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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from ________to ________

Commission File Number: 001-36304

Phio Pharmaceuticals Corp.
(Exact name of registrant as specified in its charter)

Delaware **(State of incorporation)**	**45-3215903** **(I.R.S. Employer Identification No.)**

257 Simarano Drive, Suite 101, Marlborough, MA 01752
(Address of principal executive office) (Zip code)

Registrant's telephone number: (508) 767-3861

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value, $0.0001 per share	PHIO	The Nasdaq Capital Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

As of May 6, 2021, Phio Pharmaceuticals Corp. had 13,534,389 shares of common stock, $0.0001 par value, outstanding.

PHIO PHARMACEUTICALS CORP.
FORM 10-Q — QUARTER ENDED MARCH 31, 2021

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PHIO PHARMACEUTICALS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash	$ 32,695	$ 14,244
Restricted cash	50	50
Prepaid expenses and other current assets	577	870
Total current assets	33,322	15,164
Right of use asset, net	371	400
Property and equipment, net	145	157
Other assets	18	18
Total assets	$ 33,856	$ 15,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 615	$ 728
Accrued expenses and other current liabilities	1,458	1,352
Lease liability	118	116
Total current liabilities	2,191	2,196
Lease liability, net of current portion	265	295
Long-term debt	–	231
Total liabilities	2,456	2,722
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized	–	–
Common stock, $0.0001 par value, 100,000,000 shares authorized; 13,534,389 and 5,780,973 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	1	1
Additional paid-in capital	138,419	116,629
Accumulated deficit	(107,020)	(103,613)
Total stockholders' equity	31,400	13,017
Total liabilities and stockholders' equity	$ 33,856	$ 15,739

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

PHIO PHARMACEUTICALS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
Operating expenses:		
Research and development	$ 2,621	$ 1,218
General and administrative	1,017	1,138
Total operating expenses	3,638	2,356
Operating loss	(3,638)	(2,356)
Other income (expense)		
Gain on extinguishment of debt	233	–
Interest (expense) income, net	(2)	5
Total other income	231	5
Net loss	$ (3,407)	$ (2,351)
Net loss per common share:		
Basic and diluted	$ (0.32)	$ (1.33)
Weighted average number of common shares outstanding		
Basic and diluted	10,680,395	1,772,970

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

PHIO PHARMACEUTICALS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands, except share data)
(Unaudited)

For the Three Months Ended March 31, 2021

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2020	5,780,973	$ 1	$ 116,629	$ (103,613)	$ 13,017
Issuance of common stock, pre-funded warrants and warrants in connection with private placement, net of offering costs of $1,333	4,420,863	–	12,669	–	12,669
Issuance of common stock in registered direct offering, net of offering costs of $776	2,246,784	–	6,908	–	6,908
Issuance of common stock upon the exercise of warrants	1,083,321	–	2,146	–	2,146
Issuance of common stock upon vesting of restricted stock units	2,448	–	–	–	–
Stock-based compensation expense	–	–	67	–	67
Net loss	–	–	–	(3,407)	(3,407)
Balance at March 31, 2021	13,534,389	$ 1	$ 138,419	$ (107,020)	$ 31,400

For the Three Months Ended March 31, 2020

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2019	669,433	$ 1	$ 100,566	$ (94,819)	$ 5,748
Issuance of common stock under employee stock purchase plan	153	–	1	–	1
Cash in lieu of fractional shares for 1:55 reverse stock split	(1,364)	–	(15)	–	(15)
Issuance of common stock and warrants in connection with registered direct and private placement offerings, net of offering costs of $273	197,056	–	1,467	–	1,467
Issuance of common stock, pre-funded warrants and warrants in connection with underwritten public offering, net of offering costs of $906	993,633	–	7,093	–	7,093
Issuance of common stock upon the exercise of warrants	1,006,367	–	1	–	1
Issuance of common stock upon vesting of restricted stock units	2,573	–	(2)	–	(2)
Stock-based compensation expense	–	–	43	–	43
Net loss	–	–	–	(2,351)	(2,351)
Balance at March 31, 2020	2,867,851	$ 1	$ 109,154	$ (97,170)	$ 11,985

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

PHIO PHARMACEUTICALS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (3,407)	$ (2,351)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18	18
Non-cash lease expense	29	27
Non-cash stock-based compensation	67	43
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	293	49
Accounts payable	(113)	(124)
Accrued expenses and other liabilities	108	188
Lease liability	(28)	(26)
Net cash used in operating activities	(3,033)	(2,176)
Cash flows from investing activities:		
Cash paid for purchase of property and equipment	(6)	(10)
Net cash used in investing activities	(6)	(10)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock and warrants	19,577	8,561
Net proceeds from the exercise of warrants	2,146	1
Forgiveness of debt	(233)	–
Cash paid in lieu of fractional shares for 1:55 reverse stock split	–	(15)
Payments of taxes for net share settled restricted stock unit issuances	–	(2)
Payments of capital lease obligations less than one year	–	(9)
Net cash provided by financing activities	21,490	8,536
Net increase in cash and restricted cash	18,451	6,350
Cash and restricted cash at the beginning of period	14,294	6,984
Cash and restricted cash at the end of period	$ 32,745	$ 13,334
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of property and equipment included in accrued expenses and other current liabilities	$ –	$ 18

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

PHIO PHARMACEUTICALS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations

Phio Pharmaceuticals Corp. ("**Phio**," "**we**," "**our**" or the "**Company**") is a biotechnology company developing the next generation of immuno-oncology therapeutics based on its self-delivering RNAi ("**INTASYL™**") therapeutic platform. The Company's efforts are focused on silencing tumor-induced suppression of the immune system through its proprietary INTASYL platform with utility in immune cells and the tumor micro-environment. The Company's goal is to develop powerful INTASYL therapeutic compounds that can weaponize immune effector cells to overcome tumor immune escape, thereby potentially providing patients with a powerful new treatment option that goes beyond current treatment modalities.

