SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Apollo Endosurgery, Inc.

Form: 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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: 001-35706

LPATH, INC.

(Name of small business issuer in its charter)

Nevada	**16-1630142**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4025 Sorrento Valley Blvd., San Diego, California	**92121**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number **(858) 678-0800**

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

None

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

Title of each class
Common Stock, $0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The approximate aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed based on the last sale price of $5.25 as reported on the Over-the-Counter Bulletin Board on June 30, 2012 is $47,289,000. For purposes of this calculation, shares of common stock held by each officer and director and by each person or group who owns 10% or more of the outstanding common stock have been excluded from the calculation of aggregate market value as such persons or groups may be deemed to be affiliates.

As of March 15, 2013, there were 13,128,250 shares of the issuer's $.001 par value common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive proxy statement for our 2013 annual meeting of stockholders are incorporated by reference into Part III of this annual report on Form 10-K. Our 2013 annual meeting of stockholders is scheduled to be held on June 19, 2013. We intend to file our definitive proxy statement with the Securities and Exchange Commission not later than 120 days after the conclusion of our fiscal year ended December 31, 2012.

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LPATH, INC.
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes statements of our expectations, intentions, plans, and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and are intended to come within the safe harbor protection provided by those sections. These forward-looking statements are principally, but not solely, contained in the section captioned "Business" below and the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "estimate," "project," "intend," "forecast," "anticipate," "plan," "planning," "expect," "believe," "will," "will likely," "should," "could," "would," "may" or words or expressions of similar meaning. All such forward-looking statements involve risks and uncertainties, including, but not limited to:

- Our interpretation of the results of the pre-clinical and clinical trials for our product candidates.
- Our ability to successfully complete additional clinical trials on a timely basis and obtain regulatory approvals for one or more of our product candidates.
- The potential biological effects and indications for our product candidates.
- The market opportunity for our product candidates.
- Our ability to complete additional discovery and development activities for drug candidates utilizing our proprietary ImmuneY2 drug discovery process.
- Our ability to satisfy the terms of our agreement with Pfizer Inc.
- The period of time for which our existing cash will enable us to fund our operations.

In addition to the items described in this report under the heading "Risk Factors," many important factors affect our ability to achieve our stated objectives and to successfully develop and commercialize any product candidates, including, among other things:

- The results of our pre-clinical testing and our clinical trials may not support either further clinical development or the commercialization of our drug candidates.
- We may not successfully complete additional clinical trials for our product candidates on a timely basis, or at all.
- None of our drug candidates has received regulatory approval at this time, and we may fail to obtain required governmental approvals for our drug candidates.
- We have a history of net losses and we may never achieve or maintain profitability.
- We may not be successful in maintaining our commercial relationship with Pfizer Inc.
- We may not be able to obtain substantial additional financial resources in order to carry out our planned activities beyond 2014.
- Our products could infringe patent rights of others, which may require costly litigation and, if we are not successful, could cause us to pay substantial damages or limit our ability to commercialize our products.

Therefore, investors are cautioned that the forward-looking statements included in this report may prove to be inaccurate and our actual results or performance may differ materially from any future results or performance expressed or implied by the forward-looking statements. In light of the significant uncertainties inherent to the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation or warranty by us or any other person that our objectives and plans will be achieved in any specified time frame, if at all. These forward- looking statements

represent beliefs and assumptions only as of the date of this report. Except to the extent required by applicable laws or rules, we do not intend to update any forward-looking statements contained herein or to announce revisions to any of such forward-looking statements to reflect new information or future events or developments.

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PART I

ITEM 1. BUSINESS

Overview

We are a biotechnology company focused on the discovery and development of lipidomic-based therapeutic antibodies, an emerging field of medical science that targets bioactive signaling lipids to treat a wide range of human diseases. We have two product candidates that are currently in clinical development, and one in pre-clinical evaluation.

iSONEP

iSONEP™ is the ocular formulation of sonepcizumab, a humanized monoclonal antibody ("mAb") against sphingosine-1-phosphate ("S1P"). Sphingomab™ is the original mouse version of this monoclonal antibody. iSONEP is administered by intravitreal injection, and has demonstrated multiple mechanisms of action in ocular models of disease, including anti-angiogenesis, anti-inflammatory, anti-fibrotic and anti-vascular permeability. This combination of mechanisms would suggest: (i) iSONEP might have a comparative advantage over currently marketed products for "wet" age-related macular degeneration ("wet AMD") and (ii) iSONEP might demonstrate clinical efficacy in a broad range of retinal diseases where there is currently a significant unmet medical need, including diabetic retinopathy, dry AMD, and glaucoma-related surgery.

In 2009, we completed a Phase 1 clinical trial in which iSONEP was evaluated in patients with wet AMD. In that trial, iSONEP met its primary endpoint of being well tolerated in all 15 patients at dose levels ranging from 0.2 mg to 1.8 mg per intravitreal injection. No drug-related serious adverse events were reported in any of the patients. Positive biological effects were also observed in some patients in this clinical study, the most common being regression in choroidal neovascularization ("CNV"), which is the underlying cause of the disease that eventually leads to degeneration of the macula. Most of these positive effects appear to be largely independent of the effects seen when patients undergo treatment with the drugs that are in current use for the treatment of wet AMD. In addition, of the 15 patients in the Phase 1 iSONEP trial, two patients were diagnosed with PED. With a single dose of iSONEP, these patients experienced complete resolution of the condition. There is currently no FDA approved treatment for PED. The small number of patients with this condition in the iSONEP Phase 1 clinical trial makes it difficult to draw any definitive conclusions from these results.

In December 2010, we entered into an agreement providing Pfizer Inc. with an exclusive option for a worldwide license to develop and commercialize iSONEP (the "Pfizer Agreement"). Under the terms of that agreement, Pfizer provided Lpath with an upfront option payment of $14 million and agreed to share the costs of the planned Phase 1b and Phase 2a clinical trials. Following completion of the two clinical trials, Pfizer has the right to exercise its option for worldwide rights to iSONEP. If Pfizer exercises its option, Lpath will be eligible to receive an option fee as well as development, regulatory and commercial milestone payments. In addition, if iSONEP eventually becomes a commercial product, Lpath will be entitled to receive tiered double-digit royalties based on sales of iSONEP.

Pursuant to the terms of the Pfizer Agreement, we began a Phase 1b/2a clinical trial of iSONEP in patients with retinal pigment epithelium detachment ("PED") (the"PEDigree trial"), a persistent complication in patients with the occult form of wet AMD in September 2011. In October 2011, we also began a larger Phase 2a clinical trial, to test iSONEP as a treatment for wet-AMD in a broader population of patients, namely, those wet-AMD patients without PED (the "Nexus trial").

In January 2012, the Food and Drug Administration (FDA) placed the PEDigree and Nexus trials on clinical hold following a determination by the FDA that the fill-and-finish contractor that had filled the iSONEP clinical trial vials was not in compliance with the FDA's current Good Manufacturing Practice (''cGMP'') standards during the time period it provided those services to the Company. Thereafter, we manufactured new iSONEP drug substance with an alternate fill-and-finish contractor and resumed dosing patients in the Nexus trial in September 2012.

As a result of the clinical hold and the requirement to manufacture new drug substance, the projected costs to complete the iSONEP trials increased significantly and Pfizer requested the Company to consider potential alternatives to reduce the increased costs of the iSONEP trials.On December 5, 2012, Lpath and Pfizer amended the Pfizer Agreement to among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. The

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parties also modified the protocol for the Nexus trial to include certain wet AMD patients with PED in the Nexus trial. In addition, the Company can elect to conduct the PEDigree trial at any time at its cost. The parties will continue to pursue and share the cost of the iSONEP trials, including any costs associated with discontinuing the PEDigree trial.

As of December 31, 2012, Pfizer had paid the Company $20.0 million pursuant to the terms of the Pfizer Agreement, including the $14 million upfront payment. The amendment to the Pfizer Agreement does not modify the Company's obligation to fund the next $6.0 million of Nexus trial costs.

The Company expects to complete dosing the last Nexus trial patient during the first half of 2014. The actual time required to complete our clinical trials will depend upon a number of factors outside of our direct control, including those discussed in "Risk Factors — We may have delays in completing our clinical trials, and we may not complete them at all."

Following completion of the Nexus study, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if Pfizer exercises its option, the Company will be eligible to receive development, regulatory and commercial milestone payments that could total up to $497.5 million. In addition, the Company will be entitled to receive tiered double-digit royalties based on sales of iSONEP.

ASONEP

ASONEP™ is the systemic formulation of sonepcizumab. In the first quarter of 2010, we completed a Phase 1 clinical trial in which ASONEP was evaluated in very late-stage cancer patients. In that trial, ASONEP was well tolerated at all dose-levels ranging from 1 mg/kg to 24 mg/kg., other than minor infusion-related reactions observed at the highest dose. More than half the patients that completed the initial four-treatment evaluation period showed stable disease, and durable stable disease was observed in several patients.

Based on ASONEP's safety profile and the observation of stable disease in several late-stage cancer patients, we believe that further investigation of ASONEP for efficacy in Phase 2 clinical trials is warranted In collaboration with Beth Israel Deaconess Medical Center, Lpath has demonstrated efficacy of ASONEP in preclinical models of a form of human kidney cancer called renal cell carcinoma. We are collaborating with Beth Israel Deaconess Medical Center and other collaborators at academic medical research institutions on a Phase 2 clinical trial testing ASONEP as a treatment for renal cell carcinoma That clinical trial is currently open for enrollment.

In 2008, we entered into a License Agreement with Merck KGaA, ("Merck") pursuant to which Merck agreed to collaborate with us to develop and commercialize ASONEP (the "Merck Agreement"). Pursuant to the terms of the Merck Agreement, we licensed to Merck exclusive, worldwide rights to develop and commercialize ASONEP across all non-ocular indications. In March 2010, Merck proposed continuing the partnership via an extension of the Initial Development Period (as defined in the Merck Agreement). However the terms of that proposed extension were rejected by Lpath's Board of Directors as not being in the best interests of Lpath's stockholders. Consequently, Merck notified us of their decision to terminate the Merck Agreement. The termination was effective on April 24, 2010, and upon such termination Merck relinquished all rights to the ASONEP program.

As part of the December 2010 Pfizer Agreement, Lpath has granted to Pfizer a time-limited right of first refusal for ASONEP which period ends in December 2013.

Lpathomab

Lpathomab™, our pre-clinical product candidate, is a mAb against lysophosphatidic acid ("LPA"), a key bioactive lipid that has long been recognized as a significant promoter of cancer-cell growth and metastasis in a broad range of tumor types. Published research has also demonstrated that LPA is a significant contributor to neuropathic pain and plays a key role in pulmonary fibrosis. We have selected the clinical candidate mAb from among three humanized mAbs that inhibit LPA. These mAbs were tested against each other in various models of human disease to determine which mAb would be most likely to succeed in clinical trials. We are now in the early stages of antibody manufacturing process development and expect to begin Investigational New Drug ("IND") enabling studies in 2013. The target date to begin testing Lpathomab in clinical trials is in early 2015.

ImmuneY2™ Technology

We believe we are the only company to have developed functional therapeutic monoclonal antibodies against any bioactive lipid, of which there are estimated to be 1,000 or more. We produced these unique antibodies using our ImmuneY2™ technology, a series of proprietary processes we have developed. We are currently applying the ImmuneY2

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process to other bioactive lipids that are validated targets for disease treatment, thereby expanding our potential pipeline of novel monoclonal antibody-based drug candidates.

We have a strong intellectual-property position in the bioactive-lipid area, with 35 issued patents, including ten international patents, and 112 patent applications, including 85 international. Most of these patents were developed in-house based on our pioneering research on bioactive lipid signaling. Our research partners to date include the UCLA Brain Injury Research Center, the M.D. Anderson Cancer Center, Johns Hopkins University, the Harvard Medical School, the University of Florida College of Medicine, the University of California — San Diego, the French National Centre for Scientific Research, the Center for Eye Research Australia, the University of Melbourne, Australia, the Beth Israel Deaconess Medical Center, the Walter Reed Army Institute for Research, the Medical University of South Carolina, the Virginia Commonwealth University, and the University of Kentucky.

The Emergence of Lipidomics

For many years the drug-development industry has been fundamentally protein-centric, and most drugs on the market (and almost all drug candidates in clinical trials) target proteins. The recognition among medical researchers that bioactive lipids play key roles in disease is a relatively recent development. "Although the concept of 'bioactive lipids' has been decades in the making, it has only started to gain traction in the past 20 years, and promises to occupy centre-stage in cell biology research in the twenty-first century." (*Nature Reviews*, February 2008)

In an article published in 2006, the *British Journal of Cancer* described the emergence of lipidomics in drug discovery:

> *The focus on proteins was a natural consequence of the science community's evolving understanding of biochemistry, which allowed researchers to identify potential protein targets involved in key metabolic and signaling pathways. Some of the first drugs developed by the rational-drug-design approach to the scientific method came after the discovery of key enzymes, receptors, and ion channels [all proteins] as they emerged in the basic science literature. One can argue that target identification now is driven by the technological developments of proteomics and genomics, both of which reflect the persistent 'protein-centric' view of drug discovery.*
>
> *Now, the field of lipidomics (a subset of 'metabolomics') has emerged...and provides new opportunities for drug discovery. As was the case for proteomics and genomics, tools of measurement led the way. For lipidomics, the development of electrospray tandem mass spectrometry and other tools has facilitated our understanding of the cellular lipidome, and we now believe that there are over 1,000 members of the lipidome, opening up an entire array of new potential targets for therapeutic interventions.*
>
> *It has been recognized that alterations in lipid metabolism can lead to cancer, cardiovascular disease, diabetes, neurodegenerative disorders, immune function, pain, mental disorders, and inflammation. (British Journal of Cancer, October 2006).*

We believe that we are the leader in developing lipidomic-based therapeutics and humanizing related mAbs. This emerging field of medical science

involves two areas of expertise:

1. *An understanding of the role of bioactive lipids in their respective signaling systems so that potentially important targets can be identified:* The study of lipidomics is complex, as bioactive lipids have a molecular weight significantly lower than proteins and, unlike proteins, are not water-soluble. As such, many of the measurement and analytical tools that exist in the protein-centric pharmaceutical industry are not effective when dealing with bioactive lipids. Because of our long-standing focus on bioactive lipids as targets for human disease, we are one of the few companies that have developed the expertise and assays to address the unique challenges of lipidomics.

2. *The ability to inhibit the identified bioactive-lipid targets:* Bioactive lipids are difficult to inhibit for the same reasons that make them difficult to study—they are extremely small and they are not water-soluble. As such, many companies have tried to generate monoclonal antibodies that inhibit the functional activity of bioactive lipids, only to have failed. We believe we are the only company to have developed functional monoclonal antibodies against bioactive lipids such as S1P or LPA. This capability is based on our proprietary ImmuneY2 technology.

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Product Opportunities

Our key product-development programs are summarized in Table 1:

Table 1. Primary Product-Development Programs

PRODUCT	Description	Indication	Status
iSONEP	mAb against S1P, a validated angiogenic growth factor & contributor to inflammation	AMD RPE Detachment Other retinal diseases	Phase 1b/2a clinical trial of iSONEP in patients with Wet-AMD. Demonstrated *in vivo* mechanisms that contribute to progression of diabetic retinopathy and wet AMD.
ASONEP	mAb against S1P, a validated angiogenic factor and validated mediator of lymphocyte trafficking	Cancer—various tumor types	Phase 2 clinical trial of ASONEP in patients with renal cell carcinoma.
Lpathomab	mAb against LPA, a tumorigenic and metastatic agent and a validated contributor to neuropathic pain; in addition, the mAb was shown to inhibit fibrosis in a bleomycin model of pulmonary fibrosis	Neuropathic pain Traumatic brain injury Spinal cord injury Fibrosis Cancer	Antibody manufacturing in process, IND-enabling studies to begin in mid-2013.

iSONEP

iSONEP is the ocular formulation of sonepcizumab, a monoclonal antibody against S1P, a bioactive lipid implicated in the progression of many diseases including various angiogenic-related diseases and inflammatory-oriented indications, multiple sclerosis, and many types of cancer, iSONEP—and ASONEP as well (see below)—acts as a molecular sponge to selectively absorb S1P from blood and from certain tissues.

Pre-Clinical and Phase 1 Clinical Trial Results

iSONEP has demonstrated promising anti-angiogenic results in various eye models of wet AMD, as performed by Dr. Maria Grant (University of Florida) and Dr. Peter Campochiaro (Johns Hopkins University). Moreover, Dr. Peter Campochiaro also demonstrated that iSONEP has strong anti-vascular permeability effects in the eye, as well as promising anti-inflammatory properties. Studies that we performed in-house suggest iSONEP also may have anti-fibrotic effects.

In 2009, we completed a Phase 1 clinical trial in which iSONEP was evaluated in patients with wet AMD. In that trial, iSONEP met its primary endpoint of being well tolerated in all 15 patients at dose levels ranging from 0.2 mg to 1.8 mg per intravitreal injection. No drug-related serious adverse events were reported in any of the patients. Positive biological effects were also observed in some patients in this clinical study, the most common being regression in CNV, which is the underlying cause of the disease that eventually leads to degeneration of the macula. Most of these positive effects appear to be largely independent of the effects seen when patients undergo treatment with the drugs that are the current market leaders for the treatment of wet AMD.

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The most significant benefit observed in the Phase 1 trial was a regression in choroidal neovascularization (CNV), which is the underlying cause of the disease that eventually leads to degeneration of the macula, the area of the retina responsible for central vision. Of the seven patients that had a baseline lesion that was considered by experienced ophthalmologists to be “large,” four experienced a reduction exceeding 5 mm^2 and three experienced a reduction of greater than 75%—all with a single dose of iSONEP. This type of clinical benefit is not typical with other treatments, as the published data (Heier JS *et al. Ophthalmology*.2006; 113:642e1-642.e4) suggest that, even with repeated Lucentis® dosing, the total physical size of CNV lesion does not show much reduction.

Another distinctive benefit was the resolution of retinal pigment epithelium detachment (“PED”), a potentially serious condition that is often a part of the pathology of wet AMD. Of two patients that were diagnosed with PED in the Phase 1 trial, both experienced complete or near-complete resolution of the

condition—again, with only a single dose of iSONEP.

A key observation from the Phase 1 trial was that of the five patients that showed the strongest biological effect, all five had a component of occult-type CNV (either pure occult CNV or "minimally classic" CNV). Further, these five patients were the only ones in the Phase I study that were diagnosed with occult disease. In other words, all of the patients with a component of occult CNV exhibited a strong positive biological effect during the 30-45 days following a single injection of iSONEP.

Due to the small sample size, all biological effects described above can only be characterized as possibly correlative at this time; no causal relationship has yet been established, statistically or otherwise.

The fact that these biological effects appear to be non-overlapping vis-à-vis those of the predominant market leaders, Lucentis and Avastin ®, may be significant. Wet AMD is characterized by the pathologic disruption of the retina, which is caused collectively by (i) new-blood-vessel growth in the choroid layer under the retina, (ii) sub-retinal fibrosis, (iii) general inflammation in the retinal area, and (iv) edema caused by new blood vessels that do not form perfectly and are thereby permeable (or leaky).

Lucentis and Avastin target the protein VEGF, a validated promoter of permeable and leaky blood vessels, and appear to exert most of their beneficial effect via an anti-permeability action that results in resolution of intra and sub-retinal edema. However, the actual CNV lesion does not typically regress.

In contrast, iSONEP has been shown in various animal models of disease not only to reduce blood-vessel growth and leakiness, but to significantly mitigate ocular fibrosis (Grant et al, *Experimental Eye Research*, August 2008) and to substantially reduce inflammation in the eye (Campochiaro *et al., Journal of Cellular Physiology*, October 2008). As such, iSONEP has the potential to be an effective wet AMD treatment that may offer significant advantages over exclusively anti-VEGF approaches. It may also act synergistically with them as a combination therapy to address the complex processes and multiple steps that ultimately lead to vision loss for wet AMD patients.

iSONEP's non-overlapping effects relative to anti-VEGF therapeutics was predicted. As Campochiaro *et al.* state in *Journal of Cellular Physiology,* "Since S1P may have both independent and overlapping effects with VEGF, it is a particularly appealing target. There may be advantages to combined blockade of VEGF [Lucentis] and blockade of S1P [iSONEP]."

The promising results of the Phase 1 clinical trial together with the preclinical studies suggest the following:

(i) iSONEP may have comparative advantages over currently available treatments like Lucentis and Avastin (and soon-to-be-available treatments with similar mechanisms of action like Regeneron's VEGF-Trap©). The loss of visual acuity associated with AMD is caused by a combination of all the factors mentioned above, yet Lucentis, Avastin, and the VEGF-Trap apparently fail to address inflammation and sub-retinal fibrosis. Thus, iSONEP may improve vision on a more-consistent basis across the patient population and may treat the multiple mechanisms that cause exudative-AMD-related vision loss. Such an agent might act as a monotherapy or an adjunct therapy to an anti-VEGF agent.

(ii) iSONEP may be able to inhibit the vascular and extravascular components of ischemic retinopathies such as diabetic retinopathy and the dry form of AMD, both of which represent significant unmet medical needs.

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(iii) iSONEP might be efficacious in treating fibrotic-related disorders of the eye, including proliferative retinopathy, post glaucoma filtration surgery (trabeculectomy or valve implantation), and various anterior-segment diseases.

Pfizer Agreement and Phase 2 Clinical Trial

In December 2010, we entered into the Pfizer Agreement which provides Pfizer Inc. with an exclusive option for a worldwide license to develop and commercialize iSONEP. Under the terms of the agreement, Pfizer provided Lpath with an upfront option payment of $14 million and agreed to share the cost of the planned Phase 1b and Phase 2a clinical trials. Following completion of the clinical trials, Pfizer has the right to exercise its option for worldwide rights to iSONEP. If Pfizer exercises its option, Lpath will be eligible to receive an option fee as well as development, regulatory and commercial milestone payments. In addition, if iSONEP eventually becomes a commercial product, Lpath will be entitled to receive tiered double-digit royalties based on sales of iSONEP.

Pursuant to the terms of the Pfizer Agreement, we initiated the PEDigree trial, a Phase 1b/2a clinical trial of iSONEP in patients with PED, a persistent complication in patients with the occult form of wet AMD, in September 2011. In October 2011, we also began the Nexus trial, a larger Phase 2a clinical trial, to test iSONEP as a treatment for wet-AMD in a broader population of patients, namely, those wet-AMD patients without PED.

In January 2012, the FDA placed the PEDigree and Nexus trials on clinical hold following a determination by the FDA that the fill-and-finish contractor that had filled the iSONEP clinical trial vials was not in compliance with the FDA's current Good Manufacturing Practice ("cGMP") standards during the time period it provided those services to the Company. Thereafter, we manufactured new iSONEP drug substance with an alternate fill-and-finish contractor and resumed dosing patients in the Nexus trial in September 2012.

As a result of the clinical hold and the requirement to manufacture new drug substance, the projected costs to complete the iSONEP trials increased significantly and Pfizer requested the Company to consider potential alternatives to reduce the increased costs of the iSONEP trials.On December 5, 2012, Lpath and Pfizer amended the Pfizer Agreement to among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. The parties also modified the protocol for the Nexus trial to include certain wet AMD patients with PED in the Nexus trial. In addition, the Company can elect to conduct the PEDigree trial at any time at its cost. The parties will continue to pursue and share the cost of the iSONEP trials, including any costs associated with discontinuing the PEDigree trial.

As of December 31, 2012, Pfizer had paid the Company $20.0 million pursuant to the terms of the Pfizer Agreement, including the $14 million upfront payment. The amendment to the Pfizer Agreement does not modify the Company's obligation to fund the next $6.0 million of Nexus trial costs.

The Company expects to complete dosing the last Nexus trial patient during the first half of 2014. The actual time required to complete our clinical trials will depend upon a number of factors outside of our direct control, including those discussed in "Risk Factors — We may have delays in completing our clinical trials, and we may not complete them at all."

Following completion of the Nexus study, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if

Pfizer exercises its option, the Company will be eligible to receive development, regulatory and commercial milestone payments that could total up to $497.5 million. In addition, the Company will be entitled to receive tiered double-digit royalties based on sales of iSONEP. The actual time required to complete our clinical trials will depend on a number of factors outside of our direct control, including those discussed in "Risk Factors—We may have delays in completing our clinical trials and we may not complete them all."

