would not be able to advance FB-401 or market products covered by the license.

Topical live biotherapeutic is a novel approach and negative perception of any product candidate that Forte develops could adversely affect its ability to conduct its business or obtain regulatory approvals for such product candidate.

Microbiome therapies and therapy candidates in general are a relatively new and novel approach. In the United States and the European Union, Forte is not aware of any products to date have been approved specifically demonstrating an impact on the microbiome as part of their therapeutic effect. Microbiome therapies in general may not be successfully developed or commercialized or gain the acceptance of the public or the medical community. Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities in this field, Forte's success will depend upon physicians who specialize in the treatment of diseases targeted by Forte's product candidates prescribing potential treatments that involve the use of its product candidate in lieu of, or in addition to, existing treatments with which they are more familiar and for which greater clinical data may be available. Forte's success will also depend on consumer acceptance and adoption of any products that Forte commercializes. Adverse events in clinical trials of its product candidate or in clinical trials of others developing similar products and the resulting publicity, as well as any other adverse events in the field of the microbiome, could result in delay in regulatory approval or a decrease in demand for any product candidate Forte develops. In addition, responses by the U.S., state or foreign governments to negative public perception or ethical concerns may result in new legislation or regulations that could limit Forte's ability to develop or commercialize any product candidate, obtain or maintain regulatory approval or otherwise achieve profitability. More restrictive statutory regimes, government regulations or negative public opinion would have an adverse effect on Forte's business, financial condition, results of operations and prospects and may delay or impair the development and commercialization of or demand for any products Forte may develop.

Although Forte has discontinued the advancement of FB-401, even if Forte resumes product development activities, Forte’s ability to successfully develop any product candidate is highly uncertain.

Although Forte has discontinued the advancement of FB-401, even if Forte resumes product development activities, Forte’s ability to successfully develop any product candidate is highly uncertain and is dependent on numerous factors, many of which are beyond Forte’s control. Product candidates that appear promising in the early phases of development may fail to reach the market for several reasons, including:

- clinical study results may show the product candidate to be less effective than desired or to have harmful or problematic side effects or toxicities;
- clinical trial results may show the product candidate to be less effective than expected (e.g., a clinical trial could fail to meet its primary endpoint(s)) or to have unacceptable side effects or toxicities;
- failure to execute the clinical trials caused by slow enrollment in clinical trials, patients dropping out of clinical trials, length of time to achieve clinical trial endpoints, additional time requirements for data analysis, inability to validate the manufacturing process or to achieve cGMP compliance for the product candidate or inability to identify a suitable bioanalytical assay method agreeable to applicable regulators;
- failure to receive the necessary regulatory approvals or a delay in receiving such approvals for, including but not limited to, a BLA, delays in BLA preparation responding to an FDA request for additional clinical data or unexpected safety or manufacturing issues;
- manufacturing costs, formulation issues, manufacturing deficiencies or other factors that make a product candidate uneconomical; and
- proprietary rights of others and their competing products and technologies that may prevent a product candidate from being commercialized.

The length of time necessary to complete clinical trials and to submit an application for marketing approval of a drug product candidate for a final decision by a regulatory authority may also be difficult to predict for any given product candidate.

Even if Forte is successful in obtaining market approval for a drug product, commercial success of any approved products will also depend in large part on marketing acceptance, the availability of insurance coverage and adequate reimbursement from third-party payors, including government payors, such as the Medicare and Medicaid programs, and managed care organizations, which may be affected by existing and future healthcare reform measures designed to reduce the cost of healthcare. Third-party payors could require Forte to conduct additional studies, including post-marketing studies related to the cost-effectiveness of the product, to qualify for reimbursement, which could be costly and divert its resources. If government and other healthcare payors were not to provide adequate insurance coverage and reimbursement levels for any of its drug products once approved, market acceptance and commercial success would be reduced.

In addition, if any of Forte’s drug product candidates are approved for marketing, Forte will be subject to significant regulatory obligations regarding the submission of safety and other post-marketing information and reports and registration. If approved, any of its drug products would be subject to restrictions on its products’ labels and other conditions of regulatory approval that may limit its ability to market its products. Forte will also need to comply (and ensure that its third-party contractors comply) with cGMPs, and Good Clinical Practice (“GCP”), as Forte (and its third-party contractors) will be required to comply with these requirements for the products or product candidates used in its clinical trials or post-approval studies. In addition, Forte will need to comply with GCPs for any clinical trial conducted for any therapeutic indications Forte may develop for approval. In addition, there is always the risk that Forte or a regulatory authority might identify previously unknown problems with a drug product post-approval, such as adverse events of unanticipated severity or frequency. Compliance with these requirements and other regulatory requirements is costly and any failure to comply or other issues with its product post-approval could have a material adverse effect on its business, financial condition and results of operations.

Clinical development is a lengthy and expensive process, with an uncertain outcome. Although Forte has discontinued the advancement of FB-401, even if Forte resumes product development activities of FB-401 or any

other product candidate, Forte may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of any product candidate.

To obtain the requisite regulatory approvals to commercialize any product candidate, Forte must demonstrate through extensive clinical trials that its product candidate is safe and effective in humans for its intended use. Clinical testing is expensive, difficult to design and implement and can take many years to complete, and its outcome is inherently uncertain. As seen with the FB-401 trial discussed above, Forte may be unable to establish clinical endpoints, dose levels and regimens or bioanalytical assay methods that applicable regulatory authorities would consider clinically meaningful, and a clinical trial can fail at any stage of testing. The outcome of preclinical studies and early clinical trials may not be predictive of the success of later clinical trials, and interim results of these studies or trials do not necessarily predict final results. Differences in trial design between early-stage clinical trials and later-stage clinical trials make it difficult to extrapolate the results of earlier clinical trials to later clinical trials. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidate performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their product candidate.

Successful completion of clinical trials is a prerequisite to submitting a BLA to the FDA, and similar marketing applications to comparable foreign regulatory authorities, for each product candidate, and, consequently, the ultimate approval and commercial marketing of any product candidate.

Although Forte has discontinued the advancement of FB-401, even if Forte resumes product development activities, Forte may experience delays in completing its clinical trials. Forte also may experience numerous unforeseen events during, or as a result of, any future clinical trials that Forte could conduct that could delay or prevent its ability to receive marketing approval or commercialize its product candidate, including:

- regulators or IRBs, or ethics committees may not authorize Forte or its investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- Forte may experience delays in reaching, or fail to reach, agreement on acceptable terms with prospective trial sites and prospective CROs, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- clinical trials of any product candidate may fail to show safety, purity or potency, or produce negative or inconclusive results and Forte may decide, or regulators may require it, to conduct additional preclinical studies or clinical trials or Forte may decide to abandon product development programs;
- the number of patients required for clinical trials of any product candidate may be larger than Forte anticipates, enrollment in these clinical trials may be slower than Forte anticipates, or participants may drop out of these clinical trials or fail to return for post-treatment follow-up at a higher rate than Forte anticipates;
- clinical trials of its product candidates may produce negative or inconclusive results, and Forte may decide, or regulators may require it, to conduct additional clinical trials or abandon product development programs;
- regulators may require Forte to perform additional or unanticipated clinical trials to obtain approval or Forte may be subject to additional post-marketing testing requirements to maintain regulatory approval;
- regulators may revise the requirements for approving its product candidates, or such requirements may not be as Forte anticipate;
- Forte's third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to it in a timely manner, or at all, or may deviate from the clinical trial protocol or drop out of the trial, which may require that Forte add new clinical trial sites or investigators;
- the cost of clinical trials of its product candidates may be more than Forte anticipates or more than its available financial resources, and Forte may need to delay or suspend one or more trials until Forte completes additional financing transactions or otherwise receives adequate funding;

- the supply or quality of Forte’s product candidates or other materials necessary to conduct clinical trials of its product candidate may be insufficient or inadequate and may not achieve compliance with applicable cGMPs;
- Forte’s product candidates may have undesirable side effects or other unexpected characteristics, causing it or its investigators, regulators or IRBs or ethics committees to suspend or terminate clinical trials, or reports may arise from clinical testing of its product candidate that raise safety or efficacy concerns about its product candidate;
- clinical trials of Forte’s product candidates may produce negative or inconclusive results, which may result in it deciding, or regulators requiring it, to conduct additional clinical trials or suspend or terminate its clinical trials;
- the FDA or other regulatory authorities may disagree with the design, implementation or results of its clinical trials, or require Forte to submit additional data such as long-term toxicology studies or impose other requirements before permitting it to initiate a clinical trial;
- regulatory authorities may suspend or withdraw their approval of a product or impose restrictions on its distribution;
- Forte’s limited experience in filing and pursuing a BLA necessary to gain regulatory approval;
- any failure to develop substantial evidence of clinical efficacy and safety, and to develop quality standards and manufacturing processes to demonstrate consistent safety, purity, identity, and/or potency standards;
- a decision by Forte, IRBs, or regulators to suspend or terminate its clinical trials for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- regulatory inspections of its clinical trials, clinical trial sites or manufacturing facilities, which may, among other things, require Forte to undertake corrective action or suspend or terminate its clinical trials if regulators find it not to be in compliance with applicable regulatory requirements;
- Forte’s ability to produce sufficient quantities of the product candidate to complete its clinical trials;
- varying interpretations of the data generated from its clinical trials; and
- changes in governmental regulations or administrative action.

Forte could also encounter delays if a clinical trial is suspended or terminated for any reason. A suspension or termination may be imposed due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or its clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a product or treatment, failure to establish or achieve clinically meaningful trial endpoints, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. Many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of its product candidate. Further, the FDA or other regulatory authorities may disagree with its clinical trial design and its interpretation of data from clinical trials or may change the requirements for approval even after they have reviewed and commented on the design for its clinical trials.

Forte’s product development costs will increase if it experiences delays in clinical testing or marketing approvals. Forte does not know whether any of its clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant clinical trial delays also could shorten any periods during which Forte may have the exclusive right to commercialize its product candidate and may allow its competitors to bring products to market before Forte does, potentially impairing its ability to successfully commercialize its product candidate upon approval and harming its business and results of operations. Any delays in its future clinical development programs may harm its business, financial condition and prospects significantly.