In December 2019, a novel strain of coronavirus that causes COVID-19 was reported to have surfaced in Wuhan, China and has since spread to other parts of the world, including the United States. In March 2020, the World Health Organization (the "**WHO**") declared the outbreak a pandemic. Our operations have continued with limited impact and are operating in accordance with federal, state, the WHO and the Center for Disease Control's guidelines, including the implementation of safety measures such as working remotely, staggered scheduling and cleaning protocols. While the measures to contain and prevent the spread of coronavirus may be modified or extended, we expect that our activities, including our internal research and development functions, will continue to remain largely operational.

As a result of the coronavirus pandemic, certain of our third-party suppliers and service providers on which we rely have seen impacts to their operations and if the impact to their operations continue or extend, it may in turn affect our operations. The Company has undertaken efforts to mitigate potential future impact by identifying and engaging alternative third-party service providers and suppliers, and because of that, to date the Company has not seen a material impact to its program's anticipated timelines resulting from delays from our third-party service providers. For example, by engaging different contract manufacturers, the Company believes that it has a sufficient supply of its INTASYL compounds to conduct its ongoing preclinical studies and initial clinical activities. However, the ultimate impact to these third parties on which we rely is highly uncertain and subject to change. Without a swift and sustained improvement of the impacts experienced by the Company's third-party suppliers and service providers, the effect of our mitigation efforts will diminish and may result in material impacts to our operations. If the global measures to contain the pandemic are insufficient, it could reduce or delay the availability of supplies and services that we purchase and rely, which may in turn slow or delay our preclinical and clinical activities, and/or result in higher costs.

We believe that the coronavirus pandemic has not had a significant impact on our financial condition thus far, however a variety of factors such as those described above, including current and future restrictions and the length of the pandemic, may further impact our operations and may slow or diminish our research and development activities, which in turn may impact our financial condition. The extent to which the coronavirus pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted.

2. Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("**GAAP**"). Certain information and footnote disclosures included in the Company's annual financial statements have been condensed or omitted. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Interim results are not necessarily indicative of results for a full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Phio and its wholly-owned subsidiary, MirImmune, LLC. All material intercompany accounts have been eliminated in consolidation.

Uses of Estimates in Preparation of Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The areas subject to significant estimates and judgement include, among others, those related to the fair value of equity awards, accruals for research and development expenses, useful lives of property and equipment, income taxes, and our valuation allowance on our deferred tax assets. On an ongoing basis we evaluate our estimates and base our estimates on historical experience and other relevant assumptions that we believe are reasonable under the circumstances, including as a result of new information that may emerge concerning the coronavirus pandemic. We have made estimates of the impact of the coronavirus pandemic within our financial statements and there may be changes to those estimates in future periods. Actual results could differ materially from these estimates.

Restricted Cash

Restricted cash consists of certificates of deposit held by financial institutions as collateral for the Company's corporate credit cards.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for restricted cash, accounts payable and accrued expenses approximate their fair values due to their short-term nature.

Leases

At the inception of a contract, the Company determines whether the contract is or contains a lease based on all relevant facts and circumstances. For contracts that contain a lease, the Company identifies the lease and non-lease components, determines the consideration in the contract and recognizes the classification of the lease as operating or financing. For leases with a term greater than one year, the Company recognizes a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term at the commencement date of the lease.

Lease liabilities and the corresponding right of use assets are recorded based on the present value of lease payments to be made over the lease term. The discount rate used to calculate the present value is the rate implicit in the lease, or if not readily determinable, the Company's incremental borrowing rate. The Company's incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right of use asset may be required for items such as initial direct costs or incentives received. Lease payments on operating leases are recognized on a straight-line basis over the expected term of the lease. Lease payments on financing leases are recognized using the effective interest method.

Debt

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief, and Economic Security Act (the "**CARES Act**") in response to the coronavirus pandemic. The CARES Act is an emergency economic stimulus package passed in response to the coronavirus outbreak that includes, but is not limited to, provisions providing aid to small businesses in the form of loans and grants and numerous tax provisions such as certain payroll tax benefits, changes to the net operating loss rules, and the business interest expense deduction rules. On May 11, 2020, the Company received loan proceeds pursuant to the Paycheck Protection Program (the "**PPP**") offered under the CARES Act. Outside of the PPP, the Company has not utilized the other loan programs and tax provisions, such as certain payroll tax benefits.

The Company followed the guidance under the Financial Accounting Standards Board (the "**FASB**") Accounting Standards Codification ("**ASC**") Topic 470, "*Debt*" ("**ASC 470**") in assessing the accounting for the PPP loan proceeds. Per ASC 470, the Company recorded a liability on the balance sheet for the full amount of PPP loan proceeds received and accrued interest over the term of the loan. Upon loan forgiveness, the Company recognized the extinguishment of the liability in the condensed consolidated statement of operations as a gain on extinguishment of debt.

Derivative Financial Instruments

Financial instruments that meet the definition of a derivative are classified as an asset or liability and measured at fair value on the issuance date and are revalued on each subsequent balance sheet date. The changes in fair value are recognized as current period income or loss. Financial instruments that do not meet the definition of a derivative are classified as equity and measured at fair value and recorded as additional paid-in capital in stockholders' equity at the date of issuance. No further adjustments to their valuation are made.

Research and Development Expenses

Research and development expenses relate to compensation and benefits for research and development personnel, facility-related expenses, supplies, external services, costs to acquire technology licenses, expenses associated with preclinical and clinical development activities and other operating costs. Research and development expenses are charged to expense as incurred. Payments made by the Company in advance for research and development services not yet provided and/or for materials not yet received are recorded as prepaid expenses and expensed when the service has been performed or when the goods have been received.