ASONEP

ASONEP is the systemic formulation of sonepcizumab; as such, it is also a mAb against the bioactive lipid S1P which has been implicated in the progression of various types of cancer and other angiogenic-related and inflammatory-oriented indications. It is well documented in scientific literature that S1P is a key protector of cancer cells when tumors are stressed by radiation or chemotherapy. Many studies have been conducted that demonstrate a strong link between S1P and several prevalent tumor types, including renal cell carcinoma (kidney cancer), leukemia, prostate cancer, neuroblastoma, (a brain tumor), lung cancer, pancreatic cancer, and melanoma (skin cancer).

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Preclinical and Phase 1 Clinical Trial Results

ASONEP has demonstrated efficacy in preclinical models of several types of human cancers. In addition, the safety profile of ASONEP was extremely favorable throughout a Phase 1 clinical trial as well as in a wide variety of preclinical studies at multiples of anticipated human exposure

We believe ASONEP may be effective in reducing the four major processes of cancer progression: tumor proliferation, tumor metastasis, tumor-associated angiogenesis, and protection from cell death. The other mAbs on the market or in clinical trials of which we are aware generally inhibit only one or two tumor- promoting effects in a broad range of cancers. As such, we believe that ASONEP may have a comparative advantage over other therapeutic antibody approaches for cancer.

Other potential advantages of ASONEP, which are generally related to our unique approach of targeting bioactive lipids (whereas most therapeutic mAbs on the market and in clinical trials are directed against protein targets), include the following:

a) *ASONEP's preclinical data may translate into humans more predictably than typical protein-targeted drug candidates.* Unlike protein targets, S1P has a single molecular structure that is conserved among species (i.e., S1P in a mouse is the same as in monkeys and humans), which is not the case for protein targets. This possibly provides for a greater translation (i.e., higher predictive value) between animal efficacy studies and possible human clinical significance.

b) *Cancer cells (and other pathogenic cell types) may not as easily "escape therapy" by mutating around the therapy.* When the target is a protein, cancerous cells can "escape therapy" by mutating around the therapy; they do this either (i) through a form of natural selection, by "selecting" the isoform of the protein that the drug has least efficacy against, or (ii) by making a new version of the protein that the drug is less effective against (and cancer cells have already proven to be highly likely to mutate). S1P, on the other hand, has no isoforms (or splice variants) so the natural selection process described above cannot occur. In addition, the second approach described above is highly unlikely to occur because cells are programmed to produce proteins and not lipids.

c) *Antibodies that bind to lipids may be able to attain certain efficiencies and potencies that protein-targeted antibodies cannot attain.* A typical antibody usually binds and inhibits one (in some cases, two) protein targets. Lipids are so small, by contrast, that each antibody can bind and inhibit two or more such lipid molecules, providing certain efficacies and potencies that typical antibodies cannot attain.

d) *ASONEP has greater binding affinity than other antibodies.* The affinity of ASONEP (i.e., the "strength" of binding to its target, S1P) is higher than antibody therapeutics that are currently used in the clinic as molecular sponges.

ASONEP has demonstrated favorable results in disease models for clinical indications other than cancer. In a recent preclinical study conducted at Harvard Medical School using ASONEP in an Experimental Autoimmune Encephalomyelitis (EAE) model of Multiple Sclerosis, ASONEP performed favorably compared against FTY720, a Novartis compound that was recently approved by the FDA as a treatment for Multiple Sclerosis.

In the first quarter of 2010, we completed a Phase 1 clinical trial in which ASONEP was tested in patients having cancer. The trial met its primary endpoint of identifying safe dose levels for investigation in the Phase 2 setting. ASONEP was well tolerated at all dose-levels, ranging from 1 mg/kg to 24 mg/kg. In the dose-escalation phase of the study, three evaluable patients were treated per dose level, with each one receiving four intravenous treatments during the initial evaluation period (generally on days 1, 15, 22, and 29). Patients could continue ASONEP treatment after this initial evaluation period as long as the patient's disease did not progress. The study also included an extension phase, where six additional patients were dosed at the highest dose (24 mg/kg) using the same dosing guidelines described above.

More than half the patients that completed the initial four-treatment evaluation period showed stable disease. Durable stable disease was observed in several patients. The test results offer considerable flexibility with dose level in future studies because ASONEP was equally well tolerated across all doses that were tested, other than minor infusion-related reactions observed at the highest dose of 24 mg/kg.

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In October 2008, we entered into a License Agreement (the "Merck Agreement") with Merck KgaA, ("Merck") pursuant to which Merck agreed to collaborate with us to develop and commercialize ASONEP. Pursuant to the terms of the Merck Agreement, we licensed to Merck exclusive, worldwide rights to develop and commercialize ASONEP across all non-ocular indications. In March 2010, based on the results of our Phase I clinical trial, Merck proposed moving forward with the partnership via an extension of the Initial Development Period (as defined in the Merck Agreement). However the terms of that proposal were rejected by Lpath's Board of Directors as not being in the best interests of Lpath or its stockholders. Consequently, Merck notified us of their decision to terminate the Merck Agreement. Pursuant to the terms of the Agreement, the termination was effective on April 24, 2010. Upon termination Merck relinquished all rights to the ASONEP program. We received a total of $17.7 million from Merck under the terms of the Merck Agreement.

Phase 2 Clinical Trial

Based on ASONEP's safety profile and the observation of stable disease in several late-stage cancer patients, we believe that further investigation of ASONEP for efficacy in Phase 2 clinical trials is warranted In collaboration with Beth Israel Deaconess Medical Center, Lpath has demonstrated efficacy of ASONEP in preclinical models of a form of human kidney cancer called renal cell carcinoma. We are collaborating with Beth Israel Deaconess Medical Center and other collaborators at academic medical research institutions on a Phase 2 clinical trial testing ASONEP as a treatment for renal cell carcinoma That clinical trial is currently open for enrollment.

As part of the December 2010 Pfizer Agreement, Lpath has granted to Pfizer a time-limited right of first refusal for ASONEP which period ends in December 2013.

Lpathomab

Our drug discovery team, using our proprietary ImmuneY2 technology, was the first, we believe, to generate functional mAbs against lysophosphatidic acid ("LPA"). LPA has long been recognized in the literature as a key factor in a variety of diseases. Published research has also demonstrated that LPA is a significant contributor to neuropathic pain, and plays a key role in pulmonary fibrosis. Because of its potentially significant role in a number of diseases, including pain, fibrosis, and cancer, other companies have tried, unsuccessfully, to create an antibody against LPA.

We have three lead humanized mAbs that inhibit LPA. We humanized and optimized these drug candidates and tested them head-to-head to determine which of the humanized mAbs would be most likely to succeed as a drug candidate in clinical trials. After selecting the strongest anti-LPA drug candidate, we are now in the early stages of antibody manufacturing process development and expect to begin IND-enabling studies in 2013. The target date to begin testing Lpathomab in clinical trials is in early 2015.

Business Strategy

With our long-standing focus on bioactive lipids as targets for human disease, we have developed an expertise involving various tools and technologies that positions us as a leader in the emerging category of lipidomic-based therapeutics. We intend to leverage this expertise by using our proprietary ImmuneY2 drug-discovery engine to add novel bioactive-lipid-oriented product candidates to our therapeutic pipeline. In addition, we will consider licensing in technologies and compounds that further leverage our unique expertise and related intellectual property.

Manufacturing, Development, and Commercialization Strategy

We have outsourced current Good Laboratory Practices ("cGLP") preclinical development activities (e.g., toxicology) and cGMP manufacturing and clinical development activities to contract research organizations ("CROs") and contract manufacturing organizations ("CMOs"). CROs and CMOs are third-parties that specialize in executing processes relating to project-oriented research activities on behalf of their clients and are commonly engaged in the industry. Manufacturing is only outsourced to organizations with approved facilities and manufacturing practices. Marketing, sales, and distribution will likely be through strategic partners that license the right to market, sell, and distribute our compounds in exchange for some combination of up-front payments, royalty payments, and milestone payments. Our research and development expenses were $8.2 million and $9.7 million in fiscal years 2012 and 2011, respectively. In January 2012, we temporarily suspended dosing patients in our PED and wet-AMD trials. We took this action because we learned from the FDA that our fill-and-finish contractor, Formatech, Inc., was not in compliance with FDA's current Good Manufacturing Practice (cGMP) requirements during the period that the iSONEP clinical vials were filled. After we suspended dosing, we were notified by the FDA that the iSONEP trials were being placed on clinical hold. Thereafter, we manufactured new iSONEP drug substance and resumed dosing patients in the Nexus trial in September 2012. We also manufactured new drug substance to support our Phase 2 ASONEP clinical trial.

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In 2006, we entered into a contract manufacturing agreement with Laureate Pharma, Inc. ("Laureate") for the production of ASONEP and iSONEP. Pursuant to the terms of the agreement, Laureate has performed cell-line development, cell-line optimization, and upstream and downstream process development, followed by cGMP manufacture of ASONEP and iSONEP for use in clinical trials. The Laureate agreement expired at the end of 2012. At present, we believe we have adequate supplies of clinical material to complete the Phase 2a studies of iSONEP and ASONEP that are currently in progress, so we have not pursued an extension of the Laureate agreement at this time. We believe we have a good relationship with Laureate and that, if we need to manufacture additional clinical material, we will be able to renew the Laureate agreement or enter into a new agreement with Laureate at that time. However, there is no assurance that we will be able to renew our existing agreement or enter into a new agreement with Laureate on acceptable terms, or at all. Laureate is currently our single manufacturer for ASONEP and iSONEP and may not be replaced without significant effort and delay in production. A supply interruption or an increase in demand beyond our current manufacturer's capabilities could harm our ability to manufacturer such products until new manufacturers are identified and qualified, which would have a significant adverse effect on our business and results.

Market and Competitive Considerations

The Wet-AMD Market

AMD is the leading cause of severe vision loss and blindness among older Americans. Although wet AMD affects only approximately 10% of patients with AMD, it is responsible for approximately 80% of the cases among patients with severe vision loss. Some estimates show that nearly one-third of all Americans 75 years of age or older have at least some form of AMD. According to a study published in 2008 by the National Eye Institute ("NEI") in partnership with Prevent Blindness, more than 2 million Americans age 50 and older have wet AMD. Other NEI data estimate that due to the rapid aging of the U.S. population, this number will increase to almost 3 million by 2020. The World Health Organization (WHO) has estimated that the number of people over age 60 will double over the next 16 years, and the U.S. Census Bureau has estimated that by 2030, nearly one in five U.S. residents will be over the age of 65.

The current market leaders for the treatment of wet AMD are the VEGF inhibitors, including Lucentis ®, Eylea®and (off-label) Avastin®. In 2012, annual revenue (worldwide) was approximately $4.0 billion for Lucentis and $0.8 billion for Eylea, despite significant cannibalization by the off-label use of Avastin (estimated to be 60%). This off-label use, which is motivated by the fact that there is a significant cost differential between the drugs, suggests the 2012 market opportunity for the treatment of wet AMD was in excess of $11.0 billion.

The mAb Antibody Market and Cancer

Cancer is the second leading cause of death in the U.S. Recently, the overall health burden of cancer was estimated to be in excess of $190 billion. This great personal and societal burden has resulted in cancer becoming a major focus of R&D programs for both the U.S. government and pharmaceutical companies. These programs reflect an unprecedented effort to discover, develop, and market cancer therapeutics, a market that is expected to grow at a rate of 8% annually and to reach $85 billion by the year 2012.

Unfortunately, the considerable R&D effort devoted to cancer has not significantly mitigated the incidence of the disease, nor has it significantly increased the survival rate or reduced the duration of treatment for many cancer patients. According to *Cancer Statistics 2009*, published by the American Cancer Society, there are still approximately 1.5 million new cases of cancer diagnosed annually, resulting in over 500,000 deaths per year in the United States alone. Thus, even though a significant effort has been put forth to discover new therapeutics for cancer, effective therapeutic agents to combat many forms of the disease remain elusive. Further, traditional therapeutic agents are commonly plagued with severe side effects. Therefore, many groups have recently begun to look for new approaches to fighting the war against cancer. Among these new "innovative therapies" are gene therapy and therapeutic proteins such as mAbs, now including those against bioactive lipids.

The first mAb used clinically for the treatment of cancer was Rituxan (*rituximab*), which was launched in 1997. Since then, the sales level of this antibody has reached more than $6 billion per year. In addition, Roche's newer mAb, Avastin, has also achieved annual sales in excess of $6 billion. These sales levels demonstrate the great potential of an effective mAb against cancer. Since the launch of Rituxan, more than 20 other mAbs have since been approved for

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marketing, including seven that are approved for cancer. The specificity of antibodies when compared with small molecule therapeutics has provided antibody therapeutics with a major advantage in terms of maximizing efficacy and reducing toxicity. There are currently more than 300 therapeutic antibody drug candidates in clinical studies worldwide. In the face of this substantial competition, we are uniquely poised to use the advantages of antibody therapeutics against an entirely new class of promising targets—bioactive lipids.

Competition

The pharmaceutical, biopharmaceutical and biotechnology industries are very competitive, fast moving and intense, and expected to be increasingly so in the future. Other larger and better funded companies have developed and are developing drugs that, if not similar in type to our drugs, are designed to address the same signaling pathways, or patient or subject population. Therefore, our lead products, other products in development, or any other products we may acquire or in-license may not be the best, the safest, the first to market, or the most economical to make or use. If a competitor's product is better than ours, for whatever reason, then our sales could be lower than that of competing products, if we are able to generate sales at all.

Collaborative Arrangements

Pfizer Inc.

In December 2010, we entered into an agreement providing Pfizer Inc. with an exclusive option for a worldwide license to develop and commercialize iSONEP™, Lpath's lead monoclonal antibody product candidate, which is being evaluated for the treatment of wet age-related macular degeneration (wet AMD) and other ocular disorders. As a result of a clinical hold and the requirement to manufacture new drug substance during 2012, the projected costs to complete the iSONEP trials increased significantly and Pfizer requested the Company to consider potential alternatives to reduce the increased costs of the iSONEP trials. On December 5, 2012, the Company and Pfizer amended the Agreement (the "Amendment") to, among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. The parties modified the protocol for the Nexus trial to include certain wet AMD patients with PED in the Nexus trial. In addition, the Company can elect to conduct the PEDigree trial at any time at its cost. Under the terms of the Amendment, the parties will continue to pursue and share the cost of the iSONEP trials, including any costs associated with discontinuing the PEDigree trial.

Under the terms of the agreement, Pfizer provided Lpath with an upfront option payment of $14 million and will share the cost of the planned clinical trials, including any costs associated with discontinuing the PEDigree trial. Following completion of the Nexus trial, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if Pfizer exercises its option, Lpath will be eligible to receive development, regulatory and commercial milestone payments that could total up to $497.5 million; in addition, Lpath will be entitled to receive tiered double-digit royalties based on sales of iSONEP. As part of the agreement, Lpath has granted to Pfizer a time-limited right of first refusal for ASONEP™ which period ends in December 2013. ASONEP is Lpath's product candidate that is being evaluated for the treatment of cancer.

Merck KGaA

As stated above, we entered into the Merck Agreement with Merck, pursuant to which Merck agreed to collaborate with us to develop and commercialize ASONEP. Pursuant to the terms of the Merck Agreement, we licensed to Merck exclusive, worldwide rights to develop and commercialize ASONEP across all non-ocular indications. Under the terms of the Merck Agreement, Merck paid us a total of $17.7 million. These amounts included an upfront license fee, milestone payments, and ongoing research and development support. In March 2010, following the completion of our Phase 1 clinical trial, Merck proposed moving forward with the partnership via an extension of the Initial Development Period (as defined in the Merck Agreement). However the terms of that proposal were rejected by Lpath's Board of Directors as not being in the best interests of Lpath's stockholders. Consequently, Merck notified us of their decision to terminate the Merck Agreement. Pursuant to the terms of the Merck Agreement, the termination was effective on April 24, 2010, and upon termination Merck relinquished all rights to the ASONEP program.

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In-licensed Technology

Lonza Biologics PLC

In 2006, we entered into two licensing arrangements with Lonza Biologics PLC ("Lonza"). In the first agreement known as the "Research Evaluation Agreement", Lonza granted us a non-exclusive license to use cell-line development technology owned by Lonza for research purposes. The term of this agreement is one year, and requires an annual license fee of £35,000 (approximately $53,000 based on current exchange rates). The license may be extended

at our discretion for additional one-year periods. The Research Evaluation Agreement does not permit the use of the underlying technology for the manufacture of products to be used in *in vivo* clinical studies or for commercial sale.

Under the terms of the second license from Lonza, identified as the "License Agreement," Lonza granted us a non-exclusive license with rights to use, and to authorize sublicenses to use, Lonza's cell-line technology for the production of drug material to be used in human clinical trials, as well as for commercial sale. Pursuant to the terms of the License Agreement, we are obligated to pay Lonza various annual license fees and royalties depending on whether the drug material produced using the technology is manufactured by Lonza, by us or our affiliates, or by a contract manufacturer As of December 31, 2012, Lpath had accrued deferred annual license fees totaling £900,000 ($1,463,000), which were paid to Lonza in January 2013. Unless terminated earlier, the License Agreement will continue in effect until the expiration of the patents related to the underlying technology. We may terminate the agreement at any time in our discretion by giving Lonza 60 days' written notice of termination. Either party may terminate the agreement upon a material breach by the other party, subject to certain cure periods.

AERES Biomedical Limited

In August 2005, Lpath entered into a collaboration agreement with AERES Biomedical ("AERES") to "humanize" the company's *Sphingomab* monoclonal antibody. Humanization under this agreement with AERES involves utilizing proprietary processes owned by AERES for the purpose of modifying Sphingomab antibodies originally contained in mice for potential human acceptance in a clinical trial. The humanized version of *Sphingomab* that was produced from the collaboration with AERES is called Sonepcizumab. Lpath paid AERES $350,000 in 2012 and no amounts were paid to AERES during 2011. Lpath could owe certain additional contingent amounts when drug candidates based on Sonepcizumab pass through the levels of the FDA drug review and approval process. AERES will be entitled to a royalty, not to exceed 4%, on any revenues generated by the ultimate commercialization of any drug candidate based on Sonepcizumab.

Patents and Proprietary Rights

Our success will depend, in part, on our ability to obtain patent protection for our products in the United States and other countries. We have created a broad intellectual-property position in the bioactive lipid arena. Our patent portfolio now includes more than 60 issued or pending patents in the United States, with corresponding applications in major foreign countries. These patents primarily concern the use of reagents and methods designed to interfere with the actions of bioactive lipids involved in human disease. Lpath's intellectual-property portfolio includes compositions of matter that specifically bind to sphingolipids and sphingolipid metabolites. These agents, including antibodies, could be used in the diagnosis and treatment of various diseases and disorders, including cardiovascular and cerebrovascular disease, cancer, inflammation, autoimmune disorders, ocular disease, and angiogenesis. We have also obtained issued claims on sphingolipid targets (e.g., receptors and signaling sphingolipids) and methods for using such targets in drug-discovery screening efforts. We believe that our patent portfolio provides broad, commercially significant coverage of antibodies, receptors, enzymes, or other moieties that bind to a lysolipid (or a sphingolipid metabolite) for diagnostic, therapeutic, or screening purposes.

Government Regulation

The FDA and comparable regulatory agencies in foreign countries, as well as drug regulators in state and local jurisdictions, impose substantial requirements upon the clinical development, manufacturing, and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate research and development activities and the human testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising, and promotion of our product candidates (and any other products we may develop, acquire, or in-license).

The process required by the FDA under the drug provisions of the United States Food, Drug, and Cosmetic Act before our initial products may be marketed in the U.S. generally involves the following:

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- Preclinical laboratory and animal tests;
- Submission of an Investigational New Drug Application ("IND"), which must become effective before human clinical trials may begin;
- Adequate and well-controlled human clinical trials to establish the safety and efficacy of the product candidate for its intended use;
- Submission to the FDA of an New Drug Application ("NDA"); and
- FDA review and approval, or otherwise, of an NDA.

The testing and approval process requires substantial time, effort, and financial resources, and we cannot be certain that any approval will be granted on an expeditious basis, if at all. Preclinical tests include laboratory evaluation of the product candidate, its chemistry, formulation and stability, as well as animal studies to assess the potential safety and efficacy of the product candidate. Certain preclinical tests must be conducted in compliance with cGLP regulations. Violations of these regulations can, in some cases, lead to invalidation of the studies, requiring such studies to be replicated. In some cases, long-term preclinical studies are conducted while clinical studies are ongoing.

We are required to submit the results of our preclinical tests, together with manufacturing information and analytical data, to the FDA as part of an IND, which must become effective before we may begin human clinical trials. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the trials as outlined in the IND and imposes a clinical hold. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can begin. Our submission of an IND may not result in FDA authorization to commence clinical trials. All clinical trials must be conducted under the supervision of a qualified investigator in accordance with good clinical practice regulations. Among other things, these regulations include the requirement that all subjects provide informed consent. Further, an independent Institutional Review Board ("IRB") at each medical center proposing to conduct the clinical trials must review and approve any clinical study. Each IRB also continues to monitor the study and must be kept aware of the study's progress, particularly as to adverse events and changes in the research. Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and more frequently if adverse events occur.

Human clinical trials are typically conducted in three sequential phases that may overlap:

- Phase 1: The drug is initially introduced into human subjects or patients and tested for safety, dosage tolerance, absorption, distribution, metabolism, and excretion ("ADME").

- Phase 2: The drug is studied in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

- Phase 3: When Phase 2 evaluations demonstrate that a dosage range of the drug is effective and has an acceptable safety profile, Phase 3 trials are undertaken to further evaluate dosage and clinical efficacy and to further test for safety in an expanded patient population, often at geographically dispersed clinical study sites.

We cannot be certain that we will successfully initiate or complete Phase 1, Phase 2, or Phase 3 testing of our product candidates within any specific time period, if at all. Furthermore, the FDA or an IRB may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Concurrent with clinical trials and pre-clinical studies, we also must develop information about the chemistry and physical characteristics of the drug and finalize a process for manufacturing the product in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product, and we must develop methods for testing the quality, purity, and potency of the final products. Additionally, appropriate packaging must be selected and tested and chemistry stability studies must be conducted to demonstrate that the product does not undergo unacceptable deterioration over its shelf-life.

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The results of product development, pre-clinical studies, and clinical studies are submitted to the FDA as part of an NDA for approval of the marketing and commercial shipment of the product. The FDA reviews each NDA submitted and may request additional information, rather than accepting the NDA for filing. In this event, the application must be resubmitted with the additional information. The resubmitted application is also subject to review before the FDA accepts it for filing. Once the FDA accepts the NDA for filing, the agency begins an in-depth review of the NDA. The FDA has substantial discretion in the approval process and may disagree with our interpretation of the data submitted in the NDA.

The review process may be significantly extended by FDA requests for additional information or clarification regarding information already provided. Also, as part of this review, the FDA may refer the application to an appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation. The FDA is not bound by the recommendation of an advisory committee. Manufacturing establishments often also are subject to inspections prior to NDA approval to assure compliance with cGMPs and with manufacturing commitments made in the relevant marketing application.

Under the Prescription Drug User Fee Act (“PDUFA”), submission of an NDA with clinical data requires payment of a fee to the FDA, which is adjusted annually. For fiscal year 2013, that fee is $1,958,800. In return, the FDA assigns a goal of ten months for standard NDA reviews from acceptance of the application to the time the agency issues its “complete response,” in which the FDA may approve the NDA, deny the NDA if the applicable regulatory criteria are not satisfied, or require additional clinical data. Even if the requested data is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. If the FDA approves the NDA, the product becomes available for physicians to prescribe. Even if the FDA approves the NDA, the agency may decide later to withdraw product approval if compliance with regulatory standards is not maintained or if safety problems occur after the product reaches the market. The FDA may also require post-marketing studies, also known as Phase 4 studies, as a condition of approval to develop additional information regarding the safety of a product. In addition, the FDA requires surveillance programs to monitor approved products that have been commercialized, and the agency has the power to establish and require changes in labeling and to prevent further marketing of a product based on the results of these post-marketing programs.