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, Forte's future clinical trials or those of its future collaborators may reveal significant adverse events not seen in its preclinical studies or other clinical trials and may result in a safety profile that could inhibit regulatory approval or market acceptance of any of its product candidates.

Before obtaining regulatory approvals for the commercial sale of any products, Forte must demonstrate through lengthy, complex and expensive preclinical studies and clinical trials that product candidates are both safe and effective for use in each target indication. Preclinical and clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the preclinical or clinical trial process. The results of preclinical studies as well as early clinical trials of a product candidate may not be predictive of the results of later-stage clinical trials. In addition, initial success in clinical trials may not be indicative of results obtained when such clinical trials are completed. There is typically an extremely high rate of attrition from the failure of product candidate proceeding through clinical trials.

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, Forte's product candidates may fail to show the desired safety and efficacy profile despite having progressed through preclinical studies and initial clinical trials. A number of companies in the healthcare industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy and/or unacceptable safety issues, notwithstanding promising results in earlier preclinical studies or clinical trials. Most product candidates that commence clinical trials are never approved as products and there can be no assurance that any of Forte's future clinical trials would be successful or support further clinical development of any product candidates.

If significant adverse events or other side effects are observed in any potential future clinical trials, Forte may have difficulty recruiting patients to its clinical trials, patients may drop out of such trials or Forte may be required to significantly redesign or terminate trials or its development efforts of one or more product candidates altogether. Forte, the FDA, or other applicable regulatory authorities or an IRB may suspend or terminate clinical trials of a product candidate at any time for various reasons, including a belief that patients in such trials are being exposed to unacceptable health risks or adverse side effects. Some potential therapeutics developed in the healthcare industry that initially showed therapeutic promise in early-stage clinical trials have later been found to cause side effects that prevented their further development. Even if the side effects do not preclude the drug from obtaining or maintaining marketing approval, undesirable side effects may inhibit market acceptance of the approved product due to its tolerability versus other therapies. Any of these developments could materially harm Forte's business, financial condition and prospects.

If Forte resumes product development activities, interim top-line and preliminary data from its clinical trials that Forte announces or publishes from time to time may change as more patient data become available and are subject to audit and verification procedures that could result in material changes in the final data.

If Forte resumes product development activities, once Forte commences future clinical trials, Forte may from time to time publish interim top-line or preliminary data from such trials. Interim data from these clinical trials would be subject to the risk that one or more of the outcomes may materially change as patient enrollment continues and more patient data become available. Preliminary or top-line data also remain subject to audit and verification procedures that may result in the final data being materially different from the preliminary data Forte previously published. As a result, any such interim and preliminary data should be viewed with caution until the final data are available. Adverse differences between preliminary or interim data and final data could significantly harm its business prospects.

If Forte fails to comply with environmental, health and safety laws and regulations, Forte could become subject to significant fines or penalties or incur costs that could have a material adverse effect on the success of its business.

Forte is subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes, research and development activities involve the use of biological and hazardous materials and produce hazardous waste products. Forte generally contracts with third parties for the disposal of these materials and wastes. Forte cannot eliminate the risk of contamination or injury from these materials, which could cause an interruption of its commercialization efforts, research and development efforts and business operations, environmental damage resulting in costly clean-up and liabilities under applicable laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. Although Forte believes that the safety procedures utilized by its third-party manufacturers for handling and disposing of these materials generally comply with the

standards prescribed by these laws and regulations, Forte cannot guarantee that this is the case or eliminate the risk of accidental contamination or injury from these materials. In such an event, Forte may be held liable for any resulting damages and such liability could exceed its resources and state or federal or other applicable authorities may curtail its use of certain materials and/or interrupt its business operations. Furthermore, environmental laws and regulations are complex, change frequently and have tended to become more stringent. Forte cannot predict the impact of such changes and cannot be certain of its future compliance. In addition, Forte may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair its research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Although Forte maintain workers' compensation insurance to cover it for costs and expenses Forte may incur due to injuries to its employees resulting from the use of biological waste or hazardous materials or other work-related injuries, this insurance may not provide adequate coverage against potential liabilities. Forte does not carry specific biological waste or hazardous waste insurance coverage, workers compensation or property and casualty and general liability insurance policies that include coverage for damages and fines arising from biological or hazardous waste exposure or contamination.

Forte's operations and financial results could be adversely impacted by the 2019 Novel Coronavirus (COVID-19) or other pandemics.

COVID-19, the infectious disease caused by the most recently discovered coronavirus, and its variants have spread to most countries across the world, including all 50 states within the United States, resulting in the World Health Organization characterizing COVID-19 as a pandemic. While the extent of the impact of the COVID-19 pandemic on Forte's business and financial results is uncertain, a continued and prolonged public health crisis such as the COVID-19 pandemic could have a negative impact on its business, financial condition and operating results. Given the dynamic nature of these circumstances, the duration of any business disruption or potential impact to Forte's business as a result of the COVID-19 pandemic is difficult to predict, which may increase its costs or expenses.

Forte's current operations are located in California, and Forte or the third parties upon whom Forte depends may be adversely affected by natural disasters or the COVID-19 outbreak or other pandemics, and its business continuity and disaster recovery plans may not adequately protect Forte from a serious disaster.

Forte's current operations are located in California. Any unplanned event, such as flood, fire, explosion, earthquake, extreme weather condition, medical epidemics, such as the COVID-19 outbreak, power shortage, telecommunication failure or other natural or manmade accidents or incidents that result in it being unable to fully utilize its facilities, or the manufacturing facilities of its third-party contract manufacturers, may have a material and adverse effect on its ability to operate its business, particularly on a daily basis, and have significant negative consequences on its financial and operating conditions. Loss of access to these facilities may result in increased costs, delays in the development of its product candidate or interruption of its business operations. Earthquakes or other natural disasters could further disrupt its operations and have a material and adverse effect on its business, financial condition, results of operations and prospects. If a natural disaster, power outage or other event occurred that prevented it from using all or a significant portion of its headquarters, that damaged critical infrastructure, such as its research facilities or the manufacturing facilities of its third-party contract manufacturers, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible, for Forte to continue its business for a substantial period of time. The disaster recovery and business continuity plans Forte has in place may prove inadequate in the event of a serious disaster or similar event. Forte may incur substantial expenses as a result of the limited nature of its disaster recovery and business continuity plans, which, could have a material adverse effect on its business. As part of its risk management policy, Forte maintains insurance coverage at levels that Forte believes are appropriate for its business. However, in the event of an accident or incident at these facilities, Forte cannot assure you that the amounts of insurance will be sufficient to satisfy any damages and losses. If its facilities, or the manufacturing facilities of its third-party contract manufacturers, are unable to operate because of an accident or incident or for any other reason, even for a short period of time, any or all of its research and development programs may be harmed. Any business interruption may have a material and adverse effect on its business, financial condition, results of operations and prospects.

Forte's internal computer systems, or those used by its CROs, CMOs or other contractors or consultants, may fail or suffer security breaches.

Despite the implementation of security measures, Forte's internal computer systems and those of its future CROs, contract manufacturing organizations ("CMOs") and other contractors and consultants are vulnerable to damage from computer viruses and unauthorized access. While Forte has not experienced any such material system failure or security breach to date, if such an event were to occur and cause interruptions in its operations, it could result in a material disruption of its development programs and its business operations. To the extent that any disruption or security breach were to result in a loss of, or damage to, its data or applications, or inappropriate disclosure of confidential or proprietary information, Forte could incur liability and the further development and commercialization of its product candidate could be delayed.

Regulators globally are also imposing greater monetary fines for privacy violations. For example, in 2016, the European Union adopted the GDPR, which became effective on May 25, 2018. The GDPR applies to any company that collects and uses personal data in connection with offering goods or services to individuals in the European Union or the monitoring of their behavior. Non-compliance with the GDPR may result in monetary penalties of up to €20 million or 4% of worldwide revenue, whichever is higher. The GDPR and other changes in laws or regulations associated with the enhanced protection of certain types of personal data, such as healthcare data or other sensitive information, could greatly increase the cost of providing its product candidate, if approved, or even prevent Forte from offering its product candidate, if approved, in certain jurisdictions.

Forte currently has no marketing and sales organization and has no experience in marketing products. Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities and is unable to establish marketing and sales capabilities or enter into agreements with third parties to market and sell its product candidate, Forte may not be able to generate product revenue.

Forte currently has no sales, marketing or distribution capabilities and has no experience in marketing products. For the potential commercialization of FB-401, Forte previously intended to develop an in-house marketing organization and sales force. Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, building out such a marketing organization and sales force will require significant capital expenditures, management resources and time. Forte will have to compete with other healthcare companies to recruit, hire, train and retain marketing and sales personnel.

In addition to establishing internal sales, marketing and distribution capabilities, for the potential commercialization of FB-401, Forte previously intended to pursue collaborative arrangements regarding the sales and marketing of its products. There can be no assurance that Forte would be able to establish or maintain such collaborative arrangements, with respect to any future product candidate, or if Forte is able to do so, that it will have effective sales forces. Any revenue Forte receives from such future potential arrangements will depend upon the efforts of such third parties, which may not be successful. Forte may have little or no control over the marketing and sales efforts of such third parties, and its revenue from product sales may be lower than if Forte had commercialized its product candidates directly.

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities there can be no assurance that Forte will be able to develop in-house sales and distribution capabilities or establish or maintain relationships with third-party collaborators to commercialize any product in the United States or overseas.

Comprehensive tax reform legislation could adversely affect Forte's business and financial condition.