Accrued liabilities are recorded related to those expenses for which vendors have not yet billed the Company with respect to services provided and/or materials that it has received. Accrued liabilities for the services provided by contract research organizations ("**CROs**") are recorded during the period incurred based on such estimates and assumptions as expected cost, passage of time, the achievement of milestones and other information available to us and are assessed on a quarterly basis. Actual results may differ from these estimates and could have a material impact on the Company's reported results. The Company's historical accrual estimates have not been materially different from its actual costs.

Stock-based Compensation

The Company follows the provisions of the FASB ASC Topic 718, "*Compensation — Stock Compensation*" ("**ASC 718**"), which requires the measurement and recognition of compensation expense for all stock-based payment awards. The fair value of restricted stock units is based upon the Company's closing stock price at the grant date. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options at the grant date. The Black-Scholes valuation model requires the input of valuation assumptions to calculate the value of stock options, including expected volatility, expected term, risk-free interest rate and expected dividends. Stock-based compensation expense is recognized over the requisite service period, which generally represents the vesting period, and commences at the date of grant based on the fair value of the award.

Stock-based compensation expense recognized in the financial statements is based on awards that are ultimately expected to vest. Accordingly, we are also required to estimate forfeitures at the time of grant, and to revise those estimates in subsequent periods if actual forfeitures differ from estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. Our forfeiture rate estimates are based on an analysis of our actual forfeiture experience, employee turnover behavior, and other factors. The impact of any adjustments to our forfeiture rates would be recorded as a cumulative adjustment in the period of adjustment. To the extent that actual forfeitures differ from our estimates, the difference is recorded as a cumulative adjustment in the period the estimates were revised.

Comprehensive Loss

The Company's comprehensive loss is equal to its net loss for all periods presented.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted net loss per share is computed by dividing the Company's net loss by the weighted average number of common shares outstanding and the impact of all dilutive potential common shares outstanding, except where such dilutive potential common shares would be anti-dilutive. Dilutive potential common shares primarily consist of warrants, restricted stock units and stock options.

3. Liquidity and Going Concern

The Company has reported recurring losses from operations since inception and expects that the Company will continue to have negative cash flows from operations for the foreseeable future. Historically, the Company's primary source of funding has been the sale of its securities. The Company's ability to continue to fund its operations is dependent on obtaining funding from third parties, such as proceeds from the issuance of debt, sale of equity, or strategic opportunities, in order to maintain its operations. This is dependent on a number of factors, including the market demand or liquidity of the Company's common stock. There is no guarantee that debt, additional equity or other funding will be available to us on acceptable terms, or at all. If we fail to obtain additional funding when needed, we would be forced to scale back or terminate our operations or seek to merge with or to be acquired by another company.

While we believe that the coronavirus pandemic has not had a significant impact on our financial condition and results of operations at this time, the potential economic impact brought by, and the duration of, the coronavirus pandemic is difficult to assess or predict. There may be developments outside of our control that require us to adjust our operating plans and given the nature of the situation, we cannot reasonably estimate the impact of the coronavirus pandemic on our financial conditions, results of operations or cash flows in the future.

The Company believes that its existing cash should be sufficient to fund operations for at least the next 12 months from the date of the release of these financial statements.

4. Recent Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards Update ("**ASU**") 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*" ("**ASU 2019-12**"). The amendments in the update simplify the accounting for income taxes by eliminating the exceptions related to the incremental approach for intraperiod tax allocation, the recognition of a deferred tax liability for equity method investments, not recognizing a deferred tax liability for a foreign subsidiary and the general methodology for calculating income taxes in an interim period. The amendments also clarify and simplify other aspects of the accounting for income taxes. The amendments in ASU 2019-12 are effective for public entities for fiscal years, and the interim periods within those fiscal years, beginning after December 20, 2020. The Company adopted ASU 2019-12 on January 1, 2021. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, "*Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815 – 40)*" ("**ASU 2020-06**"), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. For convertible instruments, the accounting models for instruments issued with beneficial conversion features or cash conversion features are removed. For contracts in an entity's own equity, ASU 2020-06 simplifies the settlement assessment by removing the requirements to (1) to consider whether the contract would be settled in registered shares, (2) to consider whether collateral is required to be posted, and (3) to assess shareholder rights. ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company early adopted ASU 2020-06 on January 1, 2021. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

5. Leases

In January 2019, the Company amended the lease for its corporate headquarters and primary research facility in Marlborough, Massachusetts. The lease is for a total of 7,581 square feet of office and laboratory space and will expire on March 31, 2024. The lease contains an option to terminate the lease after two years or three years by providing advance written notice of termination pursuant to the terms of the agreement. The exercise of this option was not determined to be reasonably certain and thus is not included in the lease liability on the Company's balance sheet. Additionally, the lease agreement did not contain information to determine the rate implicit in the lease. As such, the Company calculated its incremental borrowing rate based on what the Company would have to pay to borrow on a collateralized basis over the lease term for an amount equal to the remaining lease payments taking into consideration such assumptions as, but not limited to, the U.S. treasury yield rate and borrowing rates from a creditworthy financial institution using the above lease factors.

The lease for our corporate headquarters represents substantially all of our significant lease obligations. The amounts reported in the condensed consolidated balance sheets for operating leases in which the Company is the lessee and other supplemental balance sheet information is set forth as follows, in thousands, except lease term and discount rate:

	March 31, 2021	December 31, 2020
Assets		
Right of use asset	$ 371	$ 400
Liabilities		
Lease liability, current	118	116
Lease liability, non-current	265	295
Total lease liability	$ 383	$ 411
Lease Term and Discount Rate		
Weighted average remaining lease term	3.00	3.71
Weighted average discount rate	4.70%	4.70%

Operating lease cost included in operating expense was $33,000 and $33,000 for the three months ended March 31, 2021 and 2020, respectively. Short-term lease costs were not material for the three months ended March 31, 2021 and 2020.