Satisfaction of the above FDA requirements or requirements of state, local and foreign regulatory agencies typically takes several years, and the actual time required may vary substantially based upon the type, complexity and novelty of the pharmaceutical product or medical device. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. We cannot be certain that the FDA or any other regulatory agency will grant approval for our lead products (or any other products we may develop, acquire, or in-license) on a timely basis, if at all. Success in preclinical or early-stage clinical trials does not assure success in later-stage clinical trials. Data obtained from preclinical and clinical activities are not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, the approval may be significantly limited to specific indications or uses. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. Delays in obtaining, or failures to obtain regulatory approvals would have a material adverse effect on our business.

Any products manufactured or distributed by us pursuant to the FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements, reporting of adverse experiences with the drug, submitting other periodic reports, drug sampling and distribution requirements, notifying the FDA and gaining its approval of certain manufacturing or labeling changes, complying with certain electronic records and signature requirements, and complying with the FDA promotion and advertising requirements. Drug manufacturers and their subcontractors are required to register their facilities with the FDA and state agencies and are subject to periodic unannounced inspections by the FDA and state agencies for compliance with good manufacturing practices, which impose procedural and documentation requirements upon our third-party manufacturers. Failure to comply with these regulations could result, among other things, in suspension of regulatory approval, recalls, suspension of production or injunctions, seizures, or civil or criminal sanctions. We cannot be certain that our present or future subcontractors will be able to comply with these regulations and other FDA regulatory requirements.

The FDA regulates drug labeling and promotion activities. The FDA has actively enforced regulations prohibiting the marketing of products for unapproved uses. Under the FDA Modernization Act of 1997, the FDA will permit the promotion of a drug for an unapproved use in certain circumstances, but subject to very stringent requirements.

Our product candidates are also subject to a variety of state laws and regulations in those states or localities where our lead products (and any other products we may develop, acquire, or in-license) are manufactured or marketed. Any

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applicable state or local regulations may hinder our ability to market our lead products (and any other products we may develop, acquire, or in-license) in those states or localities. In addition, whether or not FDA approval has been obtained, approval of a pharmaceutical product by comparable governmental regulatory authorities in foreign countries must be obtained prior to the commencement of clinical trials and subsequent sales and marketing efforts in those countries. The approval procedure varies in complexity from country to country, and the time required may be longer or shorter than that required for FDA approval.

The FDA's policies may change, and additional government regulations may be enacted which could prevent or delay regulatory approval of our potential products. Moreover, increased attention to the containment of health care costs in the U.S. and in foreign markets could result in new government regulations that could have a material adverse effect on our business. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the U.S. or abroad.

Other Regulatory Requirements

The U.S. Federal Trade Commission and the Office of the Inspector General of the U.S. Department of Health and Human Services ("HHS") also regulate certain pharmaceutical marketing practices. Also, reimbursement practices and HHS coverage of medicine or medical services are important to the success of procurement and utilization of our product candidates, if they are ever approved for commercial marketing.

We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, relationships with treating physicians, data protection, the export of products to certain countries, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with these laws and regulations now or in the future. We cannot assure you that any portion of the regulatory framework under which we currently operate will not change and that such change will not have a material adverse effect on our current and anticipated operations.

Employees

As of March 1, 2013, we employed 20 individuals, of whom 8 held advanced degrees. A significant number of our management and professional employees have had prior experience with pharmaceutical, biotechnology, or medical product companies. Collective bargaining agreements do not cover any of our employees, and we consider relations with our employees to be good.

DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth certain information regarding our directors and executive officers as of March 15, 2013 (biographical descriptions below that reference dates prior to November 30, 2005 relate to such officer's role in Lpath Therapeutics, Inc., our wholly-owned subsidiary):

Name	Age	Position
Scott R. Pancoast	54	President, Chief Executive Office, and Director
Gary J.G. Atkinson	60	Senior Vice President, Chief Financial Officer
Jeffrey A. Ferrell(1)(2)	38	Director
Daniel L. Kisner, M.D(1)	66	Director
Charles A. Mathews(1)(2)	75	Director
Daniel H. Petree(1)(2)	57	Chairman of the Board
Donald R. Swortwood(1)	71	Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

Scott R. Pancoast
Chief Executive Officer, President, and Director

Mr. Pancoast has served as the President and Chief Executive Officer of Lpath since March 2005 and as a Director of Lpath since 1998. Prior to joining Lpath, from 1994 to 2005, Mr. Pancoast was the Executive Vice President of Western

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States Investment Corporation (WSIC), a private San Diego venture capital fund. He has served as the CEO or interim CEO for six start-up companies, and has been a member of the boards of directors for over 15 companies, including two public companies other than Lpath. Mr. Pancoast previously served on the board of directors of iVOW, Inc., a publicly-traded company. From 1986 to 1994 Mr. Pancoast was with National Sanitary Supply Company, where he was a member of the Board of Directors and served in various management positions including Senior Vice President—Operations and Chief Financial Officer. He is a graduate of the Harvard Business School and the University of Virginia. Mr. Pancoast's qualifications to sit on our Board include his experience as our President and Chief Executive Officer, his experience as venture capitalist and business leader, and his current and past service as a board member for public and private companies.

Gary J. G. Atkinson
Senior Vice President, Chief Financial Officer, and Secretary

Mr. Atkinson joined Lpath in 2005. He has more than 20 years of financial management experience. Prior to joining Lpath, Mr. Atkinson served, from 2001 to 2005 as Senior Vice President and Chief Financial Officer at Quorex Pharmaceuticals, Inc., a drug discovery company. From 1995 to 2000, Mr. Atkinson served as Vice President of Finance at Isis Pharmaceuticals, a publicly held pharmaceutical research and development company. He began his career with Ernst & Young, where he earned his CPA designation, and holds a B.S. from Brigham Young University.

Jeffrey A. Ferrell
Director

Mr. Ferrell has served as a director of Lpath since April 2007. Mr. Ferrell has served as the Managing Member of Athyrium Capital Management, LLC, life sciences focused investment and advisory company with offices in New York City, since 2008. From 2001 to 2008, Mr. Ferrell served in a number of capacities at Lehman Brothers. He oversaw public and private life sciences investments for Global Trading Strategies, a principal investment group within Lehman, as a Senior Vice President from 2005 to 2008. Prior to that he was a Vice President in Lehman Brothers' Private Equity division. Prior to joining Lehman in 2001, he was a principal at Schroder Ventures Life Sciences in Boston. Mr. Ferrell holds an A.B. in Biochemical Sciences from Harvard University.

Mr. Ferrell's qualifications to sit on our Board include his experience in providing fund raising and advisory services to life sciences companies, his knowledge of the life sciences industry and his knowledge of the capital markets.

Daniel L. Kisner, M.D.
Director

Dr. Kisner has been a member of our Board since July 30, 2012. Since July 2010, Dr. Kisner has been a director of Dynavax Technologies Corporation, a clinical stage biopharmaceutical company, and has also served as Chairman of the Board for Tekmira Pharmaceuticals, a biopharmaceutical company since January 2010. From 2003 to 2010 Dr. Kisner was a partner at Aberdare Ventures. Prior to that Dr. Kisner was President and CEO of Caliper Technologies, leading its evolution from a start-up focused on microfluidic lab-on-chip technology to a publicly traded, commercial organization. Prior to Caliper, he was the President and Chief Operating Officer of Isis Pharmaceuticals, Inc., a biomedical pharmaceutical company. Previously, Dr. Kisner was Division Vice President of Pharmaceutical Development for Abbott Laboratories and Vice President of Clinical Research and Development at SmithKline Beckman Pharmaceuticals. In addition, he held a tenured position in the Division of Oncology at the University of Texas, San Antonio School of Medicine and is certified by the American Board of Internal Medicine in Internal Medicine and Medical Oncology. Our Board believes that Dr. Kisner's background with larger, complex technology-based organizations as well as his significant experience with corporate transactions, including investing in venture-backed life science companies provides the Board with insights for setting strategy and reviewing the operations of the Company. He holds a B.A. from Rutgers University and an M.D. from Georgetown University.

Charles A. Mathews
Director

Mr. Mathews has served as a director of Lpath since March 2006. Mr. Mathews is an active private investor and has served as an independent director on the boards of a number of public and private companies. From March 2005 to November 2006, Mr. Mathews was Chairman of Avanir Pharmaceuticals (AVNR), a drug development and marketing company and from May to September 2005 he acted as its Chief Executive Officer. Mr. Mathews is a past president of the San Diego Tech Coast Angels, part of an affiliation of over 200 accredited "angel" investors active in the life science and technology industries. From April 2002 until January 2004, Mr. Mathews served as the President and Chief Executive Officer of DermTech International, a privately held contract research organization focused on dermal and transdermal drugs.

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Mr. Mathews' qualifications to sit on our Board include his leadership experience as an executive in the life sciences industry, his expertise in operations and corporate governance, and his service on other public and private company boards and board committees.

Daniel H. Petree
Chairman of the Board of Directors

Mr. Petree has served as a director of Lpath since November 2008, and was appointed as Chairman of the Board in September 2010. Mr. Petree has over 20 years of experience in the biotechnology industry, serving in a variety of roles including investment banker, senior operating manager and corporate and securities lawyer. Mr. Petree is a member and co-founder of P2 Partners, LLC, formed in 2000, and a member and co-founder of Four Oaks Partners Consulting, LLC, founded in April 2012, both of which provide transaction advisory services to small and medium-sized science companies. Mr. Petree served as a director of Cypress Biosciences, Inc., a company that provided products for the treatment of patients with Functional Somatic Syndromes and other central nervous system disorders from 2004 to 2011. Before co-founding P2 Partners in 2000, Mr. Petree was President and Chief Operating Officer of Axys Pharmaceuticals, a structure-based drug design company in South San Francisco. Mr. Petree's qualifications to sit on our Board include his experience as an executive and an investment banker in the biotechnology industry, his experience with structuring and negotiating pharmaceutical partnering arrangements, and his service on other public company boards and board committees.

Donald R. Swortwood
Director

Mr. Swortwood participated in the original funding of Lpath, and has served as a director of Lpath since July 2006. He has served as Chairman and Chief Executive Officer of Western States Investment Corporation since the founding of its predecessor in 1975, and has been an active investor and venture capitalist for over thirty-five years. His investing career began in basic industrial areas, such as industrial salt and transportation, and has evolved into technology and science related fields, ranging from a business that developed novel technologies for the detection and treatment of gastro-esophageal reflux disease, which was sold to Medtronic; to a leader in storage area network management software solutions, which was sold to EMC; to a business that developed the first "ear thermometer," which was sold to Wyeth. Currently, the Western States portfolio of holdings includes a number of biotech and life science companies.
Mr. Swortwood is a graduate of Stanford University. Mr. Swortwood's qualifications to sit on our Board include his experience as a business leader and venture capitalist and his experience in advising emerging growth life science and technology companies.

Family Relationships

There are no family relationships between any of our officers and directors.

SEC Filings; Internet Address; Trademarks

Our Internet address is www.lpath.com. We file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports with the SEC and make such filings available free of charge on our website, www.lpath.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information found on our website shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent we specifically incorporate the information found on our website by reference, and shall not otherwise be deemed filed under such Acts.

Our filings are also available through the SEC's website, www.sec.gov, and at the SEC Public Reference Room at 100 F Street, NE Washington DC 20549. For more information about the SEC Public Reference Room, you can call the SEC at 1-800-SEC-0330.

iSONEP™, ASONEP™ Lpathomab™, ImmuneY2™ and our logo are our trademarks. This Annual Report on Form 10-K also includes trademarks, trade names and service marks that are the property of other organizations.

ITEM 1A. RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this Annual Report on Form 10-K, before you

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decide to buy our securities. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. If any of the following risks actually occur, our business would likely suffer and the trading price of our securities could decline, and you may lose all or part of the money you paid to buy our securities.

Risks primarily associated with our business:

We are in the early stages of drug development, and we may be unable to generate significant revenues and may never become profitable.

We are in the early stages of drug development, and have not received FDA approval for marketing any of our drug candidates. We have generated approximately $32.5 million in revenues through December 31, 2012 and, as of December 31, 2012, we had an accumulated deficit of approximately $42.9 million. We expect to incur significant operating losses for the foreseeable future as we continue to develop and seek regulatory approval for our drug candidates. We cannot provide any assurance that any of our drug candidates will prove to be clinically significant or will receive regulatory approval. Even if the drug candidates were to receive any regulatory approval, there can no assurance that we could provide for their effective marketing and sales, either by ourselves or in partnership with others. In addition, we cannot provide any assurance that Pfizer will not terminate the Pfizer Agreement, or that Pfizer will exercise its option for worldwide commercial rights to iSONEP. Consequently there can be no assurance that we will ever achieve profitability and, even if we achieve profitability, that we will be able to sustain or increase profitability on a quarterly or annual basis. Accordingly, our prospects must be considered in light of the risks, expenses, and difficulties frequently encountered by companies in an early stage of drug development.

We may require, and may not be able to obtain, substantial additional financial resources in order to carry out our planned activities beyond 2014.

As they are currently planned, we estimate that the cost of our ongoing drug discovery and development efforts, including general and administrative expenses, will require approximately $32 million through 2014. As of December 31, 2012, we had an available cash balance of approximately $24.6 million. Pursuant to the terms of the Pfizer Agreement, as amended, Pfizer has agreed to share the cost of the planned Phase 2a trials for iSONEP. Additional near-term sources of cash include $0.5 million remaining on the $3 million BRDG-SPAN grant from the National Eye Institute (part of the National Institutes of Health) to support iSONEP-related trials, and the three year, $3 million grant from NIH awarded in 2009 that still has $1.2 million remaining to support ASONEP clinical trials. We believe these funds should be sufficient to fund our planned drug discovery and development activities through 2014. Further, we may receive additional funding to support our operations beyond 2014 under the Pfizer Agreement if Pfizer elects to exercise its option to continue the clinical development of iSONEP. Additionally, we may receive grants as a result of grant applications we have filed and will file. However, the NIH has notified all grant recipients that due to the current Congressional budget sequestration, the NIH may not be able to issue continuation awards, or it may be required to negotiate a reduction in the scope of our existing awards to meet the constraints imposed. Additionally, plans for new grants or cooperative agreements may be re-scoped, delayed, or canceled depending on the nature of the work and the availability of resources. As a result, we cannot assure you that we will receive the remaining $1.7 million in funding under our existing NIH grants, and we may not be successful in securing additional grants from the NIH in the future. In addition, we cannot provide any assurance that we will be successful in maintaining our commercial relationship with Pfizer, we will not experience further delays in our clinical trials, that Pfizer will exercise its option to commercialize iSONEP, or that iSONEP will achieve the developmental, regulatory and commercial milestones that would entitle us to future payments under the Pfizer Agreement. As a result, we may be required to secure substantial additional capital to continue to fund our planned drug discovery and development projects beyond 2014. We expect that we will be required to issue additional equity or debt securities or enter into other commercial arrangements, including relationships with corporate and other partners, to secure the additional financial resources to support our development efforts and future operations. Depending upon market conditions, we may not be successful in raising sufficient additional capital on a timely basis, or at all. If we fail to obtain sufficient additional financing, or enter into relationships with others that provide additional financial resources, we will not be able to develop our product candidates on our planned timeline, or at all, and we will be required to reduce staff, reduce or eliminate research and development, slow the development of our product candidates and outsource or eliminate several business functions. In such event, our business, prospects, financial condition and results of operations could be materially adversely affected, and we may be required to cease operations.

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We may not be successful in maintaining our commercial relationship with Pfizer and our other collaborations may not be successful.

In December 2010, we entered into the Pfizer Agreement, which provides Pfizer with an exclusive option for a worldwide license to develop and commercialize iSONEP. We cannot assure you that Pfizer will not decide to exercise its rights to terminate the Pfizer Agreement early, we will not experience further delays in our clinical trials, that Pfizer will exercise its option to commercialize iSONEP, or that iSONEP will achieve the developmental, regulatory and commercial milestones that would entitled us to future payments under the Pfizer Agreement.

Our commercial relationship with Pfizer and the other collaborations we have entered into, or may enter into in the future, may not be successful due to one or more of the following:

- disputes with respect to payments that we believe are due under a collaboration agreement;
- disagreements with respect to ownership and use of intellectual property rights;
- unwillingness on the part of a collaborator to keep us informed regarding the progress of its development and commercialization activities, or to permit public disclosure of these activities;
- delay of a collaborator's development or commercialization efforts with respect to our drug candidates;

- disagreements with the collaborator regarding the appropriate clinical trial protocols;
- termination or non-renewal of the collaboration due to the failure of our product candidate to satisfy required developmental, regulatory or commercial milestones in the view of the collaborator; or
- changes in the collaborator's business plans or financial health or other competitive or market reasons.

Further, as a result of our collaborations, we may have less control over the development, clinical testing, marketing and distribution activities performed by our collaborators than if we were performing those functions with our own facilities and employees or based on our own decisions. This lack of direct control could adversely affect the results. For example, our ability to complete the Nexus trial during the first half of 2014 depends in part on Pfizer's decisions regarding the clinical trial protocols and the clinical trial process.

In addition, in any collaboration, we may be required to agree not to conduct independently, or with any third party, any research that is competitive with the research conducted under our collaborations. Our collaborations may have the effect of limiting the areas of research that we may pursue, either alone or with others. Our collaborators, however, may be able to develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations.

For example, in 2008, we entered into a License Agreement with Merck KGaA ("Merck") pursuant to which Merck agreed to collaborate with us to develop and commercialize ASONEP (the "Merck Agreement"). In March 2010, following the completion of our Phase 1 clinical trial, Merck proposed continuing the partnership with us via an extension of the Initial Development Period (as defined in the Merck Agreement). However the terms of that proposal were rejected by Lpath's Board of Directors as not being in the best interests of Lpath's stockholders. Consequently, Merck notified us of their decision to terminate the Merck Agreement. Pursuant to the terms of the Merck Agreement, the termination was effective on April 24, 2010, and upon termination Merck relinquished all rights to the ASONEP program.

As another example, to help reduce the costs of the iSONEP trials the Company and Pfizer amended the Pfizer Agreement in December 2012 to among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial.

If we are not successful in maintaining our collaborations, including our relationship with Pfizer, our business, prospects, financial condition and results of operations could be materially adversely affected.

We may have delays in completing our clinical trials and we may not complete them at all.

We have not completed the clinical trials necessary to obtain FDA approval to market iSONEP or ASONEP. The clinical trial process is also time consuming, and we do not know whether planned clinical trials will begin on time or

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whether we will complete any of our clinical trials on schedule, or at all. We currently estimate that we will complete dosing the last Nexus trial patient during the first half of 2014. However, our clinical trials, including our Nexus trial and our planned Phase 2 clinical trial of ASONEP, may be delayed or terminated in the future as a result of many factors, including the following:

- difficulty in securing centers to conduct trials;
- unexpected adverse reactions by patients or a temporary suspension or complete ban on trials of our products due to adverse side effects;
- inability or unwillingness of medical investigators to follow our clinical protocols;
- inability to change clinical trial protocols if we experience unexpected delays;
- inability to maintain a supply of the investigational drug in sufficient quantities to support the trials;
- disagreements with our collaborators (like Pfizer) on clinical trial protocols or design;
- delays or failure in reaching agreement on acceptable clinical trial contracts or clinical trial protocols with prospective clinical testing sites;
- regulators or Institutional Review Boards may not authorize us to commence a clinical trial;
- regulators or Institutional Review Boards may suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or concerns about patient safety;
- the FDA instituting future clinical holds on our clinical trials, and delays or failure of the FDA to remove such clinical holds;
- we may suspend or terminate our clinical trials if we believe that they expose the participating patients to unacceptable risks or for other reasons;
- slower than expected patient enrollment or lack of a sufficient number of patients that meet the enrollment criteria for our clinical trials and our inability to change our clinical protocols to respond to such delays;
- patients failing to complete clinical trials due to safety issues, treatment protocol requirements, side effects, dissatisfaction with the product candidate, or other reasons;
- difficulty in maintaining contact with patients after treatment may prevent us from collecting the data required by our study protocols;
- product candidates demonstrating a lack of efficacy during clinical trials;
- governmental or regulatory delays, changes in regulatory requirements, policy and guidelines;

- competition with ongoing clinical trials and scheduling conflicts with participating clinicians; and

- delays in completing data collection and analysis for clinical trials.

In the past, we have experienced significant delays in our clinical trials for one or more of the reasons outlined above. For example, in January 2012, the FDA placed our clinical trials on hold 2012 following a determination by the FDA that our fill-and-finish contractor that had filled the iSONEP clinical trial vials was not in compliance with the FDA's current Good Manufacturing Practice ("cGMP") standards during the time period it provided those services to the Company. Thereafter, we were required to manufacture new drug product, which resulting in our inability to resume dosing patients until September 2012.

As another example, our Nexus trial has experienced slower than expected patient enrollment which has extended the anticipated completion date of that trial. With our partner Pfizer, we have taken a number of steps that we believe should accelerate the rate of patient enrollment. However, for any of the reasons mentioned above, our efforts to accelerate enrollment may not be successful. If the rate of patient enrollment does not increase, we may not complete the Nexus trial within our estimated timeframe.

Significant delays in the successful completion of our clinical trials for any of the reasons discussed above will adversely affect our business, prospects, financial condition and results of operations

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In addition, we rely on academic institutions, hospitals and medical centers, physician practices and clinical research organizations to conduct, supervise or monitor some or all aspects of clinical trials involving our product candidates. We have less control over the timing and other aspects of these clinical trials than if we conducted the monitoring and supervision entirely on our own. Third parties may not perform their responsibilities for our clinical trials on our anticipated schedule or consistent with a clinical trial protocol, applicable regulations or good clinical practices. We also rely on clinical research organizations to perform our data management and analysis. They may not provide these services as required or in a timely or compliant manner. Moreover, our development costs will increase if we are required to complete additional or larger clinical trials for the iSONEP and ASONEP prior to regulatory approval. If the delays or costs are significant, our financial results and ability to commercialize our products will be adversely affected.

We may not be able to correctly estimate our future operating expenses, which could lead to cash shortfalls.

Our operating expenses may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include:

- the time and resources required to develop our product candidates, conduct pre-clinical and clinical trials, obtain regulatory approvals, and create effective sales and marketing capabilities;

- the expenses we incur for research and development required to develop our drug candidates and to maintain and improve our technology;

- the costs of maintaining our commercial relationship with Pfizer;

- the costs to attract and retain personnel with the skills required for effective operations; and

- the costs of preparing, filing, prosecuting, defending and enforcing patent claims and other patent related costs, including litigation costs and the results of such litigation.

In addition, our budgeted expense levels are based in part on our expectations concerning future revenues. However, our ability to generate any revenues depends largely on the progress of our drug candidates through clinical trials, and ultimately on receiving marketing approval from the FDA, which is difficult to forecast accurately. We may be unable to adjust our operations in a timely manner to compensate for any unexpected shortfall in revenues. As a result, a significant shortfall in our planned revenues could have an immediate and material adverse effect on our business and financial condition.

We must obtain governmental approval for each of our products, which is an expensive and complicated process in which any number of problems could arise that would adversely affect our business.

Our product candidates target lipids, as opposed to proteins, and the FDA has not previously approved any similar product. Thus, we may encounter unexpected safety, efficacy, or manufacturing issues as we seek to obtain regulatory approval, and we may never receive approval from the FDA or other governmental authorities for our drug candidates.

The development, production and marketing of our products are subject to extensive regulation by government authorities in the United States and most other developed countries. The process of obtaining approval from the FDA in the United States requires conducting extensive pre-clinical and clinical testing. We have limited experience in, and limited resources available for, regulatory and clinical activities. Any of the following events relating to the regulatory approval of our drug candidates can occur and, if any did occur, any one could have a material adverse effect on our business, financial conditions and results of operations:

- inability to successfully complete our clinical trials in accordance with our clinical protocols and FDA regulations;

- results of clinical trials not yielding sufficiently conclusive favorable data for regulatory agencies to approve the use of our products in development, or any other products we may acquire or in-license;

- the FDA or other regulatory authorities may place a clinical trial on clinical hold;

- delays, sometimes long delays, in obtaining approval for our product candidates, including, but not limited, to requests for additional clinical trials;

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- changes in the rules and regulations governing the approval process for product candidates such as ours during the testing and review period, which can result in the need to spend time and money for further testing or review;

- the authorized use of any product, if approved, is more limited than required for commercial success, or approval is conditioned on completion of further clinical trials or other activities; and

- any approval being withdrawn, or limited, if previously unknown problems arise with our human-use product or data arising from its use.

Failure to comply with applicable regulations can, among other things, result in non-approval, suspensions of regulatory approvals, fines, product seizures and recalls, operating restrictions, injunctions and criminal prosecution.