Recent changes to U.S. tax laws, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of Forte's business and financial condition. For example, on December 22, 2017, former President Trump signed into law the Tax Act, that significantly reforms the Code. The Tax Act, among other things, contains significant changes to corporate taxation, including changes to U.S. federal tax rates, limitation of the tax deduction for interest expense, and the modification and repeal of many business deductions and credits (including the reduction of the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions generally referred to as "orphan drugs"). The new presidential administration and Congress could make changes to existing tax law, including an increase in the corporate and other tax rates. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently considered changes to existing tax law that could adversely affect Forte's financial condition and results of operations.

Forte's ability to use net operating losses and research and development credits to offset future taxable income or tax liability may be subject to certain limitations.

As of December 31, 2020, Forte has federal net operating loss carryforwards of \$256.5 million, of which \$136.6 million begin expiring in 2028 unless previously utilized and \$120.0 million that do not expire but are limited to 80% of taxable income in a given year. Forte has state net operating loss carryforwards of \$269.1 million that begin to expire in 2027 unless utilized. These NOL carryforwards could expire unused and be unavailable to offset future taxable income or tax liabilities, respectively. In addition, in general, under Sections 382, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income or taxes. For these purposes, an ownership change generally occurs where the aggregate stock ownership of one or more stockholders or groups of stockholders who owns at least 5% of a corporation's stock increases its ownership by more than 50 percentage points over its lowest ownership percentage within a specified testing period. Forte's existing NOL carryforwards may be subject to limitations arising from previous ownership changes, and if Forte undergo an ownership change in connection with or after the Merger, its ability to utilize NOL carryforwards could be further limited by Section 382. In addition, future changes in its stock ownership, many of which are outside of its control, could result in an ownership change under Sections 382. Forte's NOL carryforwards may also be impaired under state law. Accordingly, Forte may not be able to utilize a material portion of its NOL carryforwards. Furthermore, its ability to utilize its NOL carryforwards is conditioned upon its attaining profitability and generating U.S. federal and state taxable income. As described above, Forte has incurred significant net losses since its inception and anticipates that Forte will continue to incur significant losses for the foreseeable future; and therefore, Forte does not know whether or when Forte will generate the U.S. federal or state taxable income necessary to utilize its NOL carryforwards that are subject to limitation by Sections 382.

Unstable market and economic conditions may have serious adverse consequences on Forte's business, financial condition and stock price.

As widely reported, global credit and financial markets have experienced extreme volatility and disruptions in the past, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. Forte's general business strategy may be adversely affected by any such economic downturn, volatile business environment or continued unpredictable and unstable market conditions. If the current equity and credit markets deteriorate, or do not improve, it may make any necessary debt or equity financing more difficult, more costly, and more dilutive and could adversely impact our ability to successfully complete a strategic transaction. Failure to complete such a strategic transaction or secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on its growth strategy, financial performance and stock price. In addition, there is a risk that one or more of its current service providers, manufacturers and other partners may not survive these difficult economic times, which could directly affect its ability to attain its operating goals on schedule and on budget. Furthermore, its stock price may decline due in part to the volatility of the stock market and the general economic downturn.

Risks related to government regulation

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, changes in the legal and regulatory environment could limit Forte's future business activities, increase its operating or regulatory costs, reduce demand for its product candidates or result in litigation.

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities the conduct of Forte's business, including the development, testing, production, storage, distribution, sale, display, advertising, marketing, labeling, health and safety practices will continue to be subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to laws and regulations administered by government entities and agencies outside the United States in markets in which its products candidates and components thereof (such as packaging) may be manufactured or sold.

These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of a variety of factors, including political, economic or social events. Such changes may include changes in:

- FDA regulations;
- laws related to product candidate labeling;
- advertising and marketing laws and practices;
- laws and programs restricting the sale and advertising of certain products;
- increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the actual or possible effects or side effects of its product candidate; and
- state and federal consumer protection and disclosure laws.

New laws, regulations or governmental policy and their related interpretations, or changes in any of the foregoing, may alter the environment in which Forte does business and, therefore, may impact its operating results or increase its costs or liabilities

Inadequate funding for the FDA, the SEC and other government agencies, or disruptions in their staffing levels related to the COVID-19 global pandemic, could hinder their ability to hire and retain key leadership and other personnel, prevent new products and services from being developed or commercialized in a timely manner or otherwise prevent those agencies from performing normal business functions on which the approval of Forte's product candidates rely, which would negatively impact its business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept the payment of user fees, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of the SEC and other government agencies on which its operations may rely, including those that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect its business. For example, over the last several years, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA and the SEC, have had to furlough critical FDA, SEC and other government employees and stop critical activities. In response to the COVID-19 public health emergency, the FDA has postponed some inspections and continues to conduct "mission-critical" inspections on a case-by-case basis, or, where possible to do so safely, has resumed prioritized domestic inspections, such as pre-approval and surveillance inspections. If a prolonged government shutdown occurs, or if global health or other concerns continue to prevent the FDA or other regulatory authorities from conducting their regular inspections, reviews, or other regulatory activities in a timely manner, it could significantly impact the ability of the FDA to timely review and process its regulatory submissions, which could have a material adverse effect on its business, including its ability to access the public markets and obtain necessary capital in order to properly capitalize and continue its operations.

Forte's relationships with healthcare providers, including physicians and clinical investigators, CROs, and third-party payors in connection with its current and future business activities may be subject to federal and state healthcare fraud and abuse laws, false claims laws, transparency laws, government price reporting, and health information privacy and security laws, which could expose Forte to significant losses, including, among other things, criminal sanctions, civil penalties, contractual damages, reputational harm, exclusion from federal health care programs, administrative burdens, and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors in the United States and elsewhere play a primary role in the recommendation and prescription of pharmaceutical products. Arrangements with third-party payors and customers can expose pharmaceutical manufactures to broadly applicable fraud and abuse and other healthcare laws and regulations, including, without limitation, the federal Anti-Kickback Statute and the federal False Claims Act, which may constrain the business or financial arrangements and relationships through which such companies sell,

market and distribute pharmaceutical products. In particular, the research, promotion, sales and marketing of healthcare items and services, as well as certain business arrangements in the healthcare industry, are subject to extensive laws designed to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, structuring and commission(s), certain customer incentive programs and other business arrangements generally. Activities subject to these laws also involve the improper use of information obtained in the course of patient recruitment for clinical trials. The applicable federal, state and foreign healthcare laws and regulations laws that may affect Forte’s ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce, or in return for, either the referral of an individual, or the purchase, lease, order or recommendation of any good, facility, item or service for which payment may be made, in whole or in part, under a federal healthcare program, such as the Medicare and Medicaid programs. In addition, a claim including items or services resulting from a violation of the federal Anti-Kickback Statute can constitute a false or fraudulent claim under the False Claims Act (“FCA”). The Anti-Kickback Statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and a referral source on the other, including prescribers, purchasers, and formulary managers. There are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution, but the exceptions and safe harbors are drawn narrowly and require strict compliance in order to offer protection;
- federal civil and criminal false claims laws, including the FCA, and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, false or fraudulent claims for payment to, or approval by Medicare, Medicaid, or other federal healthcare programs, knowingly making, using or causing to be made or used a false record or statement material to a false or fraudulent claim or an obligation to pay or transmit money to the federal government, or knowingly concealing or knowingly and improperly avoiding or decreasing or concealing an obligation to pay money to the federal government. Manufacturers can be held liable under the FCA even when they do not submit claims directly to government payors if they are deemed to “cause” the submission of false or fraudulent claims. The FCA also permits a private individual acting as a “whistleblower” to bring actions on behalf of the federal government alleging violations of the FCA and to share in any monetary recovery;
- HIPAA, which created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters. A person or entity can be found guilty of violating HIPAA without actual knowledge of the statute or specific intent to violate it;
- HIPAA, as amended by HITECH, and their respective implementing regulations, which impose, among other things, requirements on certain covered healthcare providers, health plans, and healthcare clearinghouses as well as their respective business associates that perform services for them that involve the use, or disclosure of, individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information without appropriate authorization. HITECH also created new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorneys’ fees and costs associated with pursuing federal civil actions;
- the federal Physician Payments Sunshine Act, created under the Patient Protection and Affordable Care Act, and its implementing regulations, which require applicable manufacturers of certain drugs, devices, biologicals and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program (with certain exceptions) to report annually to the United States Department of Health and Human Services information related to payments or other transfers of value made to U.S. physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; effective January 1, 2022, for data reported in 2022, such reporting obligations with respect to covered recipients will be extended to include payments and

transfers of value made during the previous year to certain non-physician providers, such as physician assistants and nurse practitioners, among others;

- federal consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers;
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers, and may be broader in scope than their federal equivalents; state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers; state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts; and
- GDPR and other ex-U.S. protections.

The distribution of pharmaceutical products is subject to additional requirements and regulations, including extensive record-keeping, licensing, storage and security requirements intended to prevent the unauthorized sale of pharmaceutical products.

The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform. Federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Ensuring business arrangements comply with applicable healthcare laws, as well as responding to possible investigations or inquiries by government authorities, can be time- and resource-consuming and can divert a company's attention from the business.

The failure to comply with any of these laws or regulatory requirements subjects entities to possible legal or regulatory action. Depending on the circumstances, failure to meet applicable regulatory requirements can result in civil, criminal and administrative penalties, damages, fines, disgorgement, individual imprisonment, possible exclusion from participation in federal and state funded healthcare programs, contractual damages and the curtailment or restricting of its operations, as well as additional reporting obligations and oversight if Forte becomes subject to a corporate integrity agreement or other agreement to resolve allegations of non-compliance with these laws. Any action for violation of these laws, even if successfully defended, could cause a pharmaceutical manufacturer to incur significant legal expenses and divert management's attention from the operation of the business. Prohibitions or restrictions on sales or withdrawal of future marketed products could materially affect business in an adverse way.