Cash paid for the amounts included in the measurement of the operating lease liability on the Company's condensed consolidated balance sheets and included within changes in the lease liability in the operating activities of our condensed consolidated statement of cash flows was $32,200 and $31,200 for the three months March 31, 2021 and 2020, respectively.

Future lease payments for our non-cancellable operating leases and a reconciliation to the carrying amount of the operating lease liability presented in the condensed consolidated balance sheet as of March 31, 2021 is as follows, in thousands:

2021 (remaining)	$ 99
2022	135
2023	140
2024	35
Total lease payments	409
Less: Imputed interest	(26)
Total operating lease liabilities (includes current portion)	$ 383

6. Debt

On May 11, 2020, the Company received loan proceeds in the amount of $231,252 from Bank of America, N.A., as lender, pursuant to the PPP under the CARES Act. The PPP loan had a maturity date of May 11, 2022, interest at a rate of 1% per year and monthly principal and interest payments that were deferred to the date that the Small Business Administration (the "**SBA**") remitted the borrower's loan forgiveness amount to the lender. When applying for the PPP loan, the Company carefully assessed the requirements for application under the program and believed that the loan was necessary to support its operations. The loans under the PPP may be forgiven if used for eligible purposes, including payroll, benefits, rent and utilities.

The Company followed the guidance under ASC 470 in assessing the accounting for the PPP loan proceeds. Per ASC 470, the Company recorded a liability on the balance sheet for the full amount of PPP loan proceeds received and accrued interest over the term of the loan. The Company believed it used the loan proceeds for the eligible purposes allowed and applied for full loan forgiveness. On February 18, 2021, the SBA approved the Company's application for full loan forgiveness and the full amount of the PPP loan was remitted to the lender for forgiveness. Upon loan forgiveness, the Company recognized a gain on the extinguishment of debt of $233,000 for the loan proceeds received and interest accrued in the condensed consolidated statement of operations.

7. Stockholders' Equity

January 2021 Private Placement — On January 25, 2021, the Company completed a private placement of 4,420,863 shares of the Company's common stock at a purchase price per share of $3.07, pre-funded warrants to purchase an aggregate of 140,065 shares of the Company's common stock (the "**January 2021 Pre-Funded Warrants**") at a purchase price per pre-funded warrant share of $3.069, and warrants to purchase an aggregate of 3,420,696 shares of the Company's common stock with an exercise price of $3.00 per warrant share (the "**January 2021 Warrants**") (the "**Private Placement**"). In connection with the Private Placement, the Company issued warrants to the placement agent, H.C. Wainwright & Co., LLC ("**HCW**"), to purchase a total of 342,070 shares of the Company's common stock at an exercise price of $3.8375 (the "**January 2021 Placement Agent Warrants**"). Net proceeds to the Company from the Private Placement were $12,669,000 after deducting placement agent fees and offering expenses.

February 2021 Registered Direct Offering — On February 17, 2021, the Company completed a registered direct offering of 2,246,784 shares of the Company's common stock at a purchase price of $3.42 per share (the "**Offering**"). In connection with the Offering, the Company issued warrants to the placement agent, HCW, to purchase a total of 168,509 shares of the Company's common stock at an exercise price of $4.275 (the "**February 2021 Placement Agent Warrants**"). Net proceeds to the Company from the Offering were $6,908,000 after deducting placement agent fees and offering expenses.

February 2020 Registered Direct Offering and Private Placement — On February 6, 2020, the Company completed a registered direct offering (the "**February 2020 Registered Offering**") of 197,056 shares of the Company's common stock at a purchase price of $8.705 per share and in a concurrent private placement, sold warrants to purchase an aggregate of 197,056 shares of the Company's common stock at a purchase price of $0.125 per underlying warrant share and with an exercise price of $8.71 per share (the "**February 2020 Registered Direct Warrants**"). In connection with the February 2020 Registered Offering, the Company also issued warrants to purchase a total of 14,779 shares of the Company's common stock with an exercise price of $11.0375 per share (the "**February 2020 Placement Agent Warrants**") to the placement agent, HCW. Net proceeds to the Company from the February 2020 Registered Offering were $1,467,000 after deducting placement agent fees and offering expenses paid by the Company.

February 2020 Underwritten Public Offering — On February 13, 2020, the Company completed an underwritten public offering of 993,633 shares of the Company's common stock at a purchase price per share of $4.00, pre-funded warrants (the "**2020 Pre-Funded Warrants**") to purchase an aggregate of 1,006,367 shares of the Company's common stock at a purchase price per pre-funded warrant share of $3.999, and warrants (the "**February 2020 Warrants**") to purchase an aggregate of 2,000,000 shares of the Company's common stock with an exercise price of $4.00 per warrant shares (the "**February 2020 Underwritten Offering**"). The 2020 Pre-Funded Warrants were immediately exercisable at an exercise price per share of $0.001 and each share of Company common stock or 2020 Pre-Funded Warrant, as applicable, was sold with a February 2020 Warrant. In connection with the February 2020 Underwritten Offering, the Company issued warrants to purchase up to 150,000 shares of Company common stock, immediately exercisable at an exercise price of $5.00 per share (the "**February 2020 Underwriter Warrants**") to HCW, as underwriter.

In connection with the February 2020 Underwritten Offering, the Company also granted to the underwriter, HCW, a 30-day option to purchase up to an additional 300,000 shares of the Company's common stock at a purchase price of $3.999 per such share and/or warrants to purchase up to 300,000 shares of the Company's common stock at a purchase price of $0.001 per such warrant. Such warrants have the same terms as the February 2020 Warrants. On February 12, 2020, HCW exercised its option to purchase warrants to purchase an aggregate of 300,000 shares of the Company's common stock.