The results of our clinical trials may not support either further clinical development or the commercialization of our product candidates.

Even if we complete a clinical trial as planned, their results may not support either the further clinical development or the commercialization of our product-candidates. The FDA or government authorities may not agree with our conclusions regarding the results of our clinical trials. In addition, our collaboration partners may decide that the results of our clinical trials do not support further investment by such partners. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and the results from any later clinical trials may not replicate the results of prior clinical trials and pre-clinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans, effective for indicated uses, or commercially viable given the competitive environment and reimbursement issues. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay the filing of our NDAs with the FDA and, ultimately, our ability to commercialize our product candidates and generate product revenues.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in any INDs or the conduct of these trials. A number of companies in the biotechnology and drug development industries have suffered significant setbacks in advanced clinical trials despite promising results in earlier trials. In the end, we may be unable to develop marketable products.

Further, we have not obtained an agreement with the FDA that the design of our planned iSONEP or ASONEP studies are sufficient to lead to product approval if the results are positive. Moreover, we have not developed or reached an agreement with the FDA on the detailed statistical analysis plan that will be used to analyze the data from these clinical trials. Regulatory agencies also may approve a product candidate for fewer or more limited indications than requested or may grant approval subject to the performance of post-marketing studies. In addition, regulatory agencies may not approve the labeling claims that are necessary or desirable for the successful commercialization of our product candidates.

A source of revenue, grant funds from the National Institutes for Health, may not continue to be a source of revenue in the future.

Although we have applied for many grants and thus far have been awarded ten of them, the National Institutes of Health (“NIH”) may not in the future find our applications worthy of such grants. The NIH has notified all grant recipients that due to the current Congressional budget sequestration, the NIH may not issue continuation awards, or it may negotiate a reduction in the scope of our awards to meet the constraints imposed by sequestration. Additionally, plans for new grants or cooperative agreements may be re-scoped, delayed, or canceled depending on the nature of the work and the availability of resources.

In addition, the NIH requires audits of those recipients of grant funds exceeding $500,000 in any year, a threshold that we have exceeded in 2012. Such audits test the allowability and allocation of expenditures and ultimately compliance with OMB Circular A-133 audit requirements. There can be no assurance that we will pass such an audit, and failure to pass could result in a material adverse effect on our cash flow and our business operations

Our drug-development programs depend upon third-party researchers who are outside our control.

We depend upon independent investigators and collaborators, such as universities, medical institutions, and clinical research organizations to conduct our pre-clinical and clinical trials under agreements with us. Such agreements are often standard-form agreements typically not subject to extensive negotiation. These investigators or collaborators are not our employees, and in general we cannot control the amount or timing of resources that they devote to our programs. These

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investigators may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of new drugs, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us.

Our collaborations with outside scientific and clinical advisors may be subject to restriction and change.

We work with scientific and clinical advisors at academic and other institutions who are experts in the fields of oncology, ophthalmology, and autoimmune disorders (such as multiple sclerosis). They assist us in our research and development efforts and advise us with respect to our clinical trials. These advisors are not our employees and may have other commitments that would limit their future availability to us. Although our scientific and clinical advisors and collaborators generally agree not to engage in competing work, if a conflict of interest arises between their work for us and their work for another entity, we may lose their services, which may impair our reputation in the industry and delay the clinical development of our drug candidates.

We are dependent on third-party manufacturers, over whom we have limited control, to manufacture our products.

The manufacturing process of iSONEP, ASONEP, Lpathomab, and any other therapeutic products we may want to evaluate or commercialize involves a number of steps and requires compliance with stringent quality control specifications imposed by us and by the FDA. Moreover, our proposed products may be manufactured only in a facility that has undergone a satisfactory inspection and certification by the FDA. We do not have any manufacturing facilities ourselves and expect to rely on one or more third-party manufacturers to properly manufacture our products currently in clinical development as well as any other products we may develop or in-license. We may not be able to quickly replace our manufacturing capacity if we were unable to use a third party’s manufacturing facilities as a result of a fire, natural disaster (including an earthquake), equipment failure or other difficulty, or if such facilities are deemed not in compliance with current Good Manufacturing Practice (“cGMP”) requirements, and the noncompliance could not be rapidly rectified. For example, in January 2012, we temporarily

suspended dosing patients in our PED and wet-AMD trials, because we learned from the FDA that our fill-and-finish contractor, Formatech, Inc., was not in compliance with cGMP requirements during the period in August 2010 that the iSONEP clinical vials were filled. After we suspended dosing, we were notified by the FDA that the iSONEP trials were being placed on clinical hold. . Thereafter, we were required to manufacture new drug product, which resulting in our inability to resume dosing patients until September 2012. In addition, we may not be able to maintain our agreement with any manufacturer we select. For example, our agreement with our existing manufacturer of ASONEP and iSONEP, Laureate Pharma, Inc., ("Laureate") expired by its terms at the end of 2012. In the event we need to manufacture more drug supplies for subsequent clinical trial, we would undertake to renew our agreement or enter into a new agreement with Laureate. There is no assurance, however, that we will be able to renew our agreement or enter into a new agreement with Laureate on acceptable terms, or at all. Laureate is our single manufacturer for ASONEP and ISONEP and may not be replaced without significant effort and delay in production. A supply interruption or an increase in demand beyond our current manufacturer's capabilities could harm our ability to manufacturer such products until new manufacturers are identified and qualified, which would have a significant adverse effect on our business and results.

Additionally, our inability or reduced capacity to have our products manufactured would prevent us from successfully evaluating or commercializing our proposed products. Our dependence upon third parties for the manufacture of our proposed products may adversely affect our profit margins and our ability to develop and deliver proposed products on a timely and competitive basis. Any delays in formulation and manufacturing objectives may cause a delay in our clinical program, and could have an adverse effect on the price of our shares.

We have a limited product and technology portfolio at the current time.

Although our clinical drug candidates, iSONEP and ASONEP, might ultimately show clinical relevance in multiple disease states, we have assessed their clinical potential only against AMD and cancer, respectively, and only in Phase 1 clinical trials with small numbers of patients and in animal models. In addition, our third product candidate, Lpathomab, is still in pre-clinical development. There can be no assurance that any of our existing product candidates will be successfully developed, prove to be safe and efficacious in clinical trials, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs or be successfully marketed.

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In addition, our ImmuneY2™ process of generating monoclonal antibodies against lipid mediators may not be successful against future targets. As such, there can be no assurance that we will be able to develop a monoclonal antibody against our future targets, and thus, we may fail to generate additional clinical candidates for our pipeline.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market any products we may develop, we may not be able to generate product revenue.

We do not currently have an organization for the sales, marketing and distribution of pharmaceutical products. In order to market any products that may be approved by the FDA, we must build a sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. In addition, we have no experience in developing, training or managing a sales force and will incur substantial additional expenses in doing so. The cost of establishing and maintaining a sales force may exceed its cost effectiveness. Furthermore, we will compete with many companies that currently have extensive and well-funded marketing and sales operations. Our marketing and sales efforts may be unable to compete successfully against these companies. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenue and may not become profitable.

Physicians and patients may not accept and use our drugs.

Even if the FDA approves our initial lead products (or any other product we attempt to commercialize), physicians and patients may not accept and use it. Acceptance and use of any of our future products, if approved, will depend upon a number of factors including:

- perceptions by members of the health care community, including physicians, about the safety and effectiveness of our drugs;
- cost-effectiveness of our drugs or diagnostic products relative to competing products;
- availability of reimbursement from government or other healthcare payors for our products; and
- effectiveness of marketing and distribution efforts by us and our third-party collaborators, if any.

Because we expect sales of our current product candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of any of these drugs to find market acceptance, subsequent to approval, would severely harm our business.

Our industry is highly competitive, so even if our products ultimately get approved by the FDA, our success depends on our ability to sustain competitive advantages.

The pharmaceutical, biopharmaceutical and biotechnology industries are very competitive, fast moving and intense, and, are expected to be increasingly so in the future. Other companies have developed and are developing drugs that, if not similar in type to our drugs, are designed to provide comparable clinical significance. Therefore, our lead products, other products we may develop, or any other products we may acquire or in-license may not be, or may not be perceived to be, the most efficacious (at all or for a majority of patients), the safest, the first to market, or the most economical to make or use. If a competitor's product is, or is perceived to be, more advantageous than ours, for whatever reason, then we could make less money from sales, if we are able to generate sales at all.

There are many reasons why a competitor might be more successful than we are, including:

- Many competitors have greater financial resources and can afford more technical and development setbacks than we can.
- Many competitors have been in the drug-discovery and drug-development business longer than we have. They have greater experience than we have in critical areas like clinical testing, obtaining regulatory approval, and sales and marketing. This experience and their name recognition give them a competitive advantage over us.

- Some competitors may have a better patent position protecting their technology than we have or will have to protect our technology. If we cannot use our proprietary rights to prevent others from copying our technology or developing similar technology, then our competitive position will be harmed.

- Some companies with competitive technologies may move through stages of development, approval, and marketing faster than we do. If a competitor receives FDA approval before we do, then it will be authorized to sell its products before we can sell ours. Because the first company "to market" often has a significant advantage over latecomers, a second-place position could result in less-than-anticipated sales.

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The United States Food, Drug, and Cosmetic Act and FDA regulations and policies provide incentives to manufacturers to challenge patent validity or create modified, non-infringed versions of a drug in order to facilitate the approval of abbreviated new drug application for generic substitutes. These same incentives also encourage manufacturers to submit new drug applications, known as 505(b)(2) applications, that rely on literature and clinical data not originally obtained by the drug sponsor. In light of these incentives and especially if our lead products (or our other drug candidates in development or any other products we may acquire or in-license) are commercially successful, other manufacturers may submit and gain successful approval for either an abbreviated new drug application or a 505(b)(2) application that will compete directly with our products. Such competition will likely cause a reduction in our revenues.

If Medicare and other third-party payors, including managed care organizations, do not provide adequate reimbursement for our drugs or our diagnostic products, if commercialized, the commercial success of our product candidates could be compromised.

Our ability to earn sufficient returns on our products will depend in part on the extent to which reimbursement for our products and related treatments will be available from third party payors, including state and federal government authorities, private health insurers and health maintenance and managed care organizations. These third-party payors are increasingly attempting to limit both the coverage and the level of reimbursement of new drug products to contain costs. Consequently, significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Third party payors may not establish adequate levels of reimbursement for the products that we commercialize, which could limit their market acceptance and result in a material adverse effect on our financial condition.

Reimbursement by a third-party payor may depend on a number of factors, including a payor's determination that our product candidates, if commercialized, are: experimental or investigational; not medically necessary; not appropriate for the specific patient or clinical indication; or not cost-effective.

Reimbursement by Medicare may require a review that will be lengthy and that will be performed under the provisions of a National Coverage Decision process with payment limits as the Secretary of HHS determines appropriate. We cannot guarantee that the Secretary of HHS will act to approve any of our products, if commercialized, on a timely basis, or at all. In addition, there have been and will most likely continue to be significant efforts by both federal and state agencies to reduce costs in government healthcare programs and otherwise implement government control of healthcare costs. Any future changes in Medicare reimbursement that may come about as a result of enactment of healthcare reform or of deficit-reduction legislation will likely continue the downward pressure on reimbursement rates. In addition, emphasis on managed care in the United States may continue to pressure the pricing of healthcare services. In certain countries outside the United States, pricing and profitability of prescription pharmaceuticals are subject to government control. Third party payors, including Medicare, are challenging the prices charged for medical products and services. In addition, government and other third-party payors increasingly are limiting both coverage and the level of reimbursement for many drugs and diagnostic products. If government and other third-party payors do not provide adequate coverage and reimbursement for our products, it may adversely affect our business. Since policy-level reimbursement approval is required from each private payor individually, seeking such approvals is a time-consuming and costly process. If we are unable to obtain adequate reimbursement approval from Medicare and private payors for any of our products, or if the amount reimbursed is inadequate, our ability to generate revenue will be limited.

Healthcare reform may adversely impact our business.

In addition to reimbursement pressures from third party payors, the trend toward managed healthcare in the United States, the growth of such organizations, and various legislative proposals and enactments to reform healthcare and government insurance programs, including the Medicare Prescription Drug Modernization Act of 2003, could significantly influence the manner in which pharmaceutical products are prescribed and purchased, resulting in lower prices and/or a reduction in demand. Such cost containment measures and healthcare reforms could adversely affect our ability to sell our products.

In March 2010, the United States adopted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (the Healthcare Reform Act). This law substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. The Healthcare Reform Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. Changes that may affect our business include those governing enrollment in federal healthcare programs, reimbursement changes, fraud and abuse and enforcement. These changes will impact existing government healthcare programs and will result in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program.

Additional provisions of the Healthcare Reform Act, some of which became effective in 2011, may negatively affect our revenues in the future. For example, the Healthcare Reform Act imposes a non-deductible excise tax on pharmaceutical manufacturers or importers that sell branded prescription drugs to U.S. government programs that we believe will impact our revenues from our products. In addition, as part of the Healthcare Reform Act's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program, we will also be required to provide a 50% discount on branded prescription drugs dispensed to beneficiaries under this prescription drug program. We expect that the Healthcare Reform Act and other healthcare reform measures that may be adopted in the future could have a material adverse effect on our industry generally and on our ability to maintain or increase our product sales or successfully commercialize our product candidates or could limit or eliminate our future spending on development projects.

Furthermore, individual states have become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access, importation from other countries and bulk purchasing. Legally mandated price controls on payment amounts by third party payors or other restrictions could negatively and materially impact our revenues and financial condition. We anticipate that we will encounter similar regulatory and legislative issues in most other countries outside the United States.

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We may incur significant or currently undeterminable costs in complying with environmental laws and regulations.

We use hazardous materials, including chemicals and biological agents and compounds that could be dangerous to human health and safety or the environment. As appropriate, we will store these materials and wastes resulting from their use at our or our outsourced laboratory facility pending their ultimate use or disposal. We will contract with a third party to properly dispose of these materials and wastes. We will be subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials and wastes. We may also incur significant costs complying with environmental laws and regulations adopted in the future.

We may be subject to product liability claims.

The development, manufacture, and sale of pharmaceutical products expose us to the risk of significant losses resulting from product liability claims. Although we intend to obtain and maintain product liability insurance to offset some of this risk, we may be unable to secure such insurance or it may not cover certain proven claims against us.

We may not be able to afford to obtain insurance due to rising costs in insurance premiums in recent years. If we are able to secure insurance coverage, we may be faced with a successful claim against us in excess of our product liability coverage that could result in a material adverse impact on our business. If insurance coverage is too expensive or is unavailable to us, we may be forced to self-insure against product-related claims. Without insurance coverage, a successful claim against us and any defense costs incurred in defending ourselves may have a material adverse impact on our operations.

If we lose the services of key management personnel, we may not be able to execute our business strategy effectively.

Our future success depends in a large part upon the continued service of key members of our senior management team. In particular, our Chief Executive Officer, Scott Pancoast is critical to our overall management as well as the development of our technology, our culture and our direction. None of our executive officers and key employees has long-term employment contracts with us, and we do not maintain any key-person life insurance policies. The loss of any of our management or key personnel could materially harm our business.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire additional qualified personnel, we may not be able to grow effectively.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organization. Competition in our industry for qualified employees is intense. We expect that as more companies in the biotechnology and pharmaceutical industries establish programs to discover drugs that target bioactive lipids, the demand for scientists with experience working with bioactive lipids will increase. As that demand increases, it is likely that certain of our competitors will directly target certain of our employees. Our continued ability to compete effectively depends on our ability to retain and motivate our existing employees.

We may also need to hire additional qualified personnel with expertise in preclinical testing, clinical research and testing, government regulation, formulation and manufacturing, and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies and other emerging entrepreneurial companies, as well as universities and research institutions. Competition for such individuals, particularly in the Southern California area, is intense. Even though the current economic conditions have somewhat softened demand for qualified personnel, we expect that over the longer term we will continue to face stiff competition and may not be able to successfully recruit or retain such personnel. Attracting and retaining qualified personnel will be critical to our success.

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

We are 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. Our operations involve the use of hazardous and flammable materials, including chemicals and radioactive and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

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Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we 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 our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Risks associated with our intellectual property:

Our intellectual property rights are valuable, and our inability to protect them could reduce the value of our products, services and brand.

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are critically important assets to us. Events outside of our control could jeopardize our ability to protect our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming, and the unauthorized use of our intellectual property could cause these costs to rise significantly and materially affect our operating results.

While our goal is to obtain patent protection for our innovations, they may not be patentable or we may choose not to protect certain innovations that

later turn out to be important for our business. Even if we do obtain protection for our innovations, the scope of protection gained may be insufficient or a patent issued may be deemed invalid or unenforceable, as the issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. The patenting process, enforcement of issued patents, and defense against claims of infringement are inherently costly and risky. We may not have the financial resources to defend our patents, thereby reducing our competitive position and our business prospects. Specific risks associated with the patent process include the following:

- The United States or foreign patent offices may not grant patents of meaningful scope based on the applications we have already filed and those we intend to file. If our current patents do not adequately protect our drug molecules and the indications for their use, then we will not be able to prevent imitation and any product may not be commercially viable.

- Some of the issued patents we now license may be determined to be invalid. If we have to defend the validity of the patents that we have in-licensed, the costs of such defense could be substantial, and there is no guarantee of a successful outcome. In the event any of the patents we have in-licensed is found to be invalid, we may lose competitive position and may not be able to receive royalties for products covered in part or whole by that patent under license agreements.

- In addition, changes in or different interpretations of patent laws in the United States and foreign countries may permit others to use our discoveries or to develop and commercialize our technology and products without providing any compensation to us. The laws of some countries do not protect intellectual property rights to the same extent as U.S. laws and those countries may lack adequate rules and procedures for defending our intellectual property rights. For example, some countries, including many in Europe, do not grant patent claims directed to methods of treating humans, and in these countries patent protection may not be available at all to protect our drug candidates.

- Although we try to avoid infringement, there is the risk that we will use a patented technology owned by another person or entity and/or be sued for infringement. For example, U.S. patent applications are confidential while pending in the Patent and Trademark Office, and patent offices in foreign countries often publish patent applications for the first time six months or more after filing. Further, we may not be aware of published or granted conflicting patent rights. Any conflicts resulting from patent applications and patents of others could significantly reduce the coverage of our patents and limit our ability to obtain meaningful patent protection. In addition, defending or indemnifying a third party against a claim of infringement can involve lengthy and costly legal actions, and there can be no guarantee of a successful outcome.

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Specifically, we have filed patents to protect our compositions of matter and methods to treat several disease states, including cancer, cardiovascular disease, cerebrovascular disease, hyperproliferative diseases, and angiogenesis. We do not know whether our claims will be granted. Even if we do obtain protection for our innovations, the scope of protection gained may be insufficient or a patent issued may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. The secrecy of this information could be compromised by third parties, or intentionally or accidentally disclosed to others by our employees, which may cause us to lose any competitive advantage we enjoy from maintaining these trade secrets.

We may in the future be subject to intellectual property rights claims, which are costly to defend, which could require us to pay damages, and which could limit our ability to use certain technologies in the future.

Companies in the pharmaceutical, biopharmaceutical and biotechnology industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations by others of intellectual property rights. As our products get closer to commercialization, there is greater possibility that we may become subject to an infringement claim based on use of our technology such that we would be unable to continue using the technology without obtaining a license or settlement from third parties. We may not be able to obtain these licenses on acceptable terms, or at all. If we fail to obtain a required license or are unable to alter the design of our technology to fall outside the scope of a third party patent, we may be unable to market some of our products, which would limit our prospects for profitability.

Any intellectual property claims, whether merited or not, could be time-consuming and expensive to litigate and could cause us to divert critical management and financial resources to the resolution of such claims. We may not be able to afford the costs of litigation. Any legal action against us or our collaborators or us could lead to:

- payment of damages, potentially treble damages, if we are found to have willfully infringed a party's patent rights;

- injunctive or other equitable relief that may effectively block our ability to further develop, commercialize and sell products; or

- we or our collaborators having to enter into license arrangements that may not be available on commercially acceptable terms, if at all.

As a result, an adverse determination also could prevent us from offering our products to the marketplace.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property.

Because we operate in the highly technical field of drug discovery and development, we rely in part on trade secret protection in order to protect our proprietary technology and processes. However, trade secrets are difficult to protect. We enter into confidentiality and intellectual property assignment agreements with our corporate partners, employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed by the party or made known to the party by us during the course of the party's relationship with us. These agreements also generally provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain trade secret protection could adversely affect our competitive position.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee's

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former employer. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

Risks primarily associated with our stock:

The price of our Class A common stock may be volatile .

Our Class A common stock is traded on the Nasdaq Capital Market, or NASDAQ. The trading price of our Class A common stock may fluctuate substantially. Among the factors that may cause the market price of our Class A common stock to fluctuate are the risks described in this "Risk Factors" section and other factors, including:

- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in stock market prices and trading volumes of similar companies;
- actions of investors that affect the market price;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of securities analysts;
- general economic conditions and trends;
- the announcement of collaboration agreements to pursue further clinical development of our drug candidates;
- sales of large blocks of our stock;
- departures of key personnel;
- changes in the regulatory status of our product candidate or clinical trials;
- announcements of new products or technologies;
- regulatory developments in the United States and other countries.

If shares of our common or preferred stock available for issuance or shares eligible for future sale were introduced into the market, it could hurt our stock price.

We are authorized to issue 28,571,429 shares of common stock. As of March 12, 2013, there were an aggregate of 13,102,892 shares of our common stock issued and outstanding on a fully diluted basis. That total includes 781,659 shares of our common stock that may be issued upon the exercise of outstanding stock options and the vesting of outstanding restricted stock units, and 1,261,874 shares of common stock that may be issued upon the exercise of outstanding warrants. The exercise of outstanding options and/or warrants may cause substantial dilution to those who hold shares of common stock prior to such exercises. In addition, sales of substantial amounts of the common stock in the public market by these holders or perceptions that such sales may take place may lower the common stock's market price.

We may sell our authorized, but unissued, common stock to satisfy our funding requirements. We are also authorized to issue 15,000,000 shares of preferred stock, without stockholder approval. The preferred stock may have rights that are superior to the rights of the holders of our common stock, at a purchase price then approved by our Board of Directors. The sale or the proposed sale of substantial amounts of our common or preferred stock in the public markets may adversely affect the market price of our common stock and our stock price. Our stockholders may also experience substantial dilution.

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We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We currently intend to invest our future earnings, if any, to fund the development and growth of our business. The payment of dividends will be at the discretion of our board of directors and will depend on our results of operations, capital requirements, financial condition, future prospects, contractual arrangements, restrictions imposed by applicable law, any limitations on payments of dividends present in any debt agreements we may enter into and other factors our board of directors may deem relevant. If we do not pay dividends, your ability to achieve a return on your investment in our company will depend on any future appreciation in the market price of our common stock. There is no guarantee that our common stock will appreciate in value or even maintain the price at which our holders have purchased their common stock.

As a public company, we may have to implement additional and expensive finance and accounting systems, procedures and controls as we grow our business and organization and to satisfy new reporting requirements, which will increase our costs and require additional management resources.

We currently are a company with limited resources and we intend to continue to spend most of our resources on research, development and other operational expenses. We are currently classified as a Smaller Reporting Company under Exchange Act regulations. Until we are classified as an Accelerated Filer (based upon our market capitalization reaching $75 million as of the applicable measuring date, among other requirements), we are exempt from compliance with Section 404(b) of the Sarbanes-Oxley Act of 2002, relating to the attestation and reporting by our external auditing firm on our internal controls. However, if we were no longer exempt from compliance with certain provisions of the Sarbanes-Oxley Act of 2002, we would incur significant additional costs, which would be material to us and would affect our results of operations. In order to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, we may be required to expand disclosures and accelerate our financial reporting requirements. If we are unable to complete the required Section 404(b) assessment as to the adequacy of our internal control over financial reporting, if we fail to maintain or implement adequate controls, or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting as of the date of our first Form 10-K for which compliance is required (compliance will not be required with respect to our Form 10-K for the year ended December 31, 2012, but could be required with respect to our Form 10-K for the year ended December 31, 2013 depending on the value of our public float as of June 30, 2013), our ability to obtain additional financing could be impaired. In addition, investors could lose confidence in the reliability of our internal control over financial reporting and in the accuracy of our periodic reports filed under the Exchange Act. A lack of investor confidence in the reliability and accuracy of our public reporting could cause our stock price to decline. In addition, we could be delisted from the NASDAQ Capital Market.