Forte maintains a code of business conduct and ethics, but it is not always possible to identify and deter employee misconduct, and the precautions Forte takes to detect and prevent inappropriate conduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting Forte from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. Efforts to ensure that its business arrangements will comply with applicable healthcare laws may involve substantial costs. It is possible that governmental and enforcement authorities will conclude that its business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws and regulations. If any such actions are instituted against us, and Forte is not successful in defending ourselves or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, disgorgement, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of its operations, any of which could adversely affect its ability to operate its business and its results of operations. In addition, the approval and commercialization of any of its product candidates outside the United States will also likely subject Forte to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

Obtaining and maintaining regulatory approval of any of its product candidates in one jurisdiction does not mean that Forte will be successful in obtaining regulatory approval for its product candidate in other jurisdictions.

Obtaining and maintaining regulatory approval does not guarantee that Forte will be able to obtain or maintain regulatory approval in any other jurisdiction, while a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory approval process in others. For example, even if the FDA grants marketing approval of a product candidate, comparable regulatory authorities in foreign jurisdictions must also approve the manufacturing, marketing and promotion of the product candidate in those countries. Approval procedures vary among jurisdictions and can involve requirements and administrative review periods different from, and greater than, those in the United States, including additional preclinical studies and clinical trials conducted in one jurisdiction may not be accepted by regulatory authorities in other jurisdictions. In many jurisdictions outside the United States, a product candidate must be approved for reimbursement before it can be approved for sale in that jurisdiction. In some cases, the price that Forte intends to charge for its products may also be subject to approval.

Forte may also submit marketing applications in other countries. Regulatory authorities in jurisdictions outside of the United States have requirements for approval of a product candidate with which Forte must comply prior to marketing in those jurisdictions. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for Forte and could delay or prevent the introduction of its products in certain countries. If Forte fails to comply with the regulatory requirements in international markets and/or receive applicable marketing approvals, its target market will be reduced and its ability to realize the full market potential of its product candidate will be harmed.

Although Forte has discontinued the advancement of FB-401, if Forte resumes product development activities, and Forte is not able to obtain, or if there are delays in obtaining, required regulatory approvals for any product candidates it may develop, Forte will not be able to commercialize, or will be delayed in commercializing, such product candidates and its ability to generate revenue will be materially impaired.

Any product candidate Forte may develop, and the activities associated with the development and commercialization of any such product candidate, including its design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale, distribution, import and export are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Before Forte can commercialize any product candidate, Forte must obtain marketing approval. Forte has never received approval to market any product candidates from regulatory authorities in any jurisdiction and it is possible that none of its current and future product candidates will ever obtain regulatory approval. Forte, as a company, has no experience in filing and supporting the applications necessary to gain regulatory approvals and expects to rely on third-party CROs and/or regulatory consultants to assist it in this process. Securing regulatory approval requires the submission of extensive preclinical and clinical data and supporting information to the various regulatory authorities for each therapeutic indication to establish the drug candidate's safety, efficacy, purity, and potency.

Securing regulatory approval also requires the submission of information about the drug manufacturing process to, and inspection of manufacturing facilities by, the relevant regulatory authority. Any product candidate Forte develops may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude it from obtaining marketing approval or prevent or limit commercial use.

The process of obtaining regulatory approvals, both in the United States and abroad, is expensive, may take many years if additional clinical trials are required, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidate involved. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted IND/BLA, or equivalent application types, may cause delays in the approval or rejection of an application. The FDA and comparable authorities in other countries have substantial discretion in the approval process and may refuse to accept any application or may decide that its data are insufficient for approval and require additional preclinical, clinical or other studies. Any product candidate

Forte seeks to develop could be delayed in receiving, or fail to receive, regulatory approval for many reasons, including the following:

- the FDA or comparable foreign regulatory authorities may disagree with the design, including study population, dose level, dose regimen, endpoint measure of efficacy, and bioanalytical assay methods, or implementation of its clinical trials;
- Forte may be unable to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that its product candidate is safe and effective for its proposed indication;
- the results of clinical trials may not meet the level of statistical significance required by the FDA or comparable foreign regulatory authorities for approval;
- Forte may be unable to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;
- the FDA or comparable foreign regulatory authorities may disagree with its interpretation of data from preclinical studies or clinical trials;
- the data collected from clinical trials of its product candidate may not be sufficient to support the submission of a BLA or other submission or to obtain regulatory approval in the United States or elsewhere;
- the FDA or comparable foreign regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which Forte contracts for clinical and commercial supplies; and
- the approval policies or regulations of the FDA or comparable foreign regulatory authorities may significantly change in a manner rendering its clinical data insufficient for approval.

Of the large number of biopharmaceutical products in development, only a small percentage successfully complete the FDA or foreign regulatory approval processes and are commercialized. The lengthy approval process as well as the unpredictability of future clinical trial results may result in Forte failing to obtain regulatory approval to market its product candidate, which would significantly harm its business, results of operations and prospects.

The FDA may also require a panel of experts, referred to as an Advisory Committee, to deliberate on the adequacy of the safety and efficacy data to support approval. The opinion of the Advisory Committee, although not binding, may have a significant impact on its ability to obtain approval of any product candidate that Forte develops based on the completed clinical trials.

In addition, even if Forte were to obtain approval, regulatory authorities may approve its product candidate for fewer or more limited indications than Forte requests, may include limitations for use or contraindications that limit the suitable patient population, may not approve the price Forte intends to charge for its products, may grant approval contingent on the performance of costly post-marketing clinical trials or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Any of the foregoing scenarios could materially harm the commercial prospects for any product candidate Forte develops.

If Forte experiences delays in obtaining approval or if Forte fails to obtain approval of any product candidate it seeks to develop, the commercial prospects for such product candidate may be harmed, and its ability to generate revenues will be materially impaired.

Risks related to Forte's intellectual property

If Forte is unable to obtain and maintain patent protection for any product candidate Forte develops, its competitors could develop and commercialize products or technology similar or identical to Forte's, and its ability to successfully commercialize any product candidate Forte may develop, and its technology, may be adversely affected.

Forte's success depends in large part on its ability to obtain and maintain patent protection in the United States and other countries with respect to any product candidate and other technologies Forte may develop. Forte has historically sought to protect its proprietary position by filing patent applications in the United States and abroad relating to FB-401, as well as other technologies that are important to its business. Given that the development of its technology and product candidate is at an early stage, its intellectual property portfolio with respect to certain aspects of its technology and product candidate is also at an early stage. Forte has filed or intends to file patent applications on these aspects of its technology and its product candidate; however, there can be no assurance that any such patent applications will issue as granted patents. Furthermore, in some cases, Forte has only filed provisional patent applications on certain aspects of its technology and product candidate and each of these provisional patent applications is not eligible to become an issued patent until, among other things, Forte files a non-provisional patent application within 12 months of the filing date of the applicable provisional patent application. Any failure to file a non-provisional patent application within this timeline could cause Forte to lose the ability to obtain patent protection for the inventions disclosed in the associated provisional patent applications.

Composition of matter patents for biological and pharmaceutical products are generally considered to be the strongest form of intellectual property protection for those types of products, as such patents provide protection without regard to any method of use. Forte cannot be certain, however, that the claims in its pending patent applications covering the composition of matter of FB-401, will be considered patentable by the United States Patent and Trademark Office ("USPTO"), or by patent offices in foreign countries, or that the claims in any of its issued patents will be considered valid and enforceable by courts in the United States or foreign countries. In particular, Forte cannot be certain that composition claims relating to microorganisms, including species of Gram-negative bacteria such as *Roseomonas mucosa*, will be considered patentable by the USPTO, or by patent offices in foreign countries, or that the claims in any of its issued patents will be considered valid and enforceable by courts in the United States or foreign countries.

Furthermore, in some cases, Forte may not be able to obtain issued claims covering compositions of matter relating to its product candidate, as well as other technologies that are important to its business, and instead may need to rely on filing patent applications with claims covering a method of use and/or method of manufacture. Method of use patents protect the use of a product for the specified method. This type of patent does not prevent a competitor from making and marketing a product that is identical to Forte's product for an indication that is outside the scope of the patented method. Moreover, even if competitors do not actively promote their products for its targeted indications, physicians may prescribe these products "off-label" for those uses that are covered by its method of use patents. Although off-label prescriptions may infringe or contribute to the infringement of method of use patents, the practice is common and such infringement is difficult to prevent or prosecute. There can be no assurance that any such patent applications will issue as granted patents, and even if they do issue, such patent claims may be insufficient to prevent third parties, such as Forte's competitors, from utilizing its technology. Any failure to obtain or maintain patent protection with respect to its product candidate could have a material adverse effect on Forte's business, financial condition, results of operations, and prospects.

Moreover, any changes Forte makes to cause its product candidates to have what Forte may view as more advantageous properties may not be covered by existing patents and patent applications, and Forte may be required to file new applications and/or seek other forms of protection for any such altered product candidates. There can be no assurance that Forte would be able to secure patent protection that would adequately cover altered product candidates.

If any of its owned patent applications do not issue as patents in any jurisdiction, Forte may not be able to compete effectively.

Changes in either the patent laws or their interpretation in the United States and other countries may diminish its ability to protect its inventions, obtain, maintain, and enforce its intellectual property rights and, more generally, could affect the value of its intellectual property or narrow the scope of its owned or licensed patents. With respect

to owned intellectual property, Forte cannot predict whether the patent applications Forte is currently pursuing will issue as patents in any particular jurisdiction or whether the claims of any issued patents will provide sufficient protection from competitors or other third parties.

The patent prosecution process is expensive, time-consuming, and complex, and Forte may not be able to file, prosecute, maintain, enforce, or license all necessary or desirable patents and patent applications at a reasonable cost or in a timely manner. It is also possible that Forte will fail to identify patentable aspects of its research and development output in time to obtain patent protection. Although Forte enters into non-disclosure and confidentiality agreements with parties who have access to confidential or patentable aspects of its research and development output, such as its employees, corporate collaborators, outside scientific collaborators, CROs, contract manufacturers, consultants, advisors and other third parties, any of these parties may breach such agreements and disclose such output before a patent application is filed, thereby jeopardizing its ability to seek patent protection. In addition, Forte's ability to obtain and maintain valid and enforceable patents depends on whether the differences between its inventions and the prior art allow its inventions to be patentable over the prior art. Furthermore, publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, Forte cannot be certain that it was the first to make the inventions claimed in any of its owned or pending patent applications, or that Forte was the first to file for patent protection of such inventions.