Net proceeds from the February 2020 Underwritten Offering were $7,093,000 after deducting underwriting discounts and commissions and offering expenses paid by the Company.

April 2020 Registered Direct Offering and Private Placement — On April 2, 2020, the Company completed a registered direct offering (the "**April 2020 Offering**") of 1,713,064 shares of the Company's common stock at a purchase price of $2.21 per share and in a concurrent private placement, sold warrants to purchase an aggregate of 1,713,064 shares of the Company's common stock at a purchase price of $0.125 per underlying warrant share and with an exercise price of $2.21 per share (the "**April 2020 Warrants**"). Net proceeds to the Company from the April 2020 Offering were $3,527,000 after deducting placement agent fees and offering expenses paid by the Company. In connection with the April 2020 Offering, the Company also issued warrants to purchase a total of 128,480 shares of the Company's common stock with an exercise price of $2.9188 per share (the "**April 2020 Placement Agent Warrants**") to the placement agent, HCW.

Warrants

The Company first assesses the warrants it issues under the FASB ASC Topic 480, "*Distinguishing Liabilities from Equity*" ("**ASC 480**") to determine whether they are within the scope of ASC 480. As there were no instances outside of the Company's control that could require cash settlement of the warrants issued in the Private Placement and Offering, as well as warrants issued in the Company's prior financing transactions, the warrants are outside the scope of ASC 480.

The Company then applies and follows the applicable accounting guidance in ASC 815. Financial instruments are accounted for as either derivative liabilities or as equity instruments depending on the specific terms of the agreement. The warrants issued in the Private Placement and the Offering do not meet the definition of a derivative instrument as they are indexed to the Company's common stock and classified within stockholders' equity, as are the warrants issued in the Company's prior financing transactions. Based on this determination, the Company's warrants are classified within stockholders' equity.

The following table summarizes the Company's outstanding equity-classified warrants at March 31, 2021:

Description	Exercise Price	Expiration Date	Balance December 31, 2020	Warrants Issued	Warrants Exercised	Warrants Expired	Balance March 31, 2021
December 2016 Warrants	$ 495.00	12/21/2021	23,233	–	–	–	23,233
April 2018 Warrants	$ 173.25	5/31/2023	20,599	–	–	–	20,599
April 2018 Placement Agent Warrants	$ 223.00	4/9/2023	1,373	–	–	–	1,373
October 2018 Warrants	$ 10.45	10/3/2025	389,610	–	–	–	389,610
October 2018 Underwriter Warrants	$ 13.06	10/1/2023	29,220	–	–	–	29,220
November 2019 Placement Agent Warrants	$ 6.875	11/18/2024	13,636	–	–	–	13,636
February 2020 Registered Direct Warrants	$ 8.71	8/6/2025	197,056	–	–	–	197,056
February 2020 Placement Agent Warrants	$ 11.0375	2/4/2025	14,779	–	–	–	14,779
February 2020 Underwritten Offering Warrants	$ 4.00	2/13/2025	1,326,500	–	–	–	1,326,500
February 2020 Underwriter Warrants	$ 5.00	2/11/2025	150,000	–	–	–	150,000
April 2020 Warrants	$ 2.21	10/2/2025	1,284,798	–	(856,532)	–	428,266
April 2020 Placement Agent Warrants	$ 2.9188	3/31/2025	128,480	–	(86,724)	–	41,756
January 2021 Pre-Funded Warrants	$ 0.001	No expiration	–	140,065	(140,065)	–	–
January 2021 Warrants	$ 3.00	7/27/2026	–	3,420,696	–	–	3,420,696
January 2021 Placement Agent Warrants	$ 3.8375	7/27/2026	–	342,070	–	–	342,070
February 2021 Placement Agent Warrants	$ 4.275	2/12/2026	–	168,509	–	–	168,509
			3,579,284	4,071,340	(1,083,321)	–	6,567,303

The Company received net proceeds of $2,146,000 and $1,000 from the exercise of warrants during the three months ended March 31, 2021 and 2020, respectively.

8. Net Loss per Share

The following table sets forth the potential common shares excluded from the calculation of net loss per share because their inclusion would be anti-dilutive:

	March 31,	
	2021	2020
Options to purchase common stock	2,499	2,637
Nonvested restricted stock units	335,379	11,178
Warrants to purchase common stock	6,567,303	3,141,870
Total	6,905,181	3,155,685

9. Stock-based Compensation

Restricted Stock Units

Restricted stock units ("**RSUs**") are issued under the Company's 2020 Long-Term Incentive Plan or as inducement grants issued outside of the plan to new employees. RSUs are generally subject to graded vesting and the satisfaction of service requirements. Upon vesting, each outstanding RSU will be exchanged for one share of the Company's common stock. Employee RSU recipients may elect to net share settle upon vesting, in which case the Company pays the employee's income taxes due upon vesting and withholds a number of shares of equal value. The fair value of the RSUs awarded are based upon the Company's closing stock price at the grant date and are expensed over the requisite service period.

The following table summarizes the activity of the Company's RSUs for the three months ended March 31, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested units at December 31, 2020	9,699	$ 19.97
Granted	328,250	3.07
Vested	(2,570)	15.08
Forfeited	–	–
Unvested units at March 31, 2021	335,379	$ 3.47

Stock-based compensation expense related to RSUs was $57,000 and $29,000 for the three months ended March 31, 2021 and 2020, respectively.