Our Class A common stock may be delisted from the NASDAQ Capital Market, or NASDAQ.

In October 2012, our Class A common stock was approved for listing on the NASDAQ. Prior to listing on the NASDAQ, our Class A common stock traded on the OTC Bulletin Board under the ticker symbol “LPTND”. If the bid price of our Class A common stock falls below $1.00 for an extended period, or we are unable to continue to meet NASDAQ’s listing maintenance standards for any other reason, our Class A common stock could be delisted from the NASDAQ. If our stock is delisted from the NASDAQ, we will make every possible effort to have it quoted for trading on the OTC Bulletin Board. However, if our Class A common stock were to be traded on the OTC Bulletin Board and the trading price were to remain below $5.00 per share, trading in our Class A common stock might also become subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a “penny stock” (generally, any equity security not listed on a national securities exchange or quoted on Nasdaq that has a market price of less than $5.00 per share, subject to certain exceptions). These rules may adversely affect the ability of stockholders to sell our Class A common stock and otherwise negatively affect the liquidity, trading market and price of our Class A common stock. A delisting from NASDAQ would also result in negative publicity and would negatively impact our ability to raise capital in the future.

Our governing documents provide indemnification for officers, directors and employees.

Our governing instruments provide that officers, directors, employees and other agents shall only be liable to us for losses, judgments, liabilities and expenses for which they are adjudged guilty of willful misfeasance or malfeasance in the performance of his or her obligations. Thus certain alleged errors or omissions might not be actionable by us. The governing instruments also provide that, under the broadest circumstances allowed under law, we must indemnify our officers, directors, employees and other agents for losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by them in connection with our Company, including liabilities under applicable securities laws.

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Anti-takeover provisions in our charter and bylaws could make a third party acquisition of the Company difficult.

The Board of Directors is authorized to provide for the issuance of shares of preferred stock in series and, by filing a certificate pursuant to the applicable law of Nevada, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and the qualifications, limitations, or restrictions thereof without any further vote or action by the shareholders. The issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For instance, the issuance of a series of preferred stock might impede a business combination by including class voting rights that would enable the holder to block such a transaction, or facilitate a business combination by including voting rights that would provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of preferred stock could adversely affect the voting power of the holders of the common stock. Although the Board of Directors is required to make any determination to issue such stock based on its judgment as to the best interests of our stockholders, the Board of Directors could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then market price of such stock. The Board of Directors does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or otherwise. We have no present plans to issue any preferred stock.

You may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our Class A common stock or other securities convertible into or exchangeable for our Class A common stock at prices that may not be the same as the price per share in this offering. We cannot assure you that we will be able to sell shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders, including investors who purchase shares of Class A common stock in this offering. The price per share at which we sell additional shares of our Class A common stock or securities convertible into Class A common stock in future transactions may be higher or lower than the price per share in this offering.

If securities and/or industry analysts fail to continue publishing research about our business, if they change their recommendations adversely or if our results of operations do not meet their expectations, our stock price and trading volume could decline.

The trading market for our Class A common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. In addition, it is likely that in some future period our operating results will be below the expectations of securities analysts or investors. If one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, our stock price could decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our administrative offices and research facilities are located at 4025 Sorrento Valley Blvd. San Diego, California 92121, and we consider them to be in good condition and adequately utilized. We lease approximately 12,000 square feet of laboratory and office space. The lease term runs through November 2016. The Company has one five-year renewal option under the lease. Approximately 200 square feet of the facility is subleased to a company that is co-owned by two of our largest stockholders. The terms of this sublease, in general, are identical to the terms of our direct lease. If we do not renew our existing lease, we believe that alternative space will be available to us at commercially reasonable terms.

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ITEM 3. LEGAL PROCEEDINGS

We are not currently a party in any material legal proceedings.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the NASDAQ Capital Market under the symbol "LPTN" on October 22, 2012. Prior to that date, our common stock was traded under the symbol "LPTN.OB" on the OTCBB. The OTCBB is a regulated quotation service that displays real-time quotes, last-bid prices and volume information in over-the-counter equity securities. The OTCBB securities are traded by a community of market makers that enter quotes and trade reports. The closing price of our common stock on March 13, 2013 was $4.62 per share.

The following table sets forth the high and low prices for our common stock for the periods indicated, as reported by NASDAQ since October 22, 2012 and the OTCBB prior to that date. The quotations from OTCBB reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. All high and low prices for our common stock have been retroactively adjusted to reflect the one for seven reverse stock split that became effective on October 9, 2012.

	2012		2011	
	High	Low	High	Low
First quarter	$ 9.59	$ 5.25	$ 10.50	$ 5.53
Second quarter	$ 6.37	$ 4.76	$ 8.26	$ 6.72
Third quarter	$ 6.51	$ 4.90	$ 7.07	$ 5.60
Fourth quarter	$ 6.90	$ 4.75	$ 8.40	$ 5.74

As of March 13, 2013, we had approximately 81 stockholders of record (excluding an indeterminable number of stockholders whose shares are held in street or "nominee" name) of our common stock. We have not paid any dividends on our common stock since our inception and do not expect to pay dividends on our common stock in the foreseeable future.

The following table summarizes our compensation plans under which our equity securities are authorized for issuance as of December 31, 2012:

EQUITY COMPENSATION PLAN INFORMATION

	Number of Shares to be Issued Upon Exercise of Outstanding Stock Options and Restricted Stock Units	Weighted-Average Exercise Price of Outstanding Stock Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	785,232(1)	$ 3.86(2)	276,308
Equity compensation plans not approved by security holders	—	—	—
Total	785,232	$ 3.86	276,308

(1) Includes 417,196 restricted stock units.

(2) Excludes 417,196 restricted stock units.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes contained elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those set forth under "Risk Factors" and elsewhere in this Annual Report on Form 10-K and those discussed in other documents we file with the SEC. In light of these risks, uncertainties, and assumptions, readers are cautioned not to place undue reliance on such forward-looking statements. These

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forward-looking statements represent beliefs and assumptions only as of the date of this Annual Report on Form 10-K. Except as required by applicable law, we do not intend to update or revise forward-looking statements contained in this Annual Report on Form 10-K to reflect future events or circumstances.

Overview

We are a biotechnology company focused on the discovery and development of lipidomic-based therapeutics. Lipidomics is an emerging field of medical science whereby bioactive signaling lipids are targeted to treat important human diseases. We have three product candidates, iSONEP™, ASONEP™, and Lpathomab™. iSONEP is a monoclonal antibody against sphingosine-1-phosphate ("S1P") formulated for treating retinal diseases. In a Phase I clinical trial iSONEP demonstrated promising results in treating patients afflicted with wet AMD, and it is currently being tested in a Phase 2a clinical trial for that indication. Studies conducted in models of human ocular disease indicate that iSONEP may also be useful in treating other ocular diseases including diabetic retinopathy and glaucoma. ASONEP (another formulation of the same S1P-targeted antibody) is being tested in a Phase 2a clinical trial as a treatment for renal cell carcinoma, and we believe that it may hold promise for the treatment of various forms of cancer and other diseases. Lpathomab™ is an antibody against lysophosphatidic acid ("LPA"), a key bioactive lipid that has been long recognized as a valid disease target. Lpathomab is in pre-clinical testing in various animal models of disease relating to the central nervous system and to fibrosis. Our ability to generate novel antibodies against bioactive lipids is based on our ImmuneY2™ technology, a series of proprietary processes we have developed. We are currently applying the Immune Y2 process to other lipid-signaling agents that are validated targets for disease treatment, thereby potentially creating a further pipeline of monoclonal antibody-based drug candidates.

In December 2010, we entered into an agreement with Pfizer Inc. (the "Pfizer Agreement"), which provides Pfizer with an exclusive option for a worldwide license to develop and commercialize iSONEP. Under the original terms of the Pfizer Agreement, Pfizer and the Company planned to conduct two studies, including a Phase 1b study in wet AMD patients with Pigment Epithelial Detachment (PED), a complication of wet AMD (the ''PEDigree trial''), and a larger Phase 2a study in wet AMD patients generally (the ''Nexus trial''). The Company began enrolling patients in the PEDigree and Nexus trials in September 2011 and October 2011, respectively.

The Food and Drug Administration (FDA) placed the PEDigree and Nexus trials on clinical hold in January 2012 following a determination by the FDA that the fill-and-finish contractor that had filled the iSONEP clinical trial vials was not in compliance with the FDA's current Good Manufacturing Practice (''cGMP'') standards during the time period it provided those services to the Company. Thereafter, we manufactured new iSONEP drug substance with an alternate fill-and-finish contractor and resumed dosing patients in the Nexus trial in September 2012.

As a result of the clinical hold and the requirement to manufacture new drug substance, the projected costs to complete the iSONEP trials increased significantly and Pfizer requested the Company to consider potential alternatives to reduce the increased costs of the iSONEP trials. On December 5, 2012, Lpath and Pfizer amended the Pfizer Agreement to among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. The parties also modified the protocol for the Nexus trial to include certain wet AMD patients with PED in the Nexus trial. In addition, the Company can elect to conduct the PEDigree trial at any time at its cost. The parties will continue to pursue and share the cost of the iSONEP trials, including any costs associated with discontinuing the PEDigree trial.

As of December 31, 2012, Pfizer had paid the Company $20.0 million pursuant to the terms of the Pfizer Agreement, including an upfront payment of $14 million. The amendment to the Pfizer Agreement does not modify the Company's obligation to fund the next $6.0 million of Nexus trial costs.

The Company expects to complete dosing the last Nexus trial patient during the first half of 2014. The actual time required to complete our clinical trials will depend on a number of factors outside of our direct control, including those discussed in "Risk Factors—We may have delays in completing our clinical trials and we may not complete them at all."

Following completion of this study, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if Pfizer exercises its option, the Company will be eligible to receive development, regulatory and commercial milestone payments that could total up to $497.5 million. In addition, the Company will be entitled to receive tiered double-digit royalties based on sales of iSONEP.

Lpath has incurred significant net losses since its inception. As of December 31, 2012, we had an accumulated deficit of approximately $42.9 million. We expect that the cost of our ongoing research and development activities, including general and administrative expenses, will approximate $32 million from the beginning of 2013 through the end of 2014. This estimate includes the expenses to conduct the Nexus clinical trial for iSONEP, as well as the Phase 2a clinical trial for ASONEP. In addition, this estimate includes the expenses to develop the manufacturing process and conduct the IND-enabling studies for our third product candidate, Lpathomab. We expect our expenditures to increase as we continue the advancement of our product development programs. The lengthy process of completing clinical trials and seeking regulatory approval for one product candidate typically requires expenditures in excess of approximately $100 million, according to

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industry data. Any failure by us or delay in completing clinical trials, or in obtaining regulatory approvals, would cause our research and development expenses to increase and, in turn, have a material adverse effect on our results of operations

In connection with listing its shares of common stock for trading on the Nasdaq Capital Market, the Company effected 1-for-7 reverse split of its issued and outstanding common stock and a corresponding decrease in the number of authorized shares of common stock on October 9, 2012. Fractional shares created by the reverse stock split were rounded up to the nearest whole share. All issued and outstanding common stock, options exercisable for common stock, warrants exercisable for common stock, restricted stock units, and per-share amounts set forth in this Annual Report have been retroactively adjusted to reflect this reverse stock split for all periods presented.

Revenue

In December 2010, we entered into the Pfizer Agreement, which provides Pfizer with an exclusive option for a worldwide license to develop and commercialize iSONEP™, our lead monoclonal antibody product candidate that is being evaluated for the treatment of wet age-related macular degeneration (wet AMD) and other ophthalmic disorders. On December 5, 2012, the Company and Pfizer amended the Agreement to, among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. Under the terms of the Pfizer Agreement, as amended, Pfizer made a $14 million upfront payment to Lpath in January 2011. In addition, Pfizer agreed to share the cost of the planned clinical trials, including any costs associated with discontinuing the PEDigree trial. Following completion of the Nexus trial, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if Pfizer exercises its option, Lpath will be eligible to receive development, regulatory, and commercial milestone payments that could total up to $497.5 million. In addition, Lpath will be entitled to receive tiered double-digit royalties based on sales of iSONEP. As part of the agreement, Lpath granted to Pfizer a time-limited right of first refusal for ASONEP, and Pfizer specified that a designated portion of the upfront payment be used to fund the development of ASONEP™. As of December 31, 2012, Pfizer had paid the Company $20.0 million pursuant to the terms of the Pfizer Agreement, including the $14 million upfront payment. The amendment to the Pfizer Agreement does not modify the Company's obligation to fund the next $6.0 million of Nexus trial costs.

In 2008, we entered into a License Agreement (the "Merck Agreement") with Merck KGaA, ("Merck") pursuant to which Merck agreed to collaborate with

us to develop and commercialize ASONEP. Pursuant to the terms of the Merck Agreement, we licensed to Merck exclusive worldwide rights to develop and commercialize ASONEP across all non-ocular indications. In March 2010, following the completion of our Phase 1 clinical trial, Merck proposed continuing the partnership via an extension of the Initial Development Period (as defined in the Merck Agreement). However the terms of that proposed extension were rejected by Lpath's Board of Directors as not being in the best interests of Lpath or its stockholders. Consequently, Merck notified us of their decision to terminate the Merck Agreement. The termination was effective on April 24, 2010, and upon such termination Merck relinquished all rights to the ASONEP program. Pursuant to the terms of the Merck Agreement, we received a total of $17.7 million, including an upfront license fee, milestone payments, and ongoing research and development support.

From our inception through December 31, 2012, we have also generated $8.2 million in revenue from research grants awarded primarily by the National Institutes of Health, and $0.3 million in royalty revenue from a licensing agreement with a company that produces novel research assays. We expect to continue to receive small amounts of revenue from research grants and our existing source of royalty revenue. However, the NIH has notified all grant recipients that due to the current Congressional budget sequestration, the NIH may not be able to issue continuation awards, or it may be required to negotiate a reduction in the scope of our existing awards to meet the constraints imposed. Additionally, plans for new grants or cooperative agreements may be re-scoped, delayed, or canceled depending on the nature of the work and the availability of resources. As a result, we cannot assure you that we will receive the remaining $1.7 million in funding under our existing NIH grants, and we may not be successful in securing additional grants from the NIH in the future.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and related employee benefits; research supplies and materials; external costs associated with our drug discovery research; and external drug development costs, including preclinical testing and regulatory expenses, manufacturing of material for clinical trials, and the costs of conducting clinical trials. Our historical research and development expenses are principally related to the drug discovery and clinical development efforts in creating and developing our lead product candidates, iSONEP, ASONEP, and Lpathomab.

We charge all research and development expenses to operations as incurred. We expect our research and development expenses to increase significantly in the future as our product candidates move through pre-clinical testing and into clinical trials.

Due to the risks inherent in the drug discovery and clinical trial process and given the early stage of our product development programs, we are unable to estimate with any certainty the costs we will incur in the continued development of

our product candidates for potential commercialization. Clinical development timelines, the probabilities of success, and development costs vary widely. While we are currently focused on advancing each of our product development programs, we anticipate that we will periodically make determinations as to the scientific and clinical success of each product candidate, as well as ongoing assessments as to each product candidate's commercial potential. In addition, we cannot forecast with any degree of certainty which product candidates will be subject to future partnering, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements. As a result, we cannot be certain when and to what extent we will receive cash inflows from the commercialization of our product candidates.

General and Administrative Expenses

Our general and administrative expenses principally comprise salaries and benefits and professional fees related to our business development, intellectual property, finance, human resources, legal, and internal systems support functions. In addition, general and administrative expenses include insurance and an allocated portion of facilities and information technology costs.

We anticipate increases in general and administrative expenses as we add personnel, increase our business development activities, become subject to the full Sarbanes-Oxley compliance obligations applicable to larger publicly-held companies, and continue to develop and prepare for the commercialization of our product candidates.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Research and Development

Our sponsored research and development costs related to future products and redesign of present products are expensed as incurred.

Patent Expenses

Legal and filing costs directly associated with obtaining patents are capitalized. Upon issuance of a patent, amortization is computed using the straight-line method over the estimated remaining useful life of the patent.

Revenue Recognition

Research and Development Revenue Under Collaborative Agreements. We have and may in the future enter into collaborations where we receive non-refundable upfront payments. Generally, these payments are made to secure licenses or option rights to our drug candidates. Non-refundable payments are recognized as revenue when we have a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured, and we have no further performance obligations under the agreement. Multiple-element arrangements, such as license and development arrangements, are analyzed to determine whether the deliverables, which often include a license together with performance obligations such as research and development responsibilities and steering committee services, can be separated or whether they must be accounted for as a single unit of accounting. We recognize up-front license payments as revenue upon delivery of the license only if the license has stand-alone value and the fair value of the undelivered performance obligations, typically including research and/or steering committee services, can be determined. If the fair value of the undelivered performance obligations can be determined, such obligations would then be accounted for separately as performed. If the license is considered to either (i) not

have stand-alone value or (ii) have stand- alone value but the fair value of any of the undelivered performance obligations cannot be determined, the arrangement would then be accounted for as a single unit of accounting and the license payments and payments for performance obligations are recognized as revenue over the estimated period of when the performance obligations are performed.

If we are involved in a steering committee as part of a multiple-element arrangement that is accounted for as a single unit of accounting, we assess whether our involvement constitutes a performance obligation or a right to participate. Steering committee services that are determined to be performance obligations are combined with other research services or performance obligations required under an arrangement, if any, in determining the level of effort required in an arrangement and the period over which we expect to complete our aggregate performance obligations.

When we receive reimbursement for our research costs under collaborative agreements, such reimbursements are recognized as revenue as the underlying costs are incurred.

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Whenever we determine that an arrangement should be accounted for as a single unit of accounting, we must determine the period over which our performance obligations will be performed and revenue will be recognized. Revenue will be recognized using either a relative performance or straight-line method. We recognize revenue using the relative performance method provided that we can reasonably estimate the level of effort required to complete our performance obligations under an arrangement and such performance obligations are provided on a best-efforts basis. Revenue recognized is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the relative performance method, as of each reporting period.

If we cannot reasonably estimate the level of effort required to complete our performance obligations under an arrangement, the performance obligations are provided on a best-efforts basis and we cannot reasonably estimate when the performance obligation ceases or the remaining obligations become inconsequential and perfunctory, then the total payments under the arrangement, excluding royalties and payments contingent upon achievement of substantive milestones, would be recognized as revenue on a straight-line basis over the period we expect to complete our performance obligations. Revenue is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the straight-line basis, as of the period ending date.

If we cannot reasonably estimate when our performance obligation either ceases or becomes inconsequential and perfunctory, then revenue is deferred until we can reasonably estimate when the performance obligation ceases or becomes inconsequential. Revenue is then recognized over the remaining estimated period of performance.

Significant management judgment is required in determining the level of effort required under a collaboration arrangement and the period over which we are expected to complete our performance obligations under an arrangement.

Collaboration agreements may also contain substantive milestone payments. Substantive milestone payments are considered to be performance bonuses that are recognized upon achievement of the milestone only if all of the following conditions are met:

- the milestone payments are non-refundable;
- achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement;
- substantive company effort is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- a reasonable amount of time passes between the up-front license payment and the first milestone payment as well as between each subsequent milestone payment.

Determination as to whether a payment meets the aforementioned conditions involves management's judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore the resulting payment would be considered part of the consideration for the single unit of accounting and would be recognized as revenue as such performance obligations are performed under either the relative performance or straight-line methods, as applicable, and in accordance with these policies as described above.

Grant Revenue. Our primary source of revenue to date has been research grants received from the National Institutes of Health. We recognize grant revenue as the related research expenses are incurred, up to contractual limits.

Royalty Revenue. We recognize royalty revenue from licensed products when earned in accordance with the terms of the license agreements. Net sales figures used for calculating royalties include deductions for costs of unsaleable returns, cash discounts, freight, postage, and insurance.

Stock-Based Compensation

Issuances of common stock, stock options, warrants, or other equity instruments to employees and non-employees as the consideration for goods or services we receive are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). Generally, the fair value of any options, warrant or similar equity instruments issued, have been estimated based on the Black-Scholes option pricing model.

Net Operating Losses and Tax Credit Carryforwards

At December 31, 2012, we had federal and California net operating loss ("NOL") carryforwards of approximately $42 million and $37 million, respectively. Under current law, the federal and California NOL carryforwards may be available to offset taxable income through 2032. In some years, such as 2010 and 2011, the California state government has suspended the use of existing California NOL carryforwards. In those years companies have not been permitted to utilize NOL

carryforwards to reduce the amount of taxes payable to the state. If that fiscal policy were to continue then the California benefits could be deferred, modified, or lost.

As of December 31, 2012, we also had federal and California research and development tax credit carryforwards of $1.1 million and $0.6 million, respectively. These tax credits may be available to offset future taxes. The federal credits begin expiring in 2019, and the state credits do not expire.

A valuation allowance has been established to reserve the potential benefits of these carryforwards in our consolidated financial statements to reflect the uncertainty of future taxable income required to utilize available tax loss carryforwards and other deferred tax assets. Under the provisions of Section 382 of the Internal Revenue Code, substantial changes in our ownership may limit the amount of net operating loss carryforwards that we can utilize annually in the future to offset taxable income. If a change in our ownership is deemed to have occurred or occurs in the future, our ability to use our net operating loss and tax credit carryforwards in any fiscal year may be significantly limited.

Fair Value of Warrant Liability

We measure fair value in accordance with the applicable accounting standards in the Financial Accounting Standards Board ("FASB") Codification. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access as of the measurement date.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.
- Level 3—unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

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

We determined the fair value of the warrants using a Black-Scholes model with consideration given to their "down-round" protection provisions that reduce the exercise price if we issue new warrants or equity at a price lower than the stated exercise price. The model considered amounts and timing of future possible equity and warrant issuances and historical volatility of our stock price.

Results of Operations

Comparison of Years Ended December 31, 2012 and 2011

Grant and Royalty Revenue. Grant and royalty revenue for 2012 decreased to $1.0 million from $1.6 million in 2011. The decrease of $0.6 million is principally due to the suspension of the iSONEP clinical trials, which resulted in reduced reimbursable costs for outside services in 2012 compared to 2011.

Research and Development Revenue Under Collaborative Agreements. As described in Note 2 to the consolidated financial statements, in December 2010 we entered into an agreement with Pfizer, Inc., which agreement was amended in 2012, that provides financial support for our iSONEP and ASONEP development programs. We recognized revenues as follows:

	Years Ended December 31,	
	2012	2011
Cost reimbursements	$ 1,916,250	$ 2,835,817
Amortization of development fees	3,782,312	4,258,066
	$ 5,698,562	$ 7,093,883

The reduction in revenue in 2012 is attributable principally to the suspension of the iSONEP clinical trials from January to September 2012. Reduced expenditures during this time caused a reduction in amortization of deferred revenues. In 2011, revenue recognized pursuant to the Merck Agreement included $0.7 million received from Merck to discharge certain payment obligations that survived termination of the agreement.

Research and Development Expenses. Research and development expenses for 2012 totaled $8.2 million compared to $9.7 million for 2011, a decrease of $1.5 million. Development costs in 2011 were ramping up as we began Phase 1b and Phase2a clinical trials of iSONEP in September 2011. In January 2012, we temporarily suspended dosing patients in our PEDigree and Nexus trials. The 2012 costs to manufacture the additional drug substance required to resume the trials, and complete the fill/finish process totaled $1.1 million. These additional costs were more than offset by reduced clinical trial expenditures during the temporary suspension of our clinical trials in 2012.

General and Administrative Expenses. General and administrative expenses were $4.1 million for the year ended December 31, 2012 compared to $3.4 million for 2011, an increase of $0.7 million. This increase was principally attributable to legal, investor relations and consulting costs incurred in connection with the FDA clinical hold as well as the costs of listing our common stock for trading on the Nasdaq Capital Market.

Change in Fair Value of Warrants. Various factors are considered in the Black-Scholes model we use to value outstanding warrants, including our current stock price, the remaining life of the warrants, the volatility of our stock price, and the risk-free interest rate. Future changes in these factors will have a significant impact on the computed fair value of the warrant liability. The most significant factor in the valuation model is our stock price. Our stock has been thinly traded and relatively small transactions can impact our quoted stock price significantly. As a result, our stock price volatility factor is approximately 85%. As such, we expect future changes in the fair value of the warrants to continue to vary significantly from quarter to quarter. We caution that the change in fair value of the warrants should not be given undue importance when considering our financial condition and our results of operations. We do not believe that these

adjustments, which are required by current generally accepted accounting principles, reflect economic activities or financial obligations undertaken by us.