If the scope of any patent protection Forte obtains is not sufficiently broad, or if Forte loses any of its patent protection, its ability to prevent its competitors from commercializing similar or identical technology and product candidate would be adversely affected.

The patent position of healthcare companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability, and commercial value of Forte's patent rights are highly uncertain. Forte's owned pending and future patent applications may not result in patents being issued which protect its product candidate, or other technologies or which effectively prevent others from commercializing competitive technologies and product candidates.

No consistent policy regarding the scope of claims allowable in patents in the biotechnology field has emerged in the United States. The patent situation outside of the United States is even more uncertain. Changes in either the patent laws or their interpretation in the United States and other countries may diminish Forte's ability to protect its inventions and enforce its intellectual property rights, and more generally could affect the value of its intellectual property. In particular, its ability to stop third parties from making, using, selling, offering to sell, or importing products that infringe its intellectual property will depend in part on its success in obtaining and enforcing patent claims that cover its technology, inventions and improvements. With respect to company-owned intellectual property, Forte cannot be sure that patents will be granted with respect to any of its pending patent applications or with respect to any patent applications filed by it in the future, nor can Forte be sure that any of its existing patents or any patents that may be granted to Forte in the future will be commercially useful in protecting its products and the methods used to manufacture those products. Moreover, even its issued patents do not guarantee Forte the right to practice its technology in relation to the commercialization of its products. The area of patent and other intellectual property rights in biotechnology is an evolving one with many risks and uncertainties, and third parties may have blocking patents that could be used to prevent Forte from commercializing its patented product candidate and practicing its proprietary technology. Forte's issued patents and those that may issue in the future may be challenged, invalidated, or circumvented, which could limit its ability to stop competitors from marketing related products or limit the length of the term of patent protection that Forte may have for its product candidate. In addition, the rights granted under any issued patents may not provide Forte with protection or competitive advantages against competitors with similar technology. Furthermore, its competitors may independently develop similar technologies. For these reasons, Forte may have competition for its product candidate. Moreover, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any particular product candidate can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

Moreover, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Even if patent applications Forte own issue as patents, they may not issue in a form that will provide Forte with any meaningful protection, prevent competitors or other third

parties from competing with us, or otherwise provide Forte with any competitive advantage. Any patents that Forte own may be challenged, narrowed, circumvented, or invalidated by third parties. Consequently, Forte do not know whether its product candidate or other technologies will be protectable or remain protected by valid and enforceable patents. Forte's competitors or other third parties may be able to circumvent its patents by developing similar or alternative technologies or products in a non-infringing manner which could materially adversely affect its business, financial condition, results of operations and prospects.

The issuance of a patent is not conclusive as to its inventorship, scope, validity, or enforceability, and patents that Forte own may be challenged in the courts or patent offices in the United States and abroad. Forte may be subject to a third party preissuance submission of prior art to the USPTO or to foreign patent authorities or become involved in opposition, derivation, revocation, reexamination, post-grant and *inter partes* review, or interference proceedings or other similar proceedings challenging its owned patent rights. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate or render unenforceable, Forte's owned patent rights, allow third parties to commercialize Forte's product candidate or other technologies, and compete directly with Forte, without payment to Forte, or result in Forte's inability to manufacture or commercialize products without infringing third-party patent rights. Moreover, Forte may have to participate in interference proceedings declared by the USPTO to determine priority of invention or in post-grant challenge proceedings, such as oppositions in a foreign patent office, that challenge its priority of invention or other features of patentability with respect to its owned patents and patent applications. Such challenges may result in loss of patent rights, loss of exclusivity, or in patent claims being narrowed, invalidated, or held unenforceable, which could limit its ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of its product candidate and other technologies. Such proceedings also may result in substantial cost and require significant time from its scientists and management, even if the eventual outcome is favorable to us.

In addition, given the amount of time required for the development, testing, and regulatory review of new product candidate, patents protecting such product candidate might expire before or shortly after such product candidate are approved and commercialized. As a result, its intellectual property may not provide Forte with sufficient rights to exclude others from commercializing products similar or identical to ours.

Forte may in the future co-own patent rights relating to future product candidates with third parties. Forte may need the cooperation of any such co-owners of its patent rights in order to enforce such patent rights against third parties, and such cooperation may not be provided to us. Any of the foregoing could have a material adverse effect on its competitive position, business, financial conditions, results of operations, and prospects.

Forte's rights to develop and commercialize its product candidates may be subject, in part, to the terms and conditions of future licenses granted to it by others.

Forte may rely upon licenses to certain patent rights and proprietary technology from third parties that are important or necessary to the development of its product candidates. Patent rights that Forte in-license in the future may be subject to a reservation of rights by one or more third parties. As a result, any such third parties may have certain rights to such intellectual property.

In addition, subject to the terms of any such license agreements, Forte may not have the right to control the preparation, filing, prosecution and maintenance, and Forte may not have the right to control the enforcement, and defense of patents and patent applications covering the technology that Forte licenses from third parties. Forte cannot be certain that its in-licensed patent applications (and any patents issuing therefrom) that are controlled by its licensors will be prepared, filed, prosecuted, maintained, enforced, and defended in a manner consistent with the best interests of its business. If its licensors fail to prosecute, maintain, enforce, and defend such patents rights, or lose rights to those patent applications (or any patents issuing therefrom), the rights Forte has licensed may be reduced or eliminated, its right to develop and commercialize any of its product candidates that are subject of such licensed rights could be adversely affected, and Forte may not be able to prevent competitors from making, using and selling competing products. Moreover, Forte cannot be certain that such activities by its potential future licensors will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents or other intellectual property rights. In addition, even where Forte may have the right to control patent prosecution of patents and patent applications that Forte may license to and from third parties, Forte may still be adversely affected or prejudiced by actions or inactions of its potential future licensees, licensors and their counsel that took place prior to the date of assumption of control over patent prosecution.

If Forte fails to comply with its obligations in agreements under which it options or licenses intellectual property rights from future collaborators or licensors or otherwise experience disruptions to its business relationships with future collaborators or licensors, it could lose intellectual property rights that are important to its business.

Forte may enter into agreements with future collaborators that impose various economic, development, diligence, commercialization, and other obligations on us. Such collaboration agreements may also require Forte to meet development timelines, or to exercise commercially reasonable efforts to develop and commercialize licensed products. Forte's future collaborators might conclude that it has materially breached its obligations under such agreements and might therefore terminate or seek damages under the agreements, thereby removing or limiting our ability to develop and commercialize products and technology covered by these agreements. Termination of these agreements could cause Forte to lose the rights to certain patents or other intellectual property, or the underlying patents could fail to provide the intended exclusivity, and competitors or other third parties may have the freedom to seek regulatory approval of, and to market, products similar to or identical to Forte's and Forte may be required to cease its development and commercialization of certain of its product candidates. Any of the foregoing could have a material adverse effect on Forte's competitive position, business, financial conditions, results of operations, and growth prospects.

Moreover, disputes may arise regarding intellectual property subject to a collaboration agreement, including:

- the scope of the option or license rights granted under the agreement and other interpretation-related issues;
- the extent to which Forte's technology and processes infringe on intellectual property of the collaborator that is not subject to the option or license rights granted under the agreement;
- the sublicensing of patent and other rights under Forte's collaborative development relationships;
- Forte's diligence obligations under the agreement and what activities satisfy those diligence obligations;
- the inventorship and ownership of inventions and know-how resulting from the joint creation or use of intellectual property by Forte's collaborators and us and our other partners; and
- the priority of invention of patented technology.

Forte may enter into agreements to option or license intellectual property or technology from third parties that are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreement, either of which could have a material adverse effect on our business, financial condition, results of operations, and growth prospects. Moreover, if disputes over intellectual property that Forte has optioned or licensed prevent or impair our ability to maintain such arrangements on commercially acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates, which could have a material adverse effect on our business, financial conditions, results of operations, and growth prospects.

Forte may not be able to protect its intellectual property and proprietary rights throughout the world.

Filing, prosecuting and defending patents on Forte's product candidate and other technologies in all countries throughout the world would be prohibitively expensive, and the laws of foreign countries may not protect its rights to the same extent as the laws of the United States. Consequently, Forte may not be able to prevent third parties from practicing its inventions in all countries outside the United States, or from selling or importing products made using its inventions in and into the United States or other jurisdictions. Competitors may use its technologies in jurisdictions where Forte has not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where Forte has patent protection but enforcement is not as strong as that in the United States. These products may compete with Forte's products, and Forte's patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, particularly those relating to biotechnology products, which could make it difficult for Forte to stop the infringement of its patents or marketing of competing products in violation of its intellectual property and proprietary rights generally. Proceedings to enforce its intellectual property and proprietary rights in foreign jurisdictions could result in substantial costs and divert its efforts and attention from other aspects of its business, could put its patents at risk of being invalidated or interpreted narrowly, could put its patent applications at risk of not issuing, and could provoke third parties to assert claims against us. Forte may not prevail in any lawsuits that it initiates, and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, its efforts to enforce its intellectual property and proprietary rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that Forte develops or licenses.

Many countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of such patent. If Forte is forced to grant a license to third parties with respect to any patents relevant to its business, its competitive position may be impaired, and its business, financial condition, results of operations, and prospects may be adversely affected.

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

Periodic maintenance fees, renewal fees, annuity fees, and various other government fees on patents and applications will be due to be paid to the USPTO and various government patent agencies outside of the United States over the lifetime of its owned patents and applications. The USPTO and various non-U.S. government agencies require compliance with several procedural, documentary, fee payment, and other similar provisions during the patent application process. In some cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. There are situations, however, in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in a partial or complete loss of patent rights in the relevant jurisdiction. In such an event, potential competitors might be able to enter the market with similar or identical products or technology, which could have a material adverse effect on Forte's business, financial condition, results of operations, and prospects.