Stock Options

Stock options are issued under the 2020 Plan or as inducement grants issued outside of the plan to new employees. Stock options are generally subject to graded vesting and the satisfaction of service requirements. Upon the exercise of a stock option, the Company issues new shares and delivers them to the recipient. The Company does not expect to repurchase shares to satisfy stock option exercises.

The Company uses the Black-Scholes option-pricing model to determine the fair value of all its option grants. The risk-free interest rate used for each grant was based upon the yield on zero-coupon U.S. Treasury securities with a term similar to the expected life of the related option. The Company's expected stock price volatility assumption is based upon the Company's own implied volatility. As the Company has limited stock option exercise information, the expected life assumption used for option grants is based upon the simplified method provided for under ASC 718. The dividend yield assumption is based upon the fact that the Company has never paid cash dividends and presently has no intention of paying cash dividends.

The Company did not grant stock options during the three months ended March 31, 2021 and 2020.

The following table summarizes the activity of the Company's stock options for the three months ended March 31, 2021:

	Number of Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance at December 31, 2020	2,570	$ 3,334.06	
Granted	–	–	
Exercised	–	–	
Cancelled	(71)	946.27	
Balance at March 31, 2021	2,499	$ 3,401.90	$ –
Exercisable at March 31, 2021	1,803	$ 4,676.53	$ –

Stock-based compensation expense related to stock options for the three months ended March 31, 2021 and 2020 was $10,000 and $14,000, respectively.

Compensation Expense Related to Equity Awards

The following table sets forth total stock-based compensation expense for the three months ended March 31, 2021 and 2020, in thousands:

	Three Months Ended March 31,	
	2021	**2020**
Research and development	$ 13	$ 6
General and administrative	54	37
Total stock-based compensation	$ 67	$ 43

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

In this document, "we," "our," "ours," "us," "Phio" and the "Company" refers to Phio Pharmaceuticals Corp. and our subsidiary, MirImmune, LLC and the ongoing business operations of Phio Pharmaceuticals Corp. and MirImmune, LLC, whether conducted through Phio Pharmaceuticals Corp. or MirImmune, LLC.

*This management's discussion and analysis of financial condition as of March 31, 2021 and results of operations for the three months ended March 31, 2021 and 2020 should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the Securities and Exchange Commission (the "**SEC**") on March 25, 2021.*

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "intends," "believes," "anticipates," "indicates," "plans," "expects," "suggests," "may," "would," "should," "potential," "designed to," "will," "ongoing," "estimate," "forecast," "predict," "could" and similar references, although not all forward-looking statements contain these words. Forward-looking statements are neither historical facts nor assurances of future performance. These statements are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Risks that could cause actual results to vary from expected results expressed in our forward-looking statements include, but are not limited to, the impact to our business and operations by the recent coronavirus outbreak, the development of our product candidates, our ability to execute on business strategies, our ability to develop our product candidates with collaboration partners, the timeline and duration for advancing our product candidates into clinical development, results from our preclinical and clinical activities and our ability to obtain future financing. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements as a result of a number of important factors, including those identified in our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "Risk Factors" and in other filings the Company periodically makes with the SEC. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements contained in this Quarterly Report on Form 10-Q speak as of the date hereof and the Company does not undertake to update any of these forward-looking statements to reflect a change in its views or events or circumstances that occur after the date of this report.

Overview

Phio Pharmaceuticals Corp. is a biotechnology company developing the next generation of immuno-oncology therapeutics based on our self-delivering RNAi ("**INTASYL™**") therapeutic platform. Our efforts are focused on silencing tumor-induced suppression of the immune system through our proprietary INTASYL platform with utility in immune cells and the tumor micro-environment. Our goal is to develop powerful INTASYL therapeutic compounds that can weaponize immune effector cells to overcome tumor immune escape, thereby potentially providing patients a powerful new treatment option that goes beyond current treatment modalities.

Our development efforts are based on our broadly patented INTASYL technology platform. Our INTASYL compounds do not require a delivery vehicle to penetrate into tissues and cells and are designed to "silence" or down-regulate, the expression of a specific gene which is over-expressed in cancer. We believe that our INTASYL platform uniquely positions the Company in the field of immuno-oncology for the following reasons:

- Efficient uptake of INTASYL by target cells obviating the need for facilitated delivery (mechanical or formulation);
- Does not require permanent genetic modification;
- Can target multiple genes (i.e. multiple immunosuppression pathways) in a single therapeutic entity;
- Gene silencing by INTASYL has been shown to have a sustained, or long-term, effect *in vivo*;

- Favorable clinical safety profile of INTASYL with local administration; and

- Can be readily manufactured under current good manufacturing practices.

In contrast to other RNA technologies and platforms, the self-delivering nature of our INTASYL platform makes it ideally suited for use with adoptive cell therapy ("**ACT**") treatments as well as for direct therapeutic use. ACT consists of the infusion of immune cells with antitumor properties, after growing them in a lab to large numbers. These cells can be derived from unmodified (i.e. naturally occurring) immune cells, immune cells isolated from resected tumors, or genetically engineered immune cells that recognize tumor cells. Regardless of the source of immune cells (ACT or naturally occurring immune cells), in patients with solid tumors, these cells have several shortcomings that inhibit their full therapeutic potential. By using INTASYL technology during the manufacturing of such ACT cell products we can improve the phenotype and function of these cells, potentially leading to better therapeutic outcomes. Multiple inhibitory mechanisms restrain immune cells from effectively eradicating tumors, including immune checkpoints, reduced cell fitness and cell persistence. Furthermore, the immunosuppressive tumor micro-environment (the "**TME**") can pose a formidable barrier to immune cell infiltration and function. By using INTASYL based drugs administered directly, we can also reprogram cells in the TME to help overcome these immunosuppressive mechanisms.