Liquidity and Capital Resources

Since inception, our operations have been financed primarily through the sale of equity and debt securities and funds received from corporate partners pursuant to research and development collaboration agreements. From inception through December 31, 2012, we had received net proceeds of approximately $60.5 million from the sale of equity securities and the issuance of convertible promissory notes. In addition, we had received a total of $37.7 million from corporate partners. We received $2.8 million and $17.2 million in funding from a research and development arrangement with Pfizer during the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, we had cash and cash equivalents totaling $24.6 million. Cash and cash equivalents consist of cash in demand deposit accounts, money market accounts that hold only U.S Treasury securities, and federally insured certificates of deposits. Net cash used in investing activities during year ended December 31, 2012 was $344,000, including $155,000 invested in equipment and leasehold improvements and $189,000 invested in the prosecution of patents. During 2011, net cash used in investing activities totaled $489,000, including $134,000 invested in equipment and leasehold improvements and $355,000 invested in the prosecution of patents. The decrease in the amount spent on patent prosecution in 2012 is due to the fact that, pursuant to the terms of the Pfizer Agreement, Pfizer has assumed financial responsibility for the prosecution of patents related to Lpath technology that is subject to the Pfizer Agreement.

On March 6, 2012, we entered into subscription agreements with certain investors relating to the sale and issuance by us of 1,765,524 Units, with each Unit consisting of one share of our Class A common stock and 0.5 of a warrant to purchase one share of our Class A common stock, for aggregate gross proceeds of $9,294,500, before deducting placement agent fees and other estimated offering expenses. The purchase price for each Unit was $5.25. Each warrant has an exercise price of $7.70 per share, is exercisable immediately after issuance and will expire five years from the date of issuance. Each warrant may be exercised using a cashless exercise procedure in the holder's sole discretion and includes provisions providing for adjustments to the number of shares exercisable thereunder upon stock dividends, stock splits, and similar events.

On December 14, 2012, we closed a public offering in which it sold 2,366,000 shares of our Class A common stock for aggregate gross proceeds of $11,830,000, before deducting placement agent fees and other offering expenses of $963,000. The purchase price was $5.00 per share.

As of December 31, 2012, we had available cash and cash equivalents balance of approximately $24.6 million. Additional near-term sources of cash include $0.5 million remaining on the $3 million BRDG-SPAN grant from the National Eye Institute (part of the NIH) to support iSONEP-related trials, and $1.2 million remaining on the $3 million grant from NIH to support ASONEP clinical trials. As they are currently planned, we estimate that the cost of our ongoing drug discovery and development efforts, including general and administrative expenses, would require approximately $32 million from the beginning of 2013 through the end of 2014. This estimate includes the expenses to conduct the Nexus clinical trial for iSONEP, as well as the Phase 2a clinical trial for ASONEP. In addition, this estimate includes the expenses to develop the manufacturing process and conduct the IND-enabling studies for our third product candidate, Lpathomab.

We believe our cash and cash equivalents on hand as of December 31, 2012, together with amounts to be received pursuant

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to the Pfizer Agreement and NIH grants, should be sufficient to fund our ongoing research and development activities, as currently planned, through 2014. However, the NIH has notified all grant recipients that due to the current Congressional budget sequestration, the NIH may not be able to issue continuation awards, or it may be required to negotiate a reduction in the scope of our existing awards to meet the constraints imposed. Additionally, plans for new grants or cooperative agreements may be re-scoped, delayed, or canceled depending on the nature of the work and the availability of resources. As a result, we cannot assure you that we will receive the remaining $1.7 million in funding under our existing NIH grants, and we may not be successful in securing additional grants from the NIH in the future. In the event that the NIH is unable to fund all, or a portion, of our existing awards, we believe that we would still have sufficient resources to fund our ongoing research and development activities through the third quarter of 2014.

In addition, we may receive additional funding to support our operations beyond 2014 under the Pfizer Agreement if Pfizer elects to exercise its option to continue the clinical development of iSONEP. However, we cannot assure you that we will be successful in maintaining our commercial relationship with Pfizer, that Pfizer will exercise its option to commercialize iSONEP, or that iSONEP will achieve the developmental, regulatory, and commercial milestones necessary to entitle us to future payments under the Pfizer Agreement on a timely basis, or at all. Even if Pfizer exercises its option, but does so after 2014, we may be required to secure substantial additional capital to continue to fund our planned drug discovery and development projects beyond 2014.

Until we can generate significant cash from operations, we expect to continue to fund our operations with cash resources generated from a combination of NIH grants, license agreements, and the proceeds of offerings of our equity and debt securities. However, we may not be successful in obtaining funding from new or existing collaboration agreements or licenses, or in receiving milestone or royalty payments under those agreements. In addition, we cannot be sure that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to us or to our stockholders. Having insufficient funds may require us to delay, scale back, or eliminate some or all of our development programs, relinquish some or even all rights to product candidates at an earlier stage of development, or renegotiate less favorable terms than we would otherwise choose. Failure to obtain adequate financing could eventually adversely affect our ability to operate as a going concern. If we raise additional funds from the issuance of equity securities, substantial dilution to our existing stockholders would likely result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve our capital for the purpose of funding our operations, while at the same time maximizing the income we receive from our investments without materially increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash, cash equivalents, and short-term investments in a variety of securities, including commercial paper and money market funds. Our cash and investments at December 31, 2012 consisted exclusively of cash in bank accounts, certificates of deposit, and a money market mutual fund that is restricted to invest only in short-term U.S. Treasury securities. We currently do not hedge interest rate exposure. Because of the short-term maturities of our cash equivalents and short-term investments, we do not believe that an increase or decrease in market rates would have a material impact on the value of our portfolio.

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ITEM 8. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
and Stockholders of
LPATH, INC.

We have audited the accompanying consolidated balance sheets of Lpath, Inc. (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lpath, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

San Diego, California
March 15, 2013

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LPATH, INC.
Consolidated Balance Sheets
December 31,

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,621,083	$ 14,410,630
Accounts receivable	233,794	1,334,583
Prepaid expenses and other current assets	307,907	331,828
Total current assets	25,162,784	16,077,041
Equipment and leasehold improvements, net	253,595	176,067
Patents, net	1,689,804	1,610,752
Deposits and other assets	77,350	79,350
Total assets	**$ 27,183,533**	**$ 17,943,210**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,027,872	$ 2,215,152
Accrued expenses	2,168,382	1,768,786
Deferred contract revenue, current portion	5,419,623	6,081,934
Deferred rent, short-term portion	14,555	5,378
Total current liabilities	8,630,432	10,071,250
Deferred rent, long-term portion	93,381	107,936
Deferred contract revenue, long-term portion	415,000	3,535,000
Warrants	3,100,000	3,600,000
Total liabilities	12,238,813	17,314,186
Stockholders' Equity:		
Common stock - $.001 par value; 28,571,429 shares authorized; 13,099,319 and 8,657,474 issued and outstanding at December 31, 2012 and 2011, respectively	13,099	8,659
Additional paid-in capital	57,845,088	40,781,458
Accumulated deficit	(42,913,467)	(40,161,093)
Total stockholders' equity	14,944,720	629,024
Total liabilities and stockholders' equity	**$ 27,183,533**	**$ 17,943,210**

See accompanying notes to the consolidated financial statements.

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LPATH, INC.
Consolidated Statements of Operations
Years Ended December 31,

	2012	2011
Revenues:		
Grant and royalty revenue	$ 989,591	$ 1,617,980
Research and development revenue under collaborative agreements	5,698,562	7,768,883
Total revenues	6,688,153	9,386,863
Expenses:		
Research and development	8,158,632	9,726,794
General and administrative	4,091,233	3,370,105
Total expenses	12,249,865	13,096,899
Loss from operations	(5,561,712)	(3,710,036)
Other expense, net	(90,662)	(4,091)
Change in fair value of warrants	2,900,000	600,000
Total other expense	2,809,338	595,909
Net loss	$ (2,752,374)	$ (3,114,127)
Basic and diluted loss per share	$ (0.26)	$ (0.35)
Weighted-average shares outstanding used in the calculation	10,736,919	8,996,235

See accompanying notes to the consolidated financial statements.

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Lpath, Inc.
Consolidated Statement of Changes in Stockholders' Equity
Years Ended December 31, 2012 and 2011

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, January 1, 2011	8,621,159	$ 8,621	$ 40,045,647	$ (37,046,966)	$ 3,007,302
Stock options exercised	11,678	12	29,871	—	29,883
Warrants exercised	20,427	20	4,187	—	4,207
Stock-based compensation	5,652	6	701,753	—	701,759
Net loss	—	—	—	(3,114,127)	(3,114,127)
Balance, December 31, 2011	8,658,916	8,659	40,781,458	(40,161,093)	629,024
Common stock and warrants issued for cash, net of issuance costs	4,131,524	4,132	15,574,681	—	15,578,813
Stock options exercised	3,431	3	1,438	—	1,441
Warrants exercised	173,277	173	1,172,301	—	1,172,474
Stock-based compensation	132,171	132	315,210	—	315,342
Net loss	—	—	—	(2,752,374)	(2,752,374)
Balance, December 31, 2012	13,099,319	$ 13,099	$ 57,845,088	$ (42,913,467)	$ 14,944,720

See accompanying notes to the consolidated financial statements.

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LPATH, INC.
Consolidated Statements of Cash Flows
Years Ended December 31,

	2012	2011

Cash flows from operating activities:		
Net loss	$ (2,752,374)	$ (3,114,127)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation expense	600,110	701,759
Change in fair value of warrants	(2,900,000)	(600,000)
Depreciation and amortization	187,501	141,993
Deferred rent expense	(5,378)	113,314
Changes in operating assets and liabilities:		
Accounts receivable	1,100,789	14,055,694
Prepaid expenses and other current assets	23,921	(165,146)
Accounts payable and accrued expenses	(839,606)	1,227,571
Deferred contract revenue	(3,782,311)	(4,258,066)
Other	54,147	(40,909)
Net cash (used in) provided by operating activities	(8,313,201)	8,062,083
Cash flows from investing activities:		
Equipment and leasehold improvement expenditures	(154,751)	(134,248)
Patent expenditures	(189,555)	(354,801)
Net cash (used in) investing activities	(344,306)	(489,049)
Cash flows from financing activities:		
Proceeds from sale of common stock and warrants, net	19,078,813	—
Proceeds from options and warrants exercised	73,915	34,090
Payment for restricted stock tax liability on net settlement	(284,768)	—
Net cash provided by financing activities	18,867,960	34,090
Net increase in cash and cash equivalents	10,210,453	7,607,124
Cash and cash equivalents at beginning of period	14,410,630	6,803,506
Cash and cash equivalents at end of period	$ 24,621,083	$ 14,410,630
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,600	$ 1,600
Supplemental disclosure of non-cash investing and financing activities:		
Change in fair value of warrant liability	$ (2,900,000)	$ (600,000)

See accompanying notes to the condensed consolidated financial statements.

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LPATH, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2012 and 2011

Note 1—THE COMPANY AND A SUMMARY OF ITS SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Lpath, Inc. (“Lpath,” “we,” or “company”) is a biotechnology company focused on the discovery and development of lipidomic-based therapeutic antibodies, an emerging field of medical science that targets bioactive signaling lipids to treat a wide range of human diseases. We have two product candidates that are currently in clinical development, and one in pre-clinical evaluation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts of Lpath, Inc. and its wholly-owned subsidiary, Lpath Therapeutics Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Reverse Stock Split

On October 3, 2012, the Board of Directors approved a 1-for-7 reverse split of the company’s issued and outstanding Class A common stock and a corresponding decrease in the number of authorized shares of common stock. The reverse split was effective on October 9, 2012. Fractional shares created by the reverse stock split were rounded up to the nearest whole share. All issued and outstanding common stock, options exercisable for common stock, warrants exercisable for common stock, restricted stock units, and per-share amounts contained in the company’s consolidated financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates are subject to an inherent degree of uncertainty and, as such, actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits, money market deposits, and certificates of deposit.

Concentration of Credit Risk

Financial instruments that potentially subject the company to a significant concentration of credit risk consist of cash and cash equivalents. The company maintains its cash balances with one major commercial bank in non-interest bearing accounts. Accounts at FDIC-insured institutions are insured by the FDIC up to $250,000.

The company invests its excess cash in money market mutual funds and in certificates of deposit of federally insured financial institutions. The company has established guidelines relative to diversification of its cash investments and their maturities that are intended to secure safety and liquidity. To date, the company has not experienced any impairment losses on its cash equivalents. The company has not experienced any losses on its deposits of cash and cash equivalents, short-term and long-term investments.

The company's accounts receivable are derived from entities located in the United States. The company performs ongoing credit evaluation of its debtors, does not require collateral, and maintains allowances for potential credit losses on customer accounts when deemed necessary. To date, there have been no such losses and the company has not recorded an allowance for doubtful accounts.

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Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost. Equipment depreciation is computed using the straight-line method over the estimated useful asset lives, which range from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remainder of the lease term. Repairs and maintenance are charged to expense as incurred.

Patents

Legal and filing costs directly associated with obtaining patents are capitalized. Upon issuance of a patent, amortization is computed using the straight-line method over the estimated remaining useful life of the patent.

Long-lived Assets

The company accounts for the impairment and disposition of long-lived assets for events or changes in circumstances which indicate that their carrying value may not be recoverable. The company recorded charges for impairments of patents totaling $82,551 and $54,203 in 2012 and 2011, respectively.

Deferred Rent

Rent expense is recorded on a straight-line basis over the term of the lease. The difference between rent expense and amounts paid under the lease agreement is recorded as deferred rent. Lease incentives, including tenant improvement allowances, are also recorded as deferred rent and amortized on a straight-line basis over the lease term.

Stock-based Compensation Expense

Compensation expense is measured based on the fair value of the award at the grant date, including estimated forfeitures, and is adjusted to reflect actual forfeitures and the outcomes of certain conditions. Compensation issued to non-employees is remeasured quarterly and income or expense is recognized during their vesting terms.

Revenue Recognition

Lpath has and may in the future enter into collaborations where we receive non-refundable up-front payments. Generally, these payments secure licenses to Lpath drug candidates. Non-refundable payments are recognized as revenue when the company has a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured, and the company has no further performance obligations under the license agreement. Multiple-element arrangements, such as license and development arrangements, are analyzed to determine whether the deliverables, which often include a license together with performance obligations such as research and development responsibilities and steering committee services, can be separated or whether they must be accounted for as a single unit of accounting. The company recognizes up-front license payments as revenue upon delivery of the license only if the license has stand-alone value and the fair value of the undelivered performance obligations, typically including research and/or steering committee services, can be determined. If the fair value of the undelivered performance obligations can be determined, such obligations would then be accounted for separately as performed. If the license is considered to either (i) not have stand-alone value or (ii) have stand-alone value but the fair value of any of the undelivered performance obligations cannot be determined, the arrangement would then be accounted for as a single unit of accounting, and the license payments and payments for performance obligations are recognized as revenue over the estimated period of when the performance obligations are performed.

If the company is involved in a steering committee as part of a multiple-element arrangement that is accounted for as a single unit of accounting, the company assesses whether its involvement constitutes a performance obligation or a right to participate. Steering committee services that are determined to be performance obligations are combined with other research services or performance obligations required under an arrangement, if any, in determining the level of effort required in an arrangement and the period over which the company expects to complete its aggregate performance obligations.

When the company receives reimbursement for research costs under collaborative agreements, such reimbursements are recognized as revenue as the underlying costs are incurred.

Whenever the company determines that an arrangement should be accounted for as a single unit of accounting, it must determine the period over which the performance obligations will be performed and revenue will be recognized. Revenue will be recognized using either a relative performance or straight-line method. The company recognizes revenue using the relative performance method provided that the company can reasonably estimate the level of effort required to complete its performance obligations under an arrangement and such performance obligations are provided on a best-efforts basis. Revenue recognized is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the relative performance method, as of each reporting period.

If the company cannot reasonably estimate the level of effort required to complete its performance obligations under an arrangement, the performance obligations are provided on a best-efforts basis and the company can reasonably estimate when the performance obligation ceases or the remaining obligations become inconsequential and perfunctory, then the total payments under the arrangement, excluding royalties and payments contingent upon achievement of substantive milestones, would be recognized as revenue on a straight-line basis over the period the company expects to complete its performance obligations. Revenue is limited to the lesser of the cumulative amount of payments received or the cumulative amount of revenue earned, as determined using the straight-line basis, as of the period ending date.

If the company cannot reasonably estimate when its performance obligation either ceases or becomes inconsequential and perfunctory, then revenue is deferred until the company can reasonably estimate when the performance obligation ceases or becomes inconsequential. Revenue is then recognized over the remaining estimated period of performance.

Significant management judgment is required in determining the level of effort required under an arrangement and the period over which the company is expected to complete its performance obligations under an arrangement.

Collaboration agreements may also contain substantive milestone payments. Substantive milestone payments are considered to be performance bonuses that are recognized upon achievement of the milestone only if all of the following conditions are met:

- the milestone payments are non-refundable;
- achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement;
- substantive company effort is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- a reasonable amount of time passes between the up-front license payment and the first milestone payment as well as between each subsequent milestone payment.

Determination as to whether a payment meets the aforementioned conditions involves management's judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone and, therefore, the resulting payment would be considered part of the consideration for the single unit of accounting and would be recognized as revenue, as such performance obligations are performed under either the relative performance or straight-line methods, as applicable, and in accordance with these policies as described above.

Grant Revenue. Lpath recognizes grant revenue as the related research expenses are incurred, up to contractual limits.

Royalty Revenue. Lpath recognizes royalty revenue from licensed products when earned in accordance with the terms of the license agreements. The licensee's net sales figures used for calculating royalties include deductions for costs of unsaleable returns, cash discounts, freight, postage, and insurance.

Research and Development

Research and development costs are charged to expense when incurred.

Employee Benefit Plan

The company has a 401(k) defined contribution plan that provides benefits for most employees. An employee is eligible to participate in this plan after one month of service. The plan provides for full vesting of benefits over five years. Company contributions to the plan are made at the discretion of the Board of Directors and aggregated $90,716 and $61,632 in 2012 and 2011, respectively.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

A net deferred tax asset related primarily to federal and state net operating loss and research and development credit carryforwards has been fully reserved due to uncertainties regarding Lpath's ability to realize these tax benefits in future periods. Consequently, no income tax benefit has been recorded for the years ended December 31, 2012 and 2011.

Lpath periodically evaluates its tax positions to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities. Lpath has not incurred any interest or penalties as of December 31, 2012 with respect to income tax matters. Lpath does not expect that there will be unrecognized tax benefits of a significant nature that will increase or decrease within 12 months of the reporting date.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net loss and certain changes in equity that are excluded from net loss. At December 31, 2012 and 2011, Lpath had no reportable differences between net loss and comprehensive loss.

Per Share Data

Basic net income (loss) per common share is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted-average number of common and common dilutive equivalent shares, such as stock options, restricted stock units, restricted stock awards, warrants, and convertible securities outstanding during the period.

Anti-dilutive common stock equivalents were excluded from the calculation of diluted income (loss) per share as follows:

	Years Ended December 31,	
	2012	2011
Stock options	368,036	374,621
Warrants	1,269,017	1,998,229
Restricted stock units	417,196	517,711
Total	2,054,249	2,890,561

Impact of Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04 (ASU 2011-4), Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs to provide a uniform framework for fair value measurements and related disclosures between U.S. GAAP and International Financial Reporting Standards (IFRS). Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the

asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-04 requires prospective application for interim and annual periods beginning on or after December 15, 2011. The company adopted ASU 2011-04 with no impact to its financial position and results of operations.

Reclassifications

Certain amounts in the prior year consolidated balance sheet have been updated to conform with current year presentation with no impact to stockholders' equity.

Note 2—RESEARCH AND DEVELOPMENT COLLABORATIVE AGREEMENT

In 2010, Lpath entered into an agreement providing Pfizer Inc. with an exclusive option for a worldwide license to develop and commercialize iSONEP™, Lpath's lead monoclonal antibody product candidate that is being evaluated for the treatment of wet age-related macular degeneration ("wet AMD") and other ocular disorders. As a result of a clinical hold and the requirement to manufacture new drug substance during 2012, the projected costs to complete the iSONEP trials increased significantly and Pfizer requested the Company to consider potential alternatives to reduce the increased costs of the iSONEP trials. On December 5, 2012, the Company and Pfizer amended the agreement to, among other things, reflect the parties' agreement to discontinue the PEDigree trial and to focus on the Nexus trial. The parties modified the protocol for the Nexus trial to include certain wet AMD patients with PED in the Nexus trial. In addition, the Company can elect to conduct the PEDigree trial at any time at its cost. Under the terms of the amended agreement, the parties will continue to pursue and share the cost of the iSONEP trials, including any costs associated with discontinuing the PEDigree trial.

Under the terms of the agreement, as amended, Pfizer provided Lpath with an up-front option payment of $14 million and agreed to share the cost of the planned clinical trials, including any costs associated with discontinuing the PEDigree trial. Pfizer paid the up-front payment in January 2011. Following completion of the Nexus study, Pfizer has the right to exercise its option for worldwide rights to iSONEP for an undisclosed option fee and, if Pfizer exercises its option, Lpath will be eligible to receive development, regulatory, and commercial milestone payments that could total up to $497.5 million; in addition, Lpath will be entitled to receive tiered double-digit royalties based on sales of iSONEP. As part of the agreement, as amended, Lpath has granted to Pfizer a time-limited right of first refusal for ASONEP™, Lpath's product candidate that is being evaluated for the treatment of cancer. Two Phase 2a trials are currently planned to further assess ASONEP's efficacy and safety in cancer patients.The company recognized revenue under the Pfizer agreement as follows:

	Years Ended December 31,	
	2012	2011
Cost reimbursements	$ 1,916,250	$ 2,835,817
Amortization of development fees	3,782,312	4,258,066
	$ 5,698,562	$ 7,093,883

In connection with the termination of the License Agreement dated October 28, 2008 by and between the company and Merck KGaA, the company has received payment from Merck KGaA in 2011 in the amount of $675,000 to discharge certain payment obligations that survived termination of the License Agreement.

Note 3—COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	December 31,	
	2012	2011

Equipment and leasehold improvements:		
Office furniture and fixtures	$ 16,177	$ 37,120
Laboratory equipment	504,807	437,525
Computer equipment and software	147,591	158,204
Leasehold improvements	24,902	24,902
	693,477	657,751
Accumulated depreciation	(439,882)	(481,684)
Equipment, net	$ 253,595	$ 176,067
Patents:		
Patents	$ 1,822,906	$ 1,715,902
Accumulated amortization	(133,102)	(105,150)
Patents, net	$ 1,689,804	$ 1,610,752

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Note 4—FAIR VALUE MEASUREMENTS

The company measures fair value in accordance with the applicable accounting standards in the FASB Codification. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access as of the measurement date.
- Level 2—inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability, or indirectly observable through corroboration with observable market data.
- Level 3—unobservable inputs for the asset or liability are only used when there is little, if any, market activity for the asset or liability at the measurement date.

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

Recurring Fair Value Estimates

Lpath has issued warrants, of which some are classified as equity and some as liabilities. The following table includes warrants classified as liabilities either because they have “down-round” protection or due to cash settlement provisions. The company’s recurring fair value measurements at December 31, 2012 were as follows:

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	Fair Value as of December 31, 2012	Significant Unobservable Inputs (Level 3)
Liabilities:		
Warrants expiring August 2013	$ 100,000	$ 100,000
Warrants expiring March 2017	3,000,000	3,000,000
	$ 3,100,000	$ 3,100,000

The warrants issued in March 2012 (and expiring in March 2017) provide that in the event of a fundamental transaction, as defined by the warrant agreement, the company may, under certain circumstances, be obligated to settle the March 2012 warrants for cash equal to the value of the warrants determined in accordance with the warrant agreement.

Recurring Level 3 Activity, Reconciliation, and Basis for Valuation

The table below provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3).