Changes in U.S. patent law could diminish the value of patents in general, thereby impairing Forte's ability to protect its products.

Changes in either the patent laws or interpretation of the patent laws in the United States could increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of issued patents. Assuming that other requirements for patentability are met, prior to March 2013, in the United States, the first to invent the claimed invention was entitled to the patent, while outside the United States, the first to file a patent application was entitled to the patent. After March 2013, under the Leahy-Smith America Invents Act, or the America Invents Act, enacted in September 2011, the United States transitioned to a first inventor to file system in which, assuming that other requirements for patentability are met, the first inventor to file a patent application will be entitled to the patent on an invention regardless of whether a third party was the first to invent the claimed invention. A third party that files a patent application in the USPTO after March 2013, but before Forte could therefore be awarded a patent covering an invention of ours even if Forte had made the invention before it was made by such third party. This will require Forte to be cognizant going forward of the time from invention to filing of a patent application. Since patent applications in the United States and most other countries are confidential for a period of time after filing or until issuance, Forte cannot be certain that it was the first to file any patent application related to its product candidates or other technologies.

The America Invents Act also includes a number of significant changes that affect the way patent applications will be prosecuted and also may affect patent litigation. These include allowing third party submission of prior art to the USPTO during patent prosecution and additional procedures to attack the validity of a patent by USPTO administered post-grant proceedings, including post-grant review, *inter partes* review, and derivation proceedings.

Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in United States federal courts necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate Forte's patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action. Therefore, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the prosecution of Forte's owned patent applications and the enforcement or defense of its owned issued patents, all of which could have a material adverse effect on Forte's business, financial condition, results of operations, and prospects.

In addition, the patent positions of companies in the development and commercialization of biologics and pharmaceuticals are particularly uncertain. Recent U.S. Supreme Court rulings have narrowed the scope of patent protection available in certain circumstances and weakened the rights of patent owners in certain situations. This combination of events has created uncertainty with respect to the validity and enforceability of patents, once obtained. Depending on future actions by the U.S. Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that could have a material adverse effect on Forte's existing patent portfolio and its ability to protect and enforce its intellectual property in the future.

Issued patents covering Forte's product candidates could be found invalid or unenforceable if challenged in court or before administrative bodies in the United States or abroad.

In patent litigation in the United States, defendant counterclaims alleging invalidity or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. Third parties may raise claims challenging the validity or enforceability of Forte's owned patents before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include re-examination, post-grant review, *inter partes* review, interference proceedings, derivation proceedings, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings). Such proceedings could result in the revocation of, cancellation of, or amendment to Forte's patents in such a way that they no longer cover its product candidate or other technologies. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to the validity question, for example, Forte cannot be certain that there is no invalidating prior art, of which Forte and the patent examiner were unaware during prosecution. If a third party were to prevail on a legal assertion of invalidity or unenforceability, Forte would lose at least part, and perhaps all, of the patent protection on its product candidate or other technologies. Such a loss of patent protection would have a material adverse impact on Forte's business, financial condition, results of operations, and prospects.

Patent terms may be inadequate to protect our competitive position on our products and services for an adequate amount of time.

Patents have a limited lifespan. In the United States and abroad, if all maintenance fees/annuity fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest non-provisional filing date. The protection a patent affords is limited. Even if patents covering Forte's products are obtained, once the patent life has expired, Forte may be open to competition from competitive products. Given the amount of time required for the development, testing and regulatory review of new products, patents protecting such products might expire before or shortly after such products are commercialized. As a result, Forte's owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

If Forte does not obtain patent term extension and/or data exclusivity for any product candidate that Forte may develop, its business may be materially harmed.

Depending upon the timing, duration and specifics of any FDA marketing approval of any product candidate Forte may develop, one or more of its owned U.S. patents may be eligible for limited patent term extension under

the Hatch-Waxman Act. The Hatch-Waxman Act permits a patent term extension of up to five years as compensation for patent term lost during the FDA regulatory review process. A patent term extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval, only one patent may be extended and only those claims covering the approved drug, a method for using it, or a method for manufacturing it may be extended. Similar extensions as compensation for patent term lost during regulatory review processes are also available in certain foreign countries and territories, such as in Europe under a Supplementary Patent Certificate. However, Forte may not be granted an extension in the United States and/or foreign countries and territories because of, for example, failing to exercise due diligence during the testing phase or regulatory review process, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents, or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than Forte requests. If Forte is unable to obtain patent term extension or the term of any such extension is shorter than what Forte requests, its competitors may obtain approval of competing products following its patent expiration, and its business, financial condition, results of operations and prospects could be materially harmed.

Forte may be subject to claims challenging the inventorship of its patents and other intellectual property.

Forte may be subject to claims that former employees, collaborators or other third parties have an interest in its owned patent rights, trade secrets, or other intellectual property as an inventor or co-inventor. For example, Forte may have inventorship disputes arise from conflicting obligations of employees, consultants or others who are involved in developing its product candidate or other technologies. Litigation may be necessary to defend against these and other claims challenging inventorship or its ownership of its owned patent rights, trade secrets or other intellectual property. If Forte fails in defending any such claims, in addition to paying monetary damages, Forte may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, intellectual property that is important to its product candidate and other technologies. Even if Forte is successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees. Any of the foregoing could have a material adverse effect on Forte's business, financial condition, results of operations and prospects.

If Forte is unable to protect the confidentiality of its trade secrets, its business and competitive position would be harmed.

In addition to seeking patents for its product candidate and other technologies, Forte also relies on trade secrets and confidentiality agreements to protect its unpatented know-how, technology, and other proprietary information and to maintain its competitive position. Trade secrets and know-how can be difficult to protect. Forte expects its trade secrets and know-how to over time be disseminated within the industry through independent development, the publication of journal articles describing the methodology, and the movement of personnel from academic to industry scientific positions.

Forte currently, and may in the future continue to, relies on third parties to assist it in developing and manufacturing its product candidates. Accordingly, Forte must, at times, share know-how and trade secrets with them. Forte may in the future also enter into research and development collaborations with third parties that may require it to share know-how and trade secrets under the terms of its research and development partnerships or similar agreements. Forte seeks to protect its know-how, trade secrets and other proprietary technology, in part, by entering into non-disclosure and confidentiality agreements, and including in its vendor and service agreements terms protecting its confidential information, know-how and trade secrets, with parties who have access to such information, such as its employees, scientific collaborators, CROs, contract manufacturers, consultants, advisors and other third parties. Forte also enters into confidentiality and invention or patent assignment agreements with its employees and consultants as well as trains its employees not to bring or use proprietary information or technology from former employers to Forte or in their work, and Forte reminds former employees when they leave their employment of their confidentiality obligations. However, Forte cannot guarantee that Forte has entered into such agreements with each party that may have or have had access to its trade secrets or proprietary technology and processes. Forte also seeks to preserve the integrity and confidentiality of its data and other confidential information by maintaining physical security of its premises and physical and electronic security of its information technology systems.

Despite Forte's efforts, any of the aforementioned parties may breach the agreements and disclose Forte's proprietary information, including its trade secrets, or there may be a lapse or failures in its physical and electronic security systems which lead to its proprietary information being disclosed, and Forte may not be able to obtain adequate remedies in the event of any such breaches. Monitoring unauthorized uses and disclosures is difficult, and Forte does not know whether the steps it has taken to protect its proprietary technologies will be effective. If any of its scientific advisors, employees, contractors and consultants who are parties to these agreements breaches or violates the terms of any of these agreements, Forte may not have adequate remedies for any such breach or violation, and Forte could lose its trade secrets as a result. Moreover, if confidential information that is licensed or disclosed to Forte by its partners, collaborators, or others is inadvertently disclosed or subject to a breach or violation, Forte may be exposed to liability to the owner of that confidential information. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of its trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, Forte would have no right to prevent them from using that technology or information to compete with us. If any of its trade secrets were to be disclosed to or independently developed by a competitor or other third party, Forte's competitive position would be materially and adversely harmed.

Forte may not be successful in maintaining or obtaining, through acquisitions, in-licenses or otherwise, necessary rights to its product candidate or other technologies.

Forte currently has rights to certain intellectual property, through licenses from third parties, to develop FB-401. If we fail to comply with our obligations under our license agreements, the licensor may have the right to terminate these agreements, in which event we might not be able to develop, manufacture or market, or may be forced to cease developing, manufacturing or marketing, any product that is covered by these agreements or may face other penalties under such agreements. Such an occurrence could materially adversely affect the value of the product candidate being developed under any such agreement. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements with less favorable terms, cause us to lose our rights under these agreements, including our rights to important intellectual property or technology, or impede, delay or prohibit the further development or commercialization of one or more product candidates that rely on such agreements.

Moreover, some healthcare companies and academic institutions are competing with Forte in the field of microbiome therapies and may have patents and have filed and are likely filing patent applications potentially relevant to Forte's business. In order to avoid infringing these third-party patents, Forte may find it necessary or prudent to obtain licenses to such patents from such third-party intellectual property holders. Forte may also require licenses from third parties for certain technologies that Forte may be evaluating for use with its current or future product candidate. However, Forte may be unable to secure such licenses or otherwise acquire or in-license any compositions, methods of use, processes, or other intellectual property rights from third parties that Forte identifies as necessary for its current or any future product candidate at a reasonable cost or on reasonable terms, if at all. The licensing or acquisition of third-party intellectual property rights is a competitive area, and several more established companies may pursue strategies to license or acquire third party intellectual property rights that Forte may consider attractive or necessary. These established companies may have a competitive advantage over Forte due to their size, capital resources and greater clinical development and commercialization capabilities. In addition, companies that perceive Forte to be a competitor may be unwilling to assign or license rights to us. Forte also may be unable to license or acquire third party intellectual property rights on terms that would allow Forte to make an appropriate return on its investment or at all.