We have developed a product platform based on our INTASYL technology that allows easy, precise, rapid, and selective non-genetically modified programming of ACT cells (*ex vivo*, during manufacturing) and of the TME (*in vivo*, by local application), resulting in reduced immune inhibition and in improved immunotherapy.

INTASYL Use To Improve Adoptive Cell Therapy Products

ACT is a form of immune therapy based on the use of immune cells, isolated from patients, donors or retrieved from allogeneic immune cell banks. They are grown in a lab to large numbers, followed by administering them to the patient to fight cancer. Sometimes, immune cells that naturally recognize a tumor are used, while other times immune cells are modified or "genetically engineered" to make them recognize and kill the cancer cells. There are several types of ACT, including: a.) non-engineered cell therapy in which immune cells are grown from the patient's tumor or blood, such as tumor infiltrating lymphocytes ("**TILs**"), or from donor blood or tissue such as natural killer ("**NK**") cells, dendritic cells ("**DC**") and macrophages, and b.) genetically engineered immune cells that are genetically modified to recognize specific tumor proteins and to remain in an activated state (such as T cell receptor technology ("**TCRs**"), chimeric antigen receptor ("**CAR**") T cells, or CAR-NK cells).

Multiple inhibitory mechanisms restrain immune cells used in ACT from effectively eradicating tumors, including immune checkpoints, reduced cell fitness and cell persistence, and other barriers to immune cell infiltration and function mainly in solid tumors. We believe our INTASYL compounds are ideally suited to be used in ACT products. With INTASYL compounds, we can unlock the full potential of ACT, by improving the immune cell function, differentiation and metabolism, in order to make these immune cells more effective without the need for additional complicated manufacturing steps and/or genetic engineering.

Our approach builds on well-established methodologies of ACT and involves the treatment of immune cells with our INTASYL compounds *ex vivo* while they are grown in the lab and before administering them to the patient. Because our INTASYL compounds do not require a delivery vehicle, in contrast to other RNA technologies, to penetrate into the cells, we are able to enhance the function of these cells by merely adding our INTASYL compounds during the expansion process and without the need for genetic engineering, without the need for complex delivery vehicles or formulations, and without additional needed complex manufacturing steps. By adding INTASYL to the cell culture media used during the cell expansion, we can reduce or eliminate the expression of genes that make the immune cells less effective. For example, with our INTASYL compounds, we can reduce the expression of immunosuppressive proteins by the therapeutic immune cells, potentially enabling them to overcome tumor resistance mechanisms and thus improving their ability to destroy the tumor cells. In various types of immune cells tested to date, INTASYL treatment results in potent silencing with close to 100% transfection efficiency and while maintaining cell viability and cell growth rate. After expanding these cells and enhancing them with INTASYL *ex vivo*, they are returned to the patient for treatment.

Our lead product candidate and most advanced program being developed in ACT is PH-762, an INTASYL compound that targets the checkpoint protein PD-1. Checkpoint proteins, such as PD-1, normally act as a type of "off switch" that prevent T cells from attacking certain cells, such as cancer cells, in the body. T cells are immune cells that protect the body from cancer cells and infections.

Data developed by Phio and with collaborators has shown that PH-762 silences PD-1 checkpoint expression, thereby removing the “off switch” and resulting in enhanced T cell activation and tumor cytotoxicity. Experimental data shows that PH-762 can silence the expression of PD-1 in target human T cells in a potent and durable manner, and can increase the function of patient derived TILs for use in ACT, and of CAR-T cells used in ACT, showing that PH-762 is applicable for use in both ACT and as a standalone direct therapeutic.

In March 2021, the Company announced that it entered into a clinical development collaboration with AgonOx, Inc. (“**AgonOx**”), a private company developing a pipeline of novel immunotherapy drugs targeting key regulators of the immune response to cancer. Under the agreement, the companies will collaborate on the development of novel T cell-based therapies using PH-762 and AgonOx’s “double positive” (DP) TIL technology. AgonOx has demonstrated that their DP CD8+ T cells isolated from human solid tumors (DP TILs) have increased tumor killing activity when compared to TILs that were not enriched prior to expansion. Preclinical data from AgonOx in collaboration with Phio has shown that treating DP TILs with PH-762 increases the tumor killing activity of the DP TILs even further (a two-fold increase). As a result, the use of PH-762 treated DP TILs is expected to enhance therapeutic responses in cancer data. Based on these data showing that the combination of our technologies can result in TIL therapeutics, our collaboration will focus on conducting a clinical study for PH-762 treated DP TILs. Under the terms of the collaboration agreement, AgonOx will receive financial support for the clinical trial from Phio and Phio will be entitled to certain future development milestones and sales-related royalty payments from AgonOx’s DP TIL technology. In collaboration with AgonOx, we are planning a clinical trial in ACT with PH-762 and AgonOx’s DP TIL technology. We are in the process of finalizing the investigational new drug (“**IND**”)-enabling studies and preparing for regulatory submission in the third quarter of 2021 and anticipate commencing the start of the clinical trial soon thereafter.

Our second product candidate in ACT is PH-894, an INTASYL compound that targets BRD4 which is a regulator of gene expression impacting cell differentiation. In previous studies, PH-894 has been shown to improve T cell function and persistence by differentiating T cells into a more active state (stem-cell like memory phenotype). Data, completed in partnership with the Karolinska Institutet in Sweden, demonstrated that the application of PH-894, was shown to silence BRD4 in human T cells during expansion for ACT, which has the potential to confer superior anti-tumor activity, for example by improving T cell persistence. With this data, we expanded our collaboration with the Karolinska Institutet to build upon these findings and develop INTASYL compounds for additional targets and cell types toward clinical application in areas of the Karolinska Institutet’s ongoing clinical research.