Fair value measurements using significant unobservable inputs (Level 3):

Liabilities:	
Warrant liability as of January 1, 2011	$ 4,200,000
Change in fair value of warrants	(600,000)
Warrant liability as of December 31, 2011	3,600,000
Exercise of warrants	(1,100,000)
Issuance of warrants	3,500,000
Expiration of warrants	(1,400,000)
Change in fair value of warrants	(1,500,000)
Warrant liability as of December 31, 2012	$ 3,100,000

The company determined the fair value of the warrant liability for certain warrants, as applicable, using a Black-Scholes model with consideration given

to their "down-round" protection provisions that reduce the exercise price if the company issues new warrants or equity at a price lower than the stated exercise price. The model considered amounts and timing of future possible equity and warrant issuances and historical volatility of the company's stock price.

Note 5—RESEARCH AND LICENSE AGREEMENTS

In August 2006, Lpath and Lonza Biologics, PLC ("Lonza") entered into two agreements, a License Agreement and a Research Evaluation Agreement. Both agreements grant Lpath the use of certain proprietary technology to assist in the development of monoclonal antibodies. Under the terms of the License Agreement an annual license fee of approximately £300,000 (approximately $488,000 at December 31, 2012) may accrue when Lpath utilizes the Lonza technology in the manufacture of drug substance to be used in clinical trials. The License Agreement further provides that payment of this license fee will be deferred until Lpath's drug candidate utilizing that technology begins Phase 2 clinical trials. As of December 31, 2012, the company has accrued license fees totaling £900,000 ($1,463,000). Such fees, included in our balance sheet with accrued expenses, were paid to Lonza in January 2013. Under the terms of the Research Evaluation Agreement, a license fee is due annually. The company paid Lonza annual license fees totaling approximately $57,000 and $58,000 during 2012 and 2011, respectively, related to the Research Evaluation Agreement.

In August 2006, Lpath and Laureate Pharma, Inc. ("Laureate") entered into a Development and Manufacturing Services Agreement for the development, manufacture, and storage of Lpath's Sonepcizumab monoclonal antibody for use in clinical trials. The company paid Laureate approximately $884,000 and $2,166,000 during 2012 and 2011, respectively, related to this agreement. The Laureate agreement terminated in accordance with its terms on December 31, 2012. Laureate is our single manufacturer for ASONEP and iSONEP and may not be replaced without significant effort and delay in production.

In August 2005, Lpath entered into a collaboration agreement with AERES Biomedical ("AERES") to "humanize" the company's *Sphingomab* monoclonal antibody. Humanization under this agreement with AERES involves utilizing proprietary processes owned by AERES for the purpose of modifying Sphingomab antibodies originally contained in mice

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for potential human acceptance in a clinical trial. The humanized version of *Sphingomab* that was produced from the collaboration with AERES is called Sonepcizumab. Lpath paid AERES $350,000 in 2012 and no amounts were paid to AERES during 2011. Lpath could owe certain additional contingent amounts when drug candidates based on Sonepcizumab pass through the levels of the FDA drug review and approval process. AERES will be entitled to a royalty, not to exceed 4%, on any revenues generated by the ultimate commercialization of any drug candidate based on Sonepcizumab.

Note 6—OBLIGATIONS UNDER REGISTRATION RIGHTS AGREEMENTS

The company entered into a Registration Rights Agreement (the "2008 Registration Rights Agreement") with the investors participating in a private placement in 2008. The company met its initial obligations under the 2008 Registration Rights Agreements when Registration Statements the company filed to register with the Securities and Exchange Commission (the "SEC") the Class A common stock issued in the respective private placements, together with the Class A common stock to be issued upon exercise of the warrants (the "2008 Registration Statement") was declared effective by the SEC in 2008. The 2008 Registration Rights Agreement also provides that if the Registration Statement ceases to remain continuously effective for more than 30 consecutive days, or more than an aggregate of 60 calendar days during any 12-month period, the company may be required to make cash payments, as partial liquidated damages, to each investor in the respective private placement in an amount equal to 1.25% of the aggregate amount invested by such investor for each 30-day period, or any portion of a 30-day period. The 2008 Registration Rights Agreements also provides that the maximum aggregate liquidated damages payable by the company shall be 8.75% of the aggregate amount invested. The company's obligation to maintain the effectiveness of the 2008 Registration Statement will continue until all of the shares issued in this private placement have been sold, or the date on which these shares may be sold pursuant to Rule 144(k).

The company entered into a Registration Rights Agreement (the "2010 Registration Rights Agreement") with the investors participating in a private placement in 2010. The company met its initial obligations under the 2010 Registration Rights Agreement when a Registration Statements the company filed to register with the SEC the Class A common stock issued in the private placement, together with the Class A common stock to be issued upon exercise of the warrants (collectively, the "2010 Registration Statement") was declared effective by the SEC in 2010. The 2010 Registration Rights Agreement also provides that if the Registration Statement ceases to remain continuously effective for more than 30 consecutive days or more than an aggregate of 60 calendar days during any 12-month period, the company may be required to make cash payments, as partial liquidated damages, to each investor in the respective private placement in an amount equal to 1.00% of the aggregate amount invested by such investor for each 30-day period, or any portion of a 30-day period. The 2010 Registration Rights Agreement also provides that the maximum aggregate liquidated damages payable by the company shall be 6.00% of the aggregate amount invested. The company's obligation to maintain the effectiveness of the 2010 Registration Statement will continue until the earlier of (i) the date 120 days after none of the holders is an affiliate of the Company; (ii) the date on which all Registrable Securities covered by such Registration Statement have been sold; (iii) the date on which all Registrable Securities covered by such Registration Statement may be sold without volume restrictions pursuant to Rule 144(b)(1), or (iv) November 16, 2013.

Based on the company's experience since filing its first registration statement in 2006, the company believes that it is unlikely that it will be required to pay any liquidated damages under the provisions of the 2008 Registration Rights Agreement or the 2010 Registration Rights Agreement, and therefore has not recorded a liability for that potential obligation.

Note 7—STOCKHOLDERS' EQUITY

Common Stock

In March 2012, Lpath closed a public offering in which it sold 1,765,524 units, with each unit consisting of one share of the company's Class A common stock and 0.5 warrants to purchase one share of the company's Class A common stock, for aggregate gross proceeds of $9,269,000, before deducting placement agent fees and other estimated offering expenses of $1,057,000. The purchase price for each unit was $5.25. Each warrant issued has an exercise price of $7.70 per share, is exercisable immediately, and will expire five years from the date of issuance. Each warrant may be exercised using a cashless exercise procedure at the holder's sole discretion and includes provisions providing for adjustments to the number of shares exercisable thereunder upon stock dividends, stock splits, and similar events.

On December 14, 2012, Lpath closed a public offering in which it sold 2,366,000 shares of the company's Class A common stock for aggregate gross proceeds of $11,830,000, before deducting placement agent fees and other offering expenses of $963,000. The purchase price was $5.00 per share.

Preferred Stock

Lpath is authorized to issue up to 15,000,000 shares of preferred stock, with a par value of $0.001 per share. As of December 31, 2012 and 2011, there were no preferred stock shares issued or outstanding.

Equity Incentive Plan

In November 2005, the company adopted the Lpath, Inc. 2005 Stock Option and Stock Purchase Plan, which permitted stock option grants to employees, outside consultants, and directors. In October 2007, Lpath's stockholders approved the amendment of this plan which was concurrently renamed the Lpath, Inc. Amended and Restated 2005 Equity Incentive Plan (the "Plan"). There are 1,484,364 shares of Class A common stock authorized for grant under the Plan. The Plan allows for grants of incentive stock options with exercise prices of at least 100% of the fair market value of Lpath's common stock, nonqualified options with exercise prices of at least 85% of the fair market value of the company's common stock, restricted stock, and restricted stock units. All stock options granted to date have a ten-year life and vest over zero to five years. Restricted stock units granted have a five-year life and vest over zero to four years, or upon the achievement of specified clinical trial milestones. As of December 31, 2012, a total of 276,308 shares of Class A common stock were available for future grant under the Plan.

The following table presents stock-based compensation as included in the company's consolidated statements of operations:

	2012	2011
Stock-based compensation expense by type of award:		
Stock options	$ —	$ 3,457
Restricted stock units	600,110	698,302
Total stock-based compensation expense	$ 600,110	$ 701,759
Effect of stock-based compensation expense on income by line item:		
Research and development	$ 180,217	$ 224,167
General and administrative	419,893	477,592
Total stock-based compensation expense	$ 600,110	$ 701,759

Fair value is determined at the date of grant for employee options and restricted stock units, and at the date at which the grantee's performance is complete for non-employee options and restricted stock units. Compensation cost is recognized over the vesting period based on the fair value of the options and restricted stock units.

Because of the company's net operating losses for tax purposes, it did not realize any tax benefits for the tax deductions from share-based payment arrangements during the years ended December 31, 2012 and 2011.

Stock Options

No stock options were granted in 2012 or 2011.

As of December 31, 2012, there was no unrecognized compensation expense, net of estimated forfeitures, related to unvested options granted under the Plan.

The company uses the Black-Scholes valuation model to estimate the fair value of stock options at the grant date. The Black-Scholes valuation model uses the option exercise price as well as estimates and assumptions related to the expected price volatility of the company's stock, the rate of return on risk-free investments, the expected period during which the options will be outstanding, and the expected dividend yield for the company's stock to estimate the fair value of a stock option on the grant date.

The weighted-average valuation assumptions were determined as follows:

- *Expected stock price volatility:* The estimated expected volatility is based on a weighted-average calculation of a peer group and the company's historical volatility.

- *Risk-free interest rate:* The company bases the risk-free interest rate on the interest rate payable on U.S. Treasury debt securities.
- *Expected term of options:* The expected term of options granted is derived using assumed exercise rates based on historical exercise patterns and represents the period of time that options granted are expected to be outstanding.
- *Expected annual dividends:* The estimate for annual dividends is zero because the company has not historically paid, and does not intend for the foreseeable future to pay, a dividend.

A summary of the stock option activity under the plan as of December 31, 2012 and 2011, and changes during the years then ended, is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	404,720	$ 3.85		
Granted	—	—		
Exercised	(11,679)	2.56		

Expired	(10,715)	7.91		
Forfeited	(7,679)	8.75		
Outstanding at December 31, 2011	374,647	3.86		
Granted	—	—		
Exercised	(3,431)	0.42		
Expired	(3,180)	9.91		
Forfeited	—	—		
Outstanding at December 31, 2012	368,036	3.86	2.76	$ 750,406
Vested and exercisable at December 31, 2012	368,036	$ 3.867	2.76	$ 750,406

The aggregate intrinsic value in the table above represents the total intrinsic value which would have been received by the stock option holders had all option holders exercised their options as of that date. The aggregate intrinsic value is calculated as the difference between the fair market value of the company's common stock on December 31, 2012 of $5.05 and the exercise price of stock options, multiplied by the number of shares subject to such stock options.

At December 31, 2012, the company had 215,338 stock options outstanding with strike prices below the company's market price of $5.05 on that date, of which all were vested and exercisable. The total intrinsic value of options exercised during the years ended December 31, 2012 and 2011 was $21,000 and $62,000, respectively. Cash received from option exercises during the years ended December 31, 2012 and 2011 was $1,000 and $30,000, respectively. Upon stock option exercises the company issues new shares of common stock.

Restricted Stock Units

As of December 31, 2012, there was $801,000 of total unrecognized stock-based compensation expense related to unvested restricted stock units granted under the Plan. The company expects to recognize that expense over a weighted-average period of 2.4 years.

The following table summarizes the restricted stock units activity of the company during 2012 and 2011:

	Total Restricted Stock Units	Weighted-Average Grant Date Fair Value
Outstanding January 1, 2011	386,522	$ 8.05
Granted	142,661	7.84
Shares issued	(5,894)	8.82
Forfeited	(5,539)	7.70
Outstanding December 31, 2011	517,750	10.31
Granted	98,005	5.39
Shares issued	(177,981)	15.59
Forfeited	(20,578)	6.40
Outstanding December 31, 2012	417,196	$ 7.10

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Warrants

The provisions FASB Accounting Standards Codification Topic 815, "*Derivatives and Hedging*." ("ASC 815") can affect the accounting for warrants that contain provisions that protect holders from a decline in the stock price (or "down-round" protection). For example, warrants with such provisions will no longer be recorded in equity. Down-round protection provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments, or issues new warrants or convertible instruments that have a lower exercise price. The company evaluated whether warrants to acquire stock of the company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price and/or shares to be issued under the respective warrant agreements based on a variable that is not an input to the fair value of a "fixed-for-fixed" option. The company determined that the following warrants contained such provisions, and therefore, pursuant to the applicable criteria, they were not indexed to the company's own stock:

Warrant Expiration Dates	Number of Shares	Exercise Price per Share
August 2013	330,775	$ 7.33
March 2017	29,750	$ 5.25
March 2017	882,776	$ 7.70

The warrant liability reflected on Lpath's balance sheet is a consequence of current generally accepted accounting principles, arising from the implementation of ASC 815. There is no foreseeable circumstance under which Lpath can be required to make any cash payment to settle the warrant liability now carried on the balance sheet.

The following table summarizes Lpath warrants outstanding as of December 31, 2012:

Warrant Expiration Date	Number of Shares	Exercise Price per Share
February 28, 2013	7,143	$ 14.00
August 12, 2013	315,149	$ 7.33
August 15, 2013	13,465	$ 7.33
August 18, 2013	2,161	$ 7.33
March 27, 2014	7,143	$ 7.00
June 24, 2014	5,715	$ 5.60
December 10, 2015	5,715	$ 5.60

March 9, 2017	29,750	$ 5.25
March 9, 2017	882,776	$ 7.70
Total:	1,269,017	
Weighted average:		$ 7.56

The terms of all outstanding warrants permit the company, upon exercise of the warrants, to settle the contract by the delivery of unregistered shares. During 2012, 562,963 warrants were exercised. During 2011, 99,928 warrants were exercised. In February 2013, 7,143 warrants expired.

Note 8—INCOME TAXES

As of December 31, 2012, Lpath had federal and California net operating loss ("NOL") carryforwards of approximately $42 million and $37 million, respectively, that will expire beginning in 2013 and continue expiring through 2032. Portions of these NOL carryforwards may be used to offset future taxable income, if any. In some years, such as 2010 and 2011, the California state government has suspended the use of existing California NOL carryforwards. In those years companies have not been permitted to utilize NOL carryforwards to reduce the amount of taxes payable to the state.

As of December 31, 2012, Lpath also has federal and California research and development tax credit carryforwards of $1,067,000 and $618,000, respectively, available to offset future taxes. The federal credits begin expiring in 2018, and the

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state credits do not expire.

Under the provisions of Section 382 of the Internal Revenue Code, substantial changes in Lpath's ownership limit the amount of net operating loss carryforwards and tax credit carryforwards that can be utilized annually in the future to offset taxable income. A valuation allowance has been established to reserve the potential benefits of these carryforwards in Lpath's consolidated financial statements to reflect the uncertainty of future taxable income required to utilize available tax loss carryforwards and other deferred tax assets.

Significant components of the company's deferred tax assets and liabilities are as follows:

	2012	2011
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 17,665,000	$ 17,202,000
Research and development credit carryforwards	1,685,000	1,474,000
Stock-based compensation	1,846,000	2,731,000
Deferred contract revenue	2,743,000	292,000
Other, net	—	26,000
	23,939,000	21,725,000
Deferred tax liabilities:		
State taxes	(1,702,000)	(1,525,000)
Patent costs	(724,000)	(690,000)
Other, net	(22,000)	—
	(2,448,000)	(2,215,000)
Total deferred tax assets	21,491,000	19,510,000
Valuation allowance	(21,491,000)	(19,510,000)
Net deferred tax assets	$ —	$ —

Realization of the deferred tax assets is dependent upon the generation of future taxable income, the amount and timing of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance.

As a result of the company's significant operating loss carryforwards and the corresponding valuation allowance, no income tax provision/benefit has been recorded as of December 31, 2012 and 2011. The provision for income taxes using the statutory federal income tax rate of 34% as compared to the company's effective tax rate is summarized as follows:

	2012	2011
Federal tax benefit at statutory rate	$ 936,000	$ 1,059,000
State tax benefit, net	244,000	213,000
Change in fair value of warrants	986,000	204,000
Research and development credits	211,000	—
Employee stock-based compensation	(493,000)	(15,000)
Other permanent differences	97,000	(139,000)
Decrease in valuation allowance	(1,981,000)	(1,322,000)
Provision for income taxes	$ —	$ —

Note 9—OPERATING LEASE

On May 31, 2011, Lpath entered into a lease agreement (the "Lease") with Sorrento Science Park, LLC for an 11,960 square foot laboratory and office facility in San Diego, California. The Lease commenced in July 2011, and this facility now houses all of the Company's research, development, and administrative staff. The Company vacated its former facility in July 2011.

The Lease has an initial term of 64 months. Monthly lease payments will be $25,116, with annual escalations of 3%. The Lease grants the Company the right to extend the lease for an additional five-year term.

Future minimum payments and sublease income under the company's non-cancelable operating lease are set forth in the following table:

Years ending December 31,	Lease Obligation	Sublease Income	Net Lease Obligation
2013	$ 315,090	$ 11,652	$ 303,438
2014	324,543	11,652	312,891
2015	334,279	11,652	322,627
2016	286,075	9,710	276,365
Total future minimum lease commitments	$ 1,259,987	$ 44,666	$ 1,215,321

Lpath's rent expense totaled $339,000 and $300,000 for the years ended December 31, 2012 and 2011, respectively. Lpath's sublease income amounted to $12,000 and $13,000 for the years ended December 31, 2012 and 2011, respectively.

Note 10—RELATED-PARTY TRANSACTIONS

Lpath subleases a portion of its facility to Western States Investment Corporation ("WSIC"), owned by two individuals who are among Lpath's largest stockholders. The terms of the sublease, in general, are the same as the terms of the company's direct lease. In addition, certain Lpath employees provide investment oversight, accounting, and other administrative services to WSIC. Certain WSIC employees also provide services to Lpath. Lpath and WSIC reimburse each other for costs incurred on behalf of the other entity. Lpath's sublease income amounted to $12,000 and $13,000 for the years ended December 31, 2012 and 2011, respectively.

Lpath invoiced WSIC $34,600 and $86,400 for investment oversight expenses in 2012 and 2011, respectively. During 2012 and 2011, WSIC billed Lpath $83,400 and $53,800, respectively, for administrative expenses.

As of December 31, 2012, WSIC owed Lpath $2,900 for facility expenses and Lpath owed WSIC $13,700 for services provided to Lpath. As of December 31, 2011, WSIC owed Lpath $20,200 for facility expenses and investment oversight services and Lpath owed WSIC $13,600 for services provided to Lpath.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(1) Evaluation of Disclosure Controls and Procedures. Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Annual Report on Form 10-K, have concluded that, based on such evaluation, our disclosure controls and procedures were effective as of the end of such period.

(2) Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended) is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, 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.

Our management, under the supervision of our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

(3) Changes in Internal Control over Financial Reporting. During the quarter ended December 31, 2012, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(4) Inherent Limitations on Effectiveness of Controls. Our management, including our chief executive officer and our chief financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error 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. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, 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, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item relating to our directors and our corporate governance is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act for our 2013 annual meeting of stockholders. The information required by this item relating to our executive officers is included in Item 1, “Executive Officers of Lpath.”

Code of Ethics

We have adopted a written code of ethics that applies to our directors and all of our employees, including our executive officers. The full text of our Code of Ethics can be found on our website at www.Lpath.com. Any substantive amendment or waiver of the Code of Ethics may be made only by the board of directors upon a recommendation of the Audit Committee, and will be disclosed on our website within four business days following the date of the amendment or waiver as well as via any other means then required by applicable law.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our definitive proxy statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our definitive proxy statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 annual meeting of stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our definitive proxy statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 annual meeting of stockholders.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our definitive proxy statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2013 annual meeting of stockholders.

ITEM 15. EXHIBITS

(a) The following documents are filed as part of this report:

(1) The following financial statements of Lpath, Inc. are included in Item 8:

(2) All financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or other notes thereto.

(3) See the Exhibits under Item 15(b) below for all Exhibits being filed or incorporated by reference herein.

(b) Exhibits:

The following exhibit index shows those exhibits filed with this report and those incorporated herein by reference:

2.1 Agreement and Plan of Reorganization, by and between Neighborhood Connections, Inc., Neighborhood Connections Acquisition Corporation, and Lpath Therapeutics Inc. dated July 15, 2005 (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on December 6, 2005 and incorporated herein by reference).

2.2 Acquisition Agreement and Plan of Merger, dated as of March 19, 2004, between Neighborhood Connections, Inc. and JCG, Inc. (filed as Exhibit 2.1 to the Current Report on Form 8-K filed on March 22, 2004 and incorporated herein by reference).

3.1 Composite Articles of Incorporation (filed as Exhibit 3.1 to Form 8-A filed with the SEC on October 18, 2012 and incorporated herein by reference).

3.2 Amended and Restated Bylaws, as amended on April 3, 2007 (conformed) (filed as Exhibit 3.5 to the Registration Statement on Form SB-2, SEC File No. 144199 (the “June 2007 SB-2”) and incorporated herein by reference).

3.3	Amendment No. 1 to Amended and Restated Bylaws (filed as Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on October 26, 2012 and incorporated herein by reference).
4.1	Form of Warrant issued to purchasers of Convertible Secured Promissory Notes as amended by the Omnibus Amendment to Convertible Secured Promissory Notes and Warrants dated November 30, 2005 (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on December 6, 2005 and incorporated herein by reference).
4.2	Form of Warrant issued pursuant to the Common Stock and Warrant Purchase Agreement dated March 28, 2006 (filed as Exhibit 4.7 to the registration statement on Form SB-2 filed on March 30, 2006, SEC File No. 333-132850, and incorporated herein by reference).
4.3	Form of Warrant issued pursuant to the Securities Purchase Agreement dated April 6, 2007 (April 2007 Warrants) (filed as Exhibit 4.7 to the June 2007 SB-2 and incorporated herein by reference).
4.4	Form of Warrant issued pursuant to the Securities Purchase Agreement dated June 13, 2007 (June 2007 Warrants) (filed as Exhibit 4.8 to the June 2007 SB-2 and incorporated herein by reference).

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4.5	Form of Warrant issued pursuant to the Securities Purchase Agreement dated August 12, 2008 (August 2008 Warrants) (filed as Exhibit 4.10 to the registration statement on Form S-1 filed on September 11, 2008, SEC File No. 333-153423 and incorporated herein by reference).
4.6	Form of Warrant issued pursuant to the Securities Purchase Agreement, dated November 16, 2010, by and between Lpath, Inc. and each purchaser identified therein (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on November 18, 2010 and incorporated herein by reference).
4.7	Form of Common Stock Purchase Warrant for Investors in the Units. (filed as an exhibit to Form 8-K filed with the SEC on March 6, 2012 and incorporated herein by reference.)
4.8	Form of Common Stock Purchase Warrant for Placement Agents of the Units. (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 6, 2012 and incorporated herein by reference.)
4.9	Form of Warrant for Griffin Securities, Inc. (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 6, 2012 and incorporated herein by reference.)
10.1	Lease dated May 31, 2011 between Sorrento Science Park, LLC and Lpath, Inc. for 4025 Sorrento Valley Blvd. San Diego, California 92121 (filed as an exhibit to the Current Report on the Current Report on Form 8-K filed with the SEC on June 3, 2011 and incorporated herein by reference).
10.2	Research Agreement dated January 28, 2004 between Medlyte, Inc. and San Diego State University, together with Amendments No. 1 and No. 2 (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on December 6, 2005 and incorporated herein by reference).
10.3	Assignment Agreement dated June 9, 2005 between Lpath Therapeutics Inc. and LPL Technologies, Inc. (filed as an exhibit to the Current Report on the Current Report on Form 8-K filed with the SEC on December 6, 2005 and incorporated herein by reference).
10.4	Research Collaboration Agreement dated August 2, 2005 between Lpath Therapeutics Inc. and AERES Biomedical Limited (filed as Exhibit 10.4 to the Current Report on Form 8-K/A filed on January 9, 2006 and incorporated herein by reference) (portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.5	Lpath, Inc. Amended and Restated 2005 Equity Incentive Plan (filed as Appendix A to the company's Schedule 14-A Proxy Statement filed on August 28, 2007 and incorporated herein by reference).+
10.6	Assignment and Assumption Agreement dated December 1, 2005 by and between Lpath, Inc. and Lpath Therapeutics, Inc. (filed as an exhibit to the Annual Report on Form 10-KSB for the year ended December 31, 2005 filed with the SEC on March 16, 2006 and incorporated herein by reference).
10.7	Form of Employment Agreement between Lpath, Inc. and Scott R. Pancoast dated as of January 1, 2006 (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 29, 2006 and incorporated herein by reference).+
10.8	Form of Employment Agreement between Lpath, Inc. and Gary Atkinson dated as of February 6, 2006 (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 29, 2006 and incorporated herein by reference).+
10.9	Form of Consultant Agreement between Lpath, Inc. and Roger Sabbadini, Ph.D. dated as of June 1, 2012 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on June 5, 2012 and incorporated herein by reference).+
10.10	Development and Manufacturing Services Agreement dated August 16, 2006 between Lpath Inc. and Laureate Pharma, Inc. (filed as Exhibit 10.13 to the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2006 filed on November 13, 2006 and incorporated herein by reference) (portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.11	Securities Purchase Agreement, dated as of April 6, 2007, by and among Lpath, Inc. and each investor identified therein (filed as Exhibit 10.14 to the June 2007 SB-2 and incorporated herein by reference).