In the event that Forte tries to obtain rights to required third party intellectual property rights, and are ultimately unsuccessful, Forte may be required to expend significant time and resources to redesign its technology, product candidate, or the methods for manufacturing them or to develop or license replacement technology, all of which may not be feasible on a technical or commercial basis. If Forte is unable to do so, Forte may be unable to develop or commercialize the affected product candidate which could harm its business, financial condition, results of operations, and prospects significantly.

Forte may be subject to claims that its employees, consultants, or advisors have wrongfully used or disclosed alleged trade secrets of their current or former employers or claims asserting ownership of what Forte regards as its own intellectual property.

Many of Forte's employees, consultants, and advisors are currently or were previously employed at universities or other healthcare companies, including its competitors and potential competitors. Although Forte tries to ensure that its employees, consultants, and advisors do not use the proprietary information or know-how of others in their work for Forte, Forte may be subject to claims that Forte or these individuals have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such individual's current or former employer. Litigation may be necessary to defend against these claims. If Forte fails in defending any such claims, in addition to paying monetary damages, Forte may lose valuable intellectual property rights or personnel. Even if Forte is successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while it is Forte's policy to require its employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to Forte, Forte may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that Forte regards as its own. The assignment of intellectual property rights may not be self-executing, or the assignment agreements may be breached, and Forte may be forced to bring claims against third parties, or defend claims that they may bring against us, to determine the ownership of what Forte regards as its intellectual property. Such claims could have a material adverse effect on Forte's business, financial condition, results of operations, and prospects.

Third-party claims of intellectual property infringement, misappropriation or other violation against Forte or its collaborators may prevent or delay the development and commercialization of Forte's product candidate and other technologies.

The field of developing therapeutics that target the microbiome is competitive and dynamic. Due to the focused research and development that is taking place by several companies, including Forte and its competitors, in this field, the intellectual property landscape is in flux, and it may remain uncertain in the future. As such, there may be significant intellectual property related litigation and proceedings relating to Forte's owned, and other third party, intellectual property and proprietary rights in the future.

Forte's commercial success depends in part on its and its collaborators' ability to avoid infringing, misappropriating and otherwise violating the patents and other intellectual property rights of third parties. There is a substantial amount of complex litigation involving patents and other intellectual property rights in the biotechnology and pharmaceutical industries, as well as administrative proceedings for challenging patents, including interference, derivation and reexamination proceedings before the USPTO or oppositions and other comparable proceedings in foreign jurisdictions. As discussed above, recently, due to changes in U.S. law referred to as patent reform, new procedures including *inter partes* review and post-grant review have been implemented. As stated above, this reform adds uncertainty to the possibility of challenge to Forte's patents in the future.

Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist relating to microbiome technologies and in the fields in which Forte is developing its product candidate. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that its product candidate and other technologies may give rise to claims of infringement of the patent rights of others. Forte cannot assure you that its product candidate and other technologies that Forte has developed, are developing or may develop in the future will not infringe existing or future patents owned by third parties. Forte may not be aware of patents that have already been issued and that a third party, for example, a competitor in the fields in which Forte is developing its product candidate and other technologies might assert are infringed by its current or future product candidate or other technologies, including claims to compositions, formulations, methods of manufacture or methods of use or treatment that cover its product candidate or other technologies. It is also possible that patents owned by third parties of which Forte is aware, but which Forte does not believe are relevant to its product candidate or other technologies, could be found to be infringed by its product candidate or other technologies. In addition, because patent applications can take many years to issue, there may be currently pending patent applications that may later result in issued patents that its product candidate or other technologies may infringe. Forte cannot provide

any assurances that third-party patents do not exist which might be enforced against its current technology, manufacturing methods, product candidate, or future methods or products resulting in either an injunction prohibiting its manufacture or future sales, or, with respect to its future sales, an obligation on its part to pay royalties and/or other forms of compensation to third parties, which could be significant.

Third parties may have patents or obtain patents in the future and claim that the manufacture, use or sale of Forte's product candidate or other technologies infringes upon these patents. In the event that any third-party claims that Forte infringes their patents or that Forte is otherwise employing their proprietary technology without authorization and initiates litigation against us, even if Forte believes such claims are without merit, a court of competent jurisdiction could hold that such patents are valid, enforceable and infringed by Forte's product candidate or other technologies. In this case, the holders of such patents may be able to block Forte's ability to commercialize the applicable product candidate or technology unless Forte obtains a license under the applicable patents, or until such patents expire or are finally determined to be held invalid or unenforceable. Such a license may not be available on commercially reasonable terms or at all. Even if Forte is able to obtain a license, the license would likely obligate Forte to pay license fees or royalties or both, and the rights granted to Forte might be non-exclusive, which could result in its competitors gaining access to the same intellectual property. If Forte is unable to obtain a necessary license to a third-party patent on commercially reasonable terms, Forte may be unable to commercialize its product candidate or other technologies, or such commercialization efforts may be significantly delayed, which could in turn significantly harm Forte's business.

Defense of infringement claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of management and other employee resources from Forte's business, and may impact its reputation. In the event of a successful claim of infringement against Forte, Forte may be enjoined from further developing or commercializing its infringing product candidate or other technologies. In addition, Forte may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, obtain one or more licenses from third parties, pay royalties and/or redesign its infringing product candidate or technologies, which may be impossible or require substantial time and monetary expenditure. In that event, Forte would be unable to further develop and commercialize its product candidates or other technologies, which could harm its business significantly.

Engaging in litigation to defend against third parties alleging that Forte has infringed, misappropriated or otherwise violated their patents or other intellectual property rights is very expensive, particularly for a company of its size, and time-consuming. Some of its competitors may be able to sustain the costs of litigation or administrative proceedings more effectively than Forte can because of greater financial resources. Patent litigation and other proceedings may also absorb significant management time. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings against Forte could impair its ability to compete in the marketplace. The occurrence of any of the foregoing could have a material adverse effect on Forte's business, financial condition or results of operations.

Forte may become involved in lawsuits to protect or enforce its patents and other intellectual property rights, which could be expensive, time-consuming, and unsuccessful.

Competitors may infringe Forte's patents, or Forte may be required to defend against claims of infringement. In addition, its patents also may become involved in inventorship, priority or validity disputes. To counter or defend against such claims can be expensive and time-consuming. In an infringement proceeding, a court may decide that a patent owned by Forte is invalid or unenforceable, the other party's use of its patented technology falls under the safe harbor to patent infringement under 35 U.S.C. § 271(e)(1), or may refuse to stop the other party from using the technology at issue on the grounds that its owned patents do not cover the technology in question. An adverse result in any litigation proceeding could put one or more of its owned patents at risk of being invalidated or interpreted narrowly. Even if Forte establishes infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may or may not be an adequate remedy. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of Forte's confidential information could be compromised by disclosure during this type of litigation.

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

If Forte's trademarks and trade names are not adequately protected, then Forte may not be able to build name recognition in its markets of interest and its business may be adversely affected.

Forte's registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. Forte may not be able to protect its rights to these trademarks and trade names, which Forte needs to build name recognition among potential partners or customers in its markets of interest. At times, competitors or other third parties may adopt trade names or trademarks similar to Forte's, thereby impeding Forte's ability to build brand identity and possibly leading to market confusion. If Forte asserts trademark infringement claims, a court may determine that the marks Forte has asserted are invalid or unenforceable, or that the party against whom Forte has asserted trademark infringement has superior rights to the marks in question. In this case, Forte could ultimately be forced to cease use of such trademarks. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of Forte's registered or unregistered trademarks or trade names. Over the long term, if Forte is unable to establish name recognition based on its trademarks and trade names, then Forte may not be able to compete effectively, and its business may be adversely affected. Forte's efforts to enforce or protect its proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources and could adversely affect its business, financial condition, results of operations and prospects.

Intellectual property rights do not necessarily address all potential threats.

The degree of future protection afforded by Forte's intellectual property rights is uncertain because intellectual property rights have limitations and may not adequately protect its business or permit Forte to maintain its competitive advantage. For example:

- others may be able to make products that are similar to Forte's product candidate or utilize similar technology but that are not covered by the claims of the patents that Forte may own;
- Forte, or its current or future licensors or collaborators, might not have been the first to make the inventions covered by the issued patent or pending patent application that Forte own now or in the future;
- Forte, or its current or future licensors or collaborators, might not have been the first to file patent applications covering certain of its or their inventions;
- others may independently develop similar or alternative technologies or duplicate any of Forte's technologies without infringing Forte's owned intellectual property rights;
- it is possible that Forte's current or future pending owned patent applications will not lead to issued patents;
- issued patents that Forte holds rights to may be held invalid or unenforceable, including as a result of legal challenges by its competitors or other third parties;
- Forte's competitors or other third parties might conduct research and development activities in countries where Forte does not have patent rights and then use the information learned from such activities to develop competitive products for sale in its major commercial markets;
- Forte may not develop additional proprietary technologies that are patentable;

- the patents of others may harm Forte's business; and
- Forte may choose not to file a patent in order to maintain certain trade secrets or know-how, and a third party may subsequently file a patent covering such intellectual property.

Should any of these events occur, they could have a material adverse effect on Forte's business, financial condition, results of operations and prospects.

General Risks

The market price of Forte's common stock is expected to be volatile. In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies.