10.12	Registration Rights Agreement, dated as of April 6, 2007, by and among Lpath, Inc. and each investor identified therein (filed as Exhibit 10.15 to the June 2007 SB-2 and incorporated herein by reference).

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10.13	License Agreement dated August 8, 2006 between Lonza Biologics PLC and Lpath, Inc. (filed as an exhibit to the Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2007 filed with the SEC on November 13, 2007 and incorporated herein by reference)(portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.14	Securities Purchase Agreement, dated August 12, 2008, by and among Lpath, Inc. and each of the investors identified therein (filed as Exhibit 10.17 to the registration statement on Form S-1 filed with the SEC on September 11, 2008 and incorporated herein by reference).
10.15	Registration Rights Agreement, dated August 12, 2008, by and among Lpath, Inc. and each of the investors identified therein (filed as Exhibit 10.18 to the registration statement on Form S-1 filed with the SEC on September 11, 2008 and incorporated herein by reference).
10.16	License Agreement, dated as of October 28, 2008, by and between Lpath, Inc. and Merck KgaA (filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 25, 2009 and incorporated herein by reference) (portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.17	Securities Purchase Agreement, dated November 16, 2010, by and between Lpath, Inc. and each purchaser identified therein (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on November 18, 2010 and incorporated herein by reference).
10.18	Registration Rights Agreement, dated November 16, 2010, by and between Lpath, Inc. and each purchaser identified therein (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on November 18, 2010 and incorporated herein by reference).
10.19	Option, License and Development Agreement, dated as of December 16, 2010, by and between Lpath, Inc. and Pfizer Inc. (filed as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 23, 2011 and incorporated herein by reference) (portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.20	Form of Placement Agent Agreement. (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 6, 2012 and incorporated herein by reference.)
10.21	Form of Subscription Agreement for U.S. investors. (filed as an exhibit to the Current Report on Form 8-K filed with the SEC on March 6, 2012 and incorporated herein by reference.)
10.22	Financial Advisor Agreement, dated as of December 30, 2011 by and between Lpath, Inc. and Griffin Securities, Inc. (filed as an exhibit to the registration statement on Form S-1/A filed with the SEC on February 10, 2012 and incorporated herein by reference.)
10.23	Form of Indemnification Agreement for directors and officers. ((filed as an exhibit to Form 8-K filed with the SEC on October 26, 2012 and incorporated herein by reference.)
10.24†	Amendment to Option, License and Development Agreement, dated December 5, 2012, by and between Lpath, Inc. and Pfizer Inc.
21.1	List of Subsidiaries of Registrant (filed as an exhibit to the Annual Report on Form 10-KSB for the year ended December 31, 2005 filed with the SEC on March 16, 2006 and incorporated herein by reference).
23.1	Consent of Moss Adams LLP.
31.1	Section 302 Certification by Chief Executive Officer of Lpath, Inc.
31.2	Section 302 Certification by Chief Financial Officer of Lpath, Inc.
32.1	Section 906 Certification by Chief Executive Officer and Chief Financial Officer of Lpath, Inc.
101.INS# XBRL	Instance Document
101.SCH# XBRL	Taxonomy Extension Schema Document
101.CAL# XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF# XBRL	Taxonomy Extension Definition Linkbase Document
101.LAB# XBRL	Taxonomy Extension Label Linkbase Document
101.PRE# XBRL	Taxonomy Extension Presentation Linkbase Document

+ Management contract or compensation plan or arrangement

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† Confidential Treatment Requested

In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 shall be deemed “furnished” and not “filed.”

(c) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or other notes hereto.

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SIGNATURES

In accordance with the requirements of Section 13 on 15(k) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf on March 15, 2013 by the undersigned thereto.

LPATH, INC.

/s/ SCOTT R. PANCOAST
Scott R. Pancoast,
President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Scott R. Pancoast and Gary J. G. Atkinson, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes may do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2013.

Signature	Title	Date
/s/ SCOTT R. PANCOAST Scott R. Pancoast	President, Chief Executive Officer, and Director (Principal Executive Officer)	March 15, 2013
/s/ GARY J. G. ATKINSON Gary J. G. Atkinson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2013
/s/ CHARLES A. MATHEWS Charles A. Mathews	Director	March 15, 2013
/s/ DONALD R. SWORTWOOD Donald R. Swortwood	Director	March 15, 2013
/s/ DANIEL L. KISNER, M.D. Daniel L. Kisner, M.D.	Director	March 15, 2013
/s/ JEFFREY FERRELL Jeffrey Ferrell	Director	March 15, 2013
/s/ DANIEL PETREE Daniel Petree	Director	March 15, 2013

CERTAIN MATERIAL (INDICATED BY AN ASTERISK) HAS BEEN OMITTED FROM THIS DOCUMENT PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Amendment No. 1 to the Option, License and Development Agreement by and between Pfizer Inc. and Lpath, Inc. dated December 16, 2010 ("Amendment No. 1")

Amendment No. 1 Date:	November 12, 2012
Name of Original Agreement:	Option, License and Development Agreement by and between Pfizer Inc. and Lpath, Inc. (the "Original Agreement," and together with the side letter dated December 16, 2010, Re: Section 10.1(d) of Option, License and Development Agreement between Pfizer and Lpath, the "Agreement")
Effective Date of Original Agreement:	December 16, 2010 ("Effective Date")
Parties:	Pfizer Inc. ("Pfizer") and Lpath, Inc. ("Lpath")
Dates of Previous Amendment(s):	None

WHEREAS, the parties hereto desire to amend, among other things, certain terms of the Agreement including Section 4.1(h)(i), Article 5, Section 6.1(a), and Schedule 1.11.

NOW, THEREFORE, in order to accommodate the desired amendment(s), the parties hereby agree as follows:

1. Defined Terms. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Agreement.

2. Amendments to the Agreement.

2.1. The fourth sentence of Section 5.2 is hereby amended to read in its entirety as follows (with the remainder of Section 5.2 unchanged):

Pfizer shall be responsible for any Shared Costs in ***

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment filed separately with the Commission.

2.2. Row 2 of the table in Section 6.1(a) of the Agreement ("License Effective Date (after exercise of Pfizer's Option)") is revised to read as follows:

License Effective Date (after exercise of Pfizer's Option)	***

2.3. Section 1.46 of the Agreement is hereby amended to read in its entirety as follows:

"Option Trigger Date" means the date of delivery to Pfizer of interim unmasked safety and efficacy reports (including relevant data regarding, and such analysis as Lpath has conducted regarding, all primary and key secondary endpoints for all patients through sixty (60) days post final dose) relating to the Phase IIa study of Sonepcizumab in wet age-related macular degeneration that is planned as of the Execution Date and that is referred to by Lpath as the NEXUS Study (the "Phase IIa Study"), such reports to contain the information described in Schedule 1.46.

2.4. Section 1.53 of the Agreement is hereby amended to read in its entirety as follows:

"Phase Ib Study" means the Phase Ib study of Sonepcizumab in pigment epithelial detachment referred to by Lpath as the PEDigree Study.

2.5. The following new Sections 1.76 and 1.77 are hereby added to the Agreement:

1.76 "Amendment Effective Date" means November 12, 2012.

1.77 "Restart Costs"***.

2.6. The following is added to the end of the first paragraph of Section 5.2 ("Development Activities"):

"Effective September 30, 2012, Lpath shall provide to Pfizer a monthly estimate of Shared Costs in a format that Lpath has used to update Pfizer prior to the Amendment Effective Date; such format shows, by line item, the original estimated cost, the most recent revised estimated cost, the actual incurred costs to date and the estimated remaining costs to project completion, and the resultant total estimated project cost. To the extent that the current month's

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment filed separately with the Commission.

total estimated project cost has increased by more than *** from the prior estimated project cost, Lpath shall provide to Pfizer a reasonably detailed explanation of the increase."

2.7. The following new Section 5.9 is added to the Agreement:

5.9 Quality Assurance. The Parties agree that the following provisions of this Section 5.9 shall apply from and after the Amendment Effective Date.

(a) Resolution of Quality Issues. During the Option Period, Lpath shall promptly report to Pfizer any matters or circumstances which reasonably might materially affect the quality of Licensed Products or the manufacture, testing, storage, packaging or distribution of Licensed Products. Quality-related disagreements between Lpath and Pfizer that are not resolved in the normal course of business shall be brought to the attention of the appropriate contact person for notices (Section 15.8) and for quality assurance (Schedule 5.9(a)) at Lpath and Pfizer, in writing. Both Parties shall use all reasonable efforts to agree to a resolution of the disagreement and agree to work jointly to develop a strategy for such resolution. Lpath and Pfizer further agree to record such resolution in writing. If resolution of a quality related disagreement cannot be reached using the process described immediately above, then the procedures in Section 4.1(d) shall be applied to resolve such disagreement.

(b) Information-Sharing and Coordination. Without limiting Sections 5.9(a) and (c), the Parties agree as follows:

(1) With respect to activities under the Development Program, Lpath shall: (i) h ave management controls in place to track and trend investigations and corrective or preventative action commitments; (ii) maintain a quality function independent of supply chain production to manage and oversee quality assurance and quality control matters; responsibilities; (iii) involve the quality function in all GMP-related matters; (iv) notify Pfizer within thirty (30) calendar days after being made aware of any changes regarding manufacture of the Licensed Product not subject to GMP change control including but not limited to changes in Lpath's quality assurance contacts under Section 3.9(a) or a company name change due to a merger/acquisition; and (v) establish and maintain an external GMP audit program.

(2) With respect to the manufacture of Licensed Product in connection with the Development Program, Lpath shall permit Pfizer to do the following: (i) with respect to activities (if any) conducted at Lpath's facilities or records generated by Lpath, and (ii) with respect to activities conducted at Third Party facilities or records generated by Third Parties, to the extent Lpath has the

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right to permit Pfizer to do so under the applicable Existing Third-Party Supplier Agreement or New Third-Party Suppler Agreement: (A) have a QA representative of Pfizer present during any stage of Licensed Product manufacture (Person in the Plant); (B) audit Third Party contractors engaged in such activities at reasonable times, including "for cause" rights as necessary; and (C) review product-specific documents to confirm adherence to appropriate manufacturing processes, applicable current Good Manufacturing Processes and other requirements. The Parties agree to consult in advance and reasonably cooperate with respect to addressing and remediating any deficiencies identified as a result of the foregoing.

(3) Without limiting Section 5.4, the Parties agree to confer and reasonably coordinate activities of the Parties, and (subject to the terms of the applicable Existing Third-Party Supplier Agreements and New Third-Party Supplier Agreements) activities of Third Party Suppliers, with respect to readiness for Pre-Approval Inspections and all announced and unannounced regulatory agency inspections related to the manufacture of Licensed Product in connection with the Development Program.

(4) Without limiting Section 5.4, Lpath agrees as follows with respect to the manufacture of Licensed Product that is (i) manufactured for, or used in, activities under the Development Plan or (ii) manufactured by any Third Party Supplier that manufactured Licensed Product for, or conducted activities under, the Development Plan:

(i) notify Pfizer within five (5) business days of receiving a written notification of failures to comply with Good Manufacturing Practices after a general site inspection (i.e. an inspection not directly related to the Licensed Product) of a Third Party Supplier from any regulatory agency;

(ii) notify Pfizer within two (2) business days of being notified of any pending or ongoing regulatory authority inspection or communication related to the Licensed Product or the facilities used to produce, test or warehouse the Licensed Product (and, in the event that the inspection is specific only to the Licensed Product, Lpath shall use reasonable efforts to obtain the right for a representative of Pfizer to be present at a Third Party Supplier's site(s) during any such inspection, and if a Pfizer representative is not permitted on site for the inspection, then daily updates will be communicated to Pfizer summarizing the inspector's observations to the extent such information is available to Lpath);

(iii) to the extent available to Lpath, p rovide a list or copies of all documents directly related to the Licensed Product that have been shared with a regulatory agency during any such inspection;

(iv) provide to Pfizer copies of Lpath's correspondence with regulatory agencies related to Licensed Products (except to the extent such correspondence relates solely to trials or indications outside the Field and does not relate to manufacturing issues that could reasonably be anticipated to impact the Licensed Product in the Field);

(v) without limiting the foregoing clause (iv) and except as otherwise provided with respect to certain documentation pursuant to clause (i) above, provide copies to Pfizer within two (2) business days of correspondence received from regulatory authorities (Boards of Health, Health Authority, etc.) related to the Licensed Product and operations performed by Lpath in connection with the Development Plan (except to the extent such correspondence relates solely to trials or indications outside the Field and does not relate to manufacturing issues that could reasonably be anticipated to impact the Licensed Product in the Field);

(vi) notify Pfizer by telephone, followed by written communication, within one (1) business day of the receipt of a Regulatory Authority inspection report, deficiency letter or regulatory compliance observation, which contains any significant adverse findings that relate to the Licensed Product or the facilities used to produce, test or warehouse Licensed Product manufactured for or used in the Development Plan (significant

adverse findings include, but are not limited to, conditions, practices, or processes that adversely affect or may potentially adversely affect the Licensed Product quality and/or the rights, safety or well being of subjects/patients and/or the quality and integrity of data, documentation, or other materials or information addressed in the inspection);

(vii) provide to Pfizer a copy of any regulatory inspection report, deficiency letter, or regulatory compliance observations, response and related correspondence related to the Licensed Product and activities in the Development Plan (except to the extent such correspondence relates solely to trials or indications outside the Field and does not relate to manufacturing issues that could reasonably be anticipated to impact the Licensed Product in the Field), edited to exclude Lpath proprietary information within three (3) business days of receipt, which materials Pfizer shall review, respond to and comment on within three (3) business days;

(viii) provide Pfizer with advance written notification of any new or supplemental regulatory submission/application that impacts the operations performed by Lpath with respect to the Licensed Product (except to the extent related solely to trials or indications outside the Field and not related to manufacturing issues that could reasonably be anticipated to impact the Licensed Product in the Field);

(ix) notify Pfizer within two (2) business days of receiving notification of any significant shutdowns of any Third Party Supplier facilities used in connection with the Licensed Product manufactured for or used in the Development Plan, including stability storage excursions that are due to internal quality issues that may impact the Licensed Product;

(x) notify Pfizer as soon as reasonable, but no later than two (2) business days after any emergency, of unplanned changes that directly impact a Licensed Product, and in the case of emergency changes impacting Licensed Product manufactured for or used in the Development Plan, Lpath and Pfizer shall cooperate to expedite the review of the impact of the change;

(xi) notify Pfizer within three (3) business days of Lpath's first knowledge of any significant deviation with respect to the Licensed Product (significant deviations include, but are not limited to, those that have the potential to affect the quality, identity, purity and/or strength of the Licensed Product; those that impact the GMP, validation/qualification or regulatory status, any OOS test result that cannot be invalidated in three (3) business days or any deviation resulting in the Licensed Product being outside of filed registration limits); and

(xii) notify Pfizer within one (1) business day of Lpath's first knowledge of all confirmed Out-of-Specification results generated during stability testing of Licensed Product manufactured for or used in the Development Plan .

(5) In the event Lpath is informed of or becomes aware of any serious adverse experience related to the use of the Licensed Product, Lpath agrees to notify Pfizer (within 24 hours after Lpath is so informed or becomes aware of such such serious adverse experience, and immediately in the case of death or life-threatening adverse event) and to provide Pfizer with all pertinent information available to Lpath regarding such serious adverse experience to facilitate review of the serious adverse event, evaluation of the Licensed Product and/or discussions regarding appropriate action or response.

(c) Use of Third Party Supplier. Except pursuant to agreements with Third Parties entered into prior to the Amendment Effective Date pursuant to which such Third Parties conduct activities under the Development Plan ("Existing Third-Party Supplier Agreements"), Lpath agrees that Lpath shall not delegate any of its activities under the Development Plan to any Third Party not listed in Schedule 5.9(c) (a "Third Party Supplier"), unless Lpath first consults with and seeks approval of the applicable Third Party Supplier from Pfizer, which approval of a proposed Third Party Supplier shall not be unreasonably withheld, and the Parties agree that Pfizer shall be deemed to have approved if Pfizer does not disapprove within three (3) business days after written notice from Lpath of a proposed Third Party Supplier. In the event that Lpath enters

into an agreement after the Amendment Effective Date delegating activities of Lpath to a Third Party Supplier in connection with the manufacture or supply of Licensed Product for activities in the Development Plan (a "New Third-Party Supplier Agreement"), Pfizer may require that Lpath enter into a written quality agreement with the Third Party Supplier containing customary terms reasonably acceptable to Pfizer, allocating the respective quality responsibilities as between Lpath and the Third Party Supplier. The Parties acknowledge and agree that such allocation is not intended to alter the respective rights or liabilities of Lpath and Pfizer under this Agreement, and agree that Lpath shall not be required to provide for Pfizer to be a third party beneficiary with respect to the quality responsibilities set forth in any such New Third-Party Supplier Agreement or associated quality agreement. To the extent, if any, that Pfizer's confidential information would be disclosed by Lpath to a Third Party Supplier under such a New Third-Party Supplier Agreement, such New Third-Party Supplier Agreement shall provide for confidentiality and non-disclosure of all Pfizer confidential information so disclosed to the Third Party Supplier under terms requiring at least the same degree of protection for Pfizer's confidential information as the obligations of confidentiality and non-disclosure that such agreement provides for the confidential information of Lpath. Lpath will use commercially reasonable efforts to obtain a contractual right in each New Third-Party Supplier Agreement for Pfizer to access each Third Party Supplier's site(s) in order to carry out audits and other assessments with respect to activities conducted in connection with the Development Plan by the applicable Third Party Supplier, to the same extent that Lpath obtains such rights for itself. At Pfizer's request, a representative appointed by Lpath shall participate in such contractor site visits.

2.8. A new Schedule 5.9(a) ("Quality Contact Names") is added to the Agreement and is attached hereto as Annex 2.

2.9. A new Schedule 5.9(c) ("Authorized Contractors") is added to the Agreement and is attached hereto as Annex 4.

2.10. The following new Section 5.10 is added to the Agreement:

5.10 Discontinuation of the Phase Ib Study.

(a) As of the Amendment Effect Date, the Parties have agreed to discontinue efforts to conduct the Phase Ib Study under the Development Plan. Activities to wind down the Phase Ib Study will be conducted under the Development Plan, and costs therefor incurred under the Development Plan taken into account as Shared Costs. During the Option Period, Lpath may, but shall not be obligated to, resume the Phase Ib Study or conduct a similar study outside of the Development Plan at Lpath's expense (except with respect to costs for wind-down activities conducted under the Development Plan, which shall be Shared Expenses).

For the avoidance of doubt, the Parties' agreement to discontinue efforts to conduct the Phase Ib Study under the Development Plan shall not be construed (i) to restrict or prohibit Lpath from resuming the Phase Ib study or conducting a similar study following expiration or termination of the Agreement, including in the event that the Option Period expires without Pfizer exercising the Option set forth in Section 3.1, or (ii) to restrict or prohibit Pfizer from conducting a similar study in the course of exercising its License in the event that Pfizer exercises the Option set forth in Section 3.1 prior to expiration of the Option Period.

(b) The Parties have agreed to amend Schedule 1.11 — PART A, Schedule 1.11 — PART D, and Schedule 1.11 — PART E, effective as of the Amendment Effective Date, to remove the portions thereof directed to the Phase Ib Study. Notwithstanding such amendments to Schedule 1.11 to remove references to the Phase Ib Study, the Parties acknowledge and agree that Shared Costs for purposes of this Agreement include (i) reasonable costs incurred in winding down the Phase Ib Study after the Amendment Effective Date, including applicable non-cancellable costs (if any) under the terms of agreements with Third Parties entered into prior to the Amendment Effective Date with respect to the Phase Ib Study, and (ii) Shared Costs, determined in accordance with the terms of this Agreement in effect prior to the Amendment Effective Date, with respect to activities conducted or costs incurred for Phase Ib Study activities prior to the Amendment Effective Date.

2.11. An amended and restated Schedule 1.11 — PART A ("INITIAL DEVELOPMENT PLAN") to the Agreement is attached hereto as Annex 1, replacing the original Schedule 1.11 — PART A.

2.12. Lines 2-24 of SCHEDULE 1.11 — PART D are hereby deleted from the Agreement.

2.13. An amended Schedule 1.11 — Part E to the Agreement is attached hereto as Annex 5..

2.14. The following new sentence is added to the end of Section 4.1(h)(i):

Furthermore, copies of the following documents or records will be supplied to Pfizer upon request:

Batch Records,
Investigations,
Deviations,
Analytical Method Validations,
Stability Data and Reports,
Certificates of Analysis, and

Analytical Records.

3. Ratification of the Agreement. Except as expressly set forth in Article 2 of this Amendment No. 1, the Agreement shall remain unmodified and in full force and effect. The execution, delivery and effectiveness of this Amendment No. 2 shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the parties to the Agreement, nor constitute a waiver of any provision of the Agreement.

4. Counterparts. This Amendment No. 1 may be executed in any number of counterparts, each of which shall be an original instrument and all of which, when taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the duly authorized representatives of Pfizer and Lpath have executed this Amendment No. 1 as of the date first above written.

Lpath, Inc.	**Pfizer Inc.**
By: /s/ Scott R. Pancoast	By: /s/ Robert J. Smith
Print Name: Scott R. Pancoast	Print Name: Robert J. Smith
Title: CEO and President (Duly authorized)	Title: Senior Vice President (Duly authorized)

ANNEX 1

SCHEDULE 1.11 — PART A

INITIAL DEVELOPMENT PLAN

Abbreviated iSONEP Clinical Development Plan

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment filed separately with the Commission.

ANNEX 2

SCHEDULE 5.9(A)

QUALITY CONTACT NAMES

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ANNEX 4

SCHEDULE 5.9(c)

AUTHORIZED CONTRACTORS

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment filed separately with the Commission.

ANNEX 5

SCHEDULE 1.11 — PART E

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*** Portions of this page have been omitted pursuant to a request for Confidential Treatment filed separately with the Commission.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements Nos. 333-149827 and 333-137318 on Form S-8 and Registration Statement No. 333-184741 on Form S-3 of our report dated March 15, 2013, relating to the consolidated financial statements appearing in this Annual Report on Form 10-K of Lpath, Inc. for the year ended December 31, 2012.

/s/ Moss Adams LLP
San Diego, California
March 15, 2013

Exhibit 31.1

I, Scott R. Pancoast, Chief Executive Officer of Lpath, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Lpath, 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 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: March 15, 2013

By: /s/ SCOTT R. PANCOAST

Scott R. Pancoast
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Gary J.G. Atkinson, Chief Financial Officer of Lpath, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Lpath, 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 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: March 15, 2013

By: /s/ GARY J.G. ATKINSON

Gary J.G. Atkinson

Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32.1

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Scott Pancoast, Chief Executive Officer of Lpath, Inc. (the "Company") and Gary J.G. Atkinson, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

(1) The Company's Annual Report on Form 10-K for the period ended December 31, 2012, to which this Certification is attached as Exhibit 32.1 (the "Annual Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2013

/s/ SCOTT R. PANCOAST	/s/ GARY J.G. ATKINSON
Scott R. Pancoast, *CEO*	Gary J.G. Atkinson, *CFO*

A signed original of this written statement required by Section 906 has been provided to Lpath, Inc. and will be retained by Lpath, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of Lpath, 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 the Form 10-K), irrespective of any general incorporation language contained in such filing.