The market price of Forte's common stock could be subject to significant fluctuations. For example, Forte's announcement in September 2021 that the clinical trial of FB-401 for the treatment of AD failed to meet statistical significance for its primary endpoint of EASI-50 (the proportion of patients with at least a 50% improvement in atopic dermatitis disease severity as measure by EASI) resulted in a significant decline in the market price of Forte's common stock. Following the announcement on September 2, 2021, the price of Forte's common stock dropped \$23.53 per share, or approximately 82%, from \$28.59 per share as of the close of business on September 2, 2021 to \$5.06 per share as of the close of business on September 3, 2021. The closing price of Forte's common stock on November 4, 2021, was \$3.23 per share. Some of the other factors that may cause the market price of Forte's common stock to fluctuate include:

- any strategic options that Forte pursues or announces;
- Forte's ability to obtain regulatory approvals for its product candidates, and delays or failures to obtain such approvals;
- failure of any of Forte's product candidates, if approved, to achieve commercial success;
- Forte's failure to maintain its existing third-party license and supply agreements;
- failure by Forte or its licensors to prosecute, maintain, or enforce its intellectual property rights;
- changes in laws or regulations applicable to Forte's product candidates;
- any inability to obtain adequate supply of Forte's product candidates or the inability to do so at acceptable prices;
- adverse regulatory authority decisions;
- introduction of new products, services or technologies by Forte's competitors;
- failure to meet or exceed financial and development projections Forte may provide to the public;
- failure to meet or exceed the financial and development projections of the investment community;
- the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;
- announcements of significant acquisitions, strategic collaborations, joint ventures or capital commitments by Forte or its competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters, and Forte's ability to obtain patent protection for its technologies;
- additions or departures of key personnel;
- significant lawsuits, including patent or stockholder litigation;
- if securities or industry analysts do not publish research or reports about Forte's business, or if they issue an adverse or misleading opinion regarding its business and stock;
- changes in the market valuations of similar companies;

- general market or macroeconomic conditions;
- sales of Forte's common stock by Forte or its stockholders in the future;
- trading volume of Forte's common stock;
- announcements by commercial partners or competitors of new commercial products, clinical progress or the lack thereof, significant contracts, commercial relationships or capital commitments;
- adverse publicity generally, including with respect to other products and potential products in such markets;
- the introduction of technological innovations or new therapies that compete with potential products of Forte;
- changes in the structure of health care payment systems; and
- period-to-period fluctuations in Forte's financial results.

Moreover, the stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may also adversely affect the trading price of Forte's common stock.

In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm the company's profitability and reputation. In addition, such securities litigation often has ensued after a reverse merger or other merger and acquisition activity. Such litigation if brought could negatively impact Forte's business, either before or after a potential future strategic transaction.

Additionally, a decrease in the stock price of the company may cause Forte's common stock to no longer satisfy the continued listing standards of Nasdaq. If the company is not able to maintain the requirements for listing on Nasdaq, it could be delisted, which could have a materially adverse effect on its ability to raise additional funds as well as the price and liquidity of its common stock.

Forte will incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

Following the Merger completed in the second quarter of 2020, Forte has incurred and will continue to incur significant legal, accounting and other expenses that the predecessor company of Forte did not incur as a private company, including costs associated with public company reporting requirements. Forte will also incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act, as well as new requirements implemented by the SEC and Nasdaq. These rules and regulations are expected to increase Forte's legal and financial compliance costs and to make some activities more time consuming and costly. For example, Forte's management team consists of the executive officers of the operating company that survived the Merger, some of whom have not previously managed and operated a public company. These executive officers and other personnel need to devote substantial time to gaining expertise regarding operations as a public company and compliance with applicable laws and regulations. These rules and regulations also may make it difficult and expensive for Forte to obtain and maintain directors' and officers' liability insurance. As a result, it may be more difficult for Forte to attract and retain qualified individuals to serve on its board of directors or as executive officers, which may adversely affect investor confidence in and could cause Forte's business or stock price to suffer.

Anti-takeover provisions in Forte's charter documents and under Delaware law could make an acquisition of Forte more difficult and may prevent attempts by Forte's stockholders to replace or remove the company management.

Provisions in Forte's certificate of incorporation and bylaws may delay or prevent an acquisition or a change in management. In addition, because Forte is incorporated in Delaware, it is governed by the provisions of Section 203 of the DGCL, which prohibits stockholders owning in excess of 15% of the outstanding company voting stock from merging or combining with Forte. Although Forte believes these provisions collectively will

provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with Forte's board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by Forte's stockholders to replace or remove then current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing the members of management.

Forte's bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between Forte and its stockholders, which could limit its stockholders' ability to obtain a favorable judicial forum for disputes with Forte or its directors, officers or other employees.

Forte's bylaws provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for any derivative action or proceeding brought on Forte's behalf, any action asserting a breach of fiduciary duty owed by any of its directors, officers or other employees to Forte or its stockholders, any action asserting a claim against it arising pursuant to any provisions of the DGCL, its certificate of incorporation or its bylaws, or any action asserting a claim against it that is governed by the internal affairs doctrine; *provided*, that these choice of forum provisions do not apply to suits brought to enforce a duty or liability created by the Securities Act, the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with Forte or its directors, officers or other employees, which may discourage such lawsuits against Forte and its directors, officers and other employees. If a court were to find the choice of forum provision contained in the bylaws to be inapplicable or unenforceable in an action, Forte may incur additional costs associated with resolving such action in other jurisdictions.

Forte does not anticipate paying any cash dividends in the foreseeable future.

The current expectation is that Forte will retain its future earnings, if any, to fund the development and growth of its business and to preserve capital as it explores strategic alternatives. As a result, capital appreciation, if any, of Forte's common stock will be its stockholders' sole source of gain, if any, for the foreseeable future.

Future sales of shares by existing stockholders could cause Forte's stock price to decline.

If existing stockholders of Forte sell, or indicate an intention to sell, substantial amounts of the Forte's common stock in the public market after legal restrictions on resale from the Merger lapse, the trading price of Forte's common stock could decline. Forte is not able to predict the effect that sales may have on the prevailing market price of Forte's common stock.

If equity research analysts do not publish research or reports, or publish unfavorable research or reports, about Forte, its business or its market, its stock price and trading volume could decline.

The trading market for Forte's common stock will be influenced by the research and reports that equity research analysts publish about it and its business. Equity research analysts may elect not to provide research coverage of Forte's common stock, and such lack of research coverage may adversely affect the market price of its common stock. In the event it does have equity research analyst coverage, Forte will not have any control over the analysts, or the content and opinions included in their reports. The price of Forte's common stock could decline if one or more equity research analysts downgrade its stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of Forte or fails to publish reports on it regularly, demand for its common stock could decrease, which in turn could cause its stock price or trading volume to decline.

The company will have broad discretion in the use of proceeds from any capital raising efforts, including private placement financings, and may invest or spend the proceeds in ways with which its stockholders do not agree and in ways that may not increase the value of their investments.

Forte has and will continue to have broad discretion over the use of proceeds from any capital raising efforts, including private placement financings completed in 2020. Its stockholders may not agree with Forte's decisions, and its use of the proceeds may not yield any return on its stockholders' investments. Forte's failure to apply the net

proceeds of such financings effectively could compromise its ability to pursue its growth strategy and Forte might not be able to yield a significant return, if any, on its investment of these net proceeds. Forte's stockholders will not have the opportunity to influence its decisions on how to use the net proceeds from such financings.

If Forte fails to maintain proper and effective internal controls, its ability to produce accurate financial statements on a timely basis could be impaired.

Forte is subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of Nasdaq. The Sarbanes-Oxley Act requires, among other things, that Forte maintain effective disclosure controls and procedures and internal control over financial reporting. Forte must perform system and process evaluation and testing of its internal control over financial reporting to allow management to report on the effectiveness of its internal controls over financial reporting in its Annual Report on Form 10-K filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. This requires that Forte incur substantial professional fees and internal costs to expand its accounting and finance functions and that it expends significant management efforts. Forte may experience difficulty in meeting these reporting requirements in a timely manner.

Forte may discover weaknesses in its system of internal financial and accounting controls and procedures that could result in a material misstatement of its financial statements. Forte's internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If Forte is not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act, or if it is unable to maintain proper and effective internal controls, Forte may not be able to produce timely and accurate financial statements. If that were to happen, the market price of its common stock could decline and it could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities.

Forte is able to take advantage of reduced disclosure and governance requirements applicable to smaller reporting companies, which could result in its common stock being less attractive to investors.

Forte currently qualifies as a smaller reporting company under the rules of the SEC. As a smaller reporting company, Forte is able to take advantage of reduced disclosure requirements, such as simplified executive compensation disclosures and reduced financial statement disclosure requirements in its SEC filings. Decreased disclosures in Forte's SEC filings due to its status as a smaller reporting company may make it harder for investors to analyze its results of operations and financial prospects. Forte cannot predict if investors will find its common stock less attractive if it relies on these exemptions. If some investors find its common stock less attractive as a result, there may be a less active trading market for its common stock and its stock price may be more volatile. Forte may take advantage of the reporting exemptions applicable to a smaller reporting company until it is no longer a smaller reporting company, which status would end once it has a public float greater than \$250 million. In that event, Forte could still be a smaller reporting company if its annual revenues were below \$100 million and it has a public float of less than \$700 million.

Forte's principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

As of September 30, 2021, Forte's executive officers, directors, holders of 5% or more of its capital stock and their respective affiliates beneficially owned a significant percentage of its outstanding voting stock. These stockholders, acting together, may be able to impact matters requiring stockholder approval. For example, they may be able to impact elections of directors, amendments of Forte's organizational documents or approval of any merger, sale of assets or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for Forte's common stock that you may feel are in your best interest as one of Forte's stockholders. The interests of this group of stockholders may not always coincide with your interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of other stockholders, including seeking a premium value for their common stock, and might affect the prevailing market price for Forte's 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.

Forte has initiated a process to explore and review a range of strategic alternatives focused on maximizing stockholder value. The Company is exploring the potential for a possible merger, business combination, asset acquisition or sales, collaboration or licensing arrangements. Forte has engaged a financial advisory firm to act as a strategic advisor for this process. There can be no assurance that this exploration of strategic alternatives will result in Forte entering or completing any transaction.

Item 6. Exhibits.

Furnish the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*±	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*±	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page Interactive Data File (embedded with the Inline XBRL document)

* Filed herewith.

± The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Forte Biosciences, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dr. Paul Wagner, certify that:

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

Date: November 8, 2021

By: _____ /s/ Paul Wagner

Dr. Paul Wagner
Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Antony Riley, certify that:

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

Date: November 8, 2021

By: _____ /s/ Antony Riley
Antony Riley
Chief Financial Officer