We are also developing our INTASYL compound PH-804 for use in ACT. PH-804 targets the suppressive immune receptor TIGIT, which is a checkpoint protein present on T cells and NK cells. We have shown that PH-804 can silence the expression of TIGIT in NK cells and T cells, overcoming their “off switch” and the cells becoming “weaponized” to kill cancer cells.

Direct Therapeutic Use of INTASYL Towards the Tumor Micro-Environment

The TME is the environment that surrounds and feeds a tumor, including normal cells, blood vessels, immune cells, and the extracellular matrix. The TME is an immunosuppressive environment that inhibits the immune system’s natural ability to recognize and destroy tumor cells by negatively impacting how immunosuppressive cells are being attracted and activated. Reprogramming different components of the TME may overcome resistance to immunotherapy. Such reprogramming of the TME by INTASYL compounds through direct local administration into the tumor could potentially become an important form of therapy. The Company has previously shown in a clinical setting that our INTASYL compounds are safe and well-tolerated following local administration, therefore we believe that our INTASYL technology can not only be used with ACT, but can also be used as an independent therapeutic platform.

We are developing our PH-762, PH-894 and PH-804 INTASYL compounds also for use as direct therapeutics to reprogram the TME, for example by *in situ* transfection and activation of immune cells in the TME.

Animal studies conducted by the Company showed that local administration of PH-894 or the mouse version of PH-762 through intra-tumoral injection resulted in potent anti-tumoral effects. The treated animals showed a complete and statistically significant inhibition of tumor growth, whereas placebo treated animals displayed exponential tumor growth. *In vivo* studies performed by the Company with PH-804 showed that intra-tumoral injection of a mouse version of PH-804 reduced the tumor growth in colorectal carcinoma tumor bearing mice, which was shown to inhibit tumor growth and was correlated with the silencing of TIGIT mRNA expression and in increase in cytotoxic effector T cells in the TME.

The combined PH-804, PH-762, and PH-894 data further shows that INTASYL compounds can trigger associated changes in the TME such as an increase of TILs, including CD8+ T cells responsible for tumor cell killing, and an increase of activation markers on these cells. These preclinical findings demonstrate that direct injection of INTASYL compounds can successfully infiltrate solid tumors and impact the TME by activating the immune response in animal models of solid tumors resulting in reduced tumor growth. A key challenge for many other immunotherapy platforms is to be able to achieve an adequate therapeutic effect in solid tumors with an acceptable safety profile. Many of the available systemic immuno-therapeutics indeed come with dose limiting immune-related adverse events, which we believe can be mitigated with local INTASYL treatment.

Based on our positive preclinical data, the Company is preparing for a clinical study with PH-762 using intra-tumoral administration for patients with advanced melanoma. The required preclinical studies and regulatory submission needed to initiate the clinical trial with PH-762 as a direct therapeutic are being finalized. The clinical trial will be conducted at the Gustave Roussy Institute, which is one of the largest cancer centers in Europe, with Dr. Caroline Robert as our lead principal investigator. The Company expects to start the clinical trial evaluating the use of PH-762 as a direct therapeutic in the fourth quarter of 2021.

We are also investigating other relevant compounds for TME targets, such as PH-790, an INTASYL compound targeting PD-L1. PD-L1 is a protein formed by cancer cells that activate the PD-1 “off switch” on immune cells. Our approach with PH-790 is to block the formation of the PD-L1 protein, which may prevent cancer cells from inactivating T cells and attack the cancer. Recent data presented demonstrated that the antitumoral efficacy of our individual pipeline products, PH-762, PH-790 and PH-804, can be further improved by combining them in a single drug treatment. We have shown that we can efficiently and potently target multiple proteins in a single drug treatment. Animal data showed that the combination of our INTASYL compounds in a single formulation (at suboptimal doses of the individual agents) inhibited tumor growth without having a negative impact on the tolerability of the treatment.

Impact of COVID-19 on our Business

In December 2019, a novel strain of coronavirus that causes COVID-19 was reported to have surfaced in Wuhan, China and has since spread to other parts of the world, including the United States. In March 2020, the World Health Organization (the “**WHO**”) declared the outbreak a pandemic.

Health and Safety

From the first signs of the outbreak, we have taken proactive measures intended to protect the health and safety of our employees. We have implemented safety measures following the guidance provided by the WHO, the Centers for Disease Control (the “**CDC**”) and governmental authorities, which include formal policies related to working remotely for employee personnel who do not need to be physically present in our offices, the wearing of face masks while in the office, physically distancing workspaces, cleaning protocols, staggered scheduling and social distancing protocols. The Company has also implemented protocols to address actual and suspected cases of COVID-19 and encourages sick employees to remain home. We expect to continue following these safety measures and may take further actions as we require, as government authorities require or recommend, or as we determine to be in the best interests of our employees.

Operations

Our operations have continued to operate with limited impact and are operating in accordance with federal and state government, WHO and CDC guidelines. We have implemented enhanced safety measures, as discussed above, and have experienced limited absenteeism from our employees due to the coronavirus pandemic and we do not currently expect that our operations will be significantly impacted by employee absenteeism. While the measures to contain and prevent the spread of coronavirus may be modified or extended, we expect that our activities, including our internal research and development functions, will continue to remain largely operational. We believe the impact to our operations has been minimal thus far, however current and future restrictions may further impact our operations and may slow or diminish our research and development activities.

Supply and Services

As a result of the coronavirus pandemic, certain of our third-party suppliers and service providers on which we rely have seen impacts to their operations. If the impact to their operations continue or extend, it may in turn affect our operations. The Company has undertaken efforts to mitigate potential future impacts by identifying and engaging alternative third-party service providers and suppliers, and because of that, to date the Company has not seen a material impact to its program’s anticipated timelines resulting from delays from our third-party service providers. For example, by engaging different contract manufacturers, we believe that we have a sufficient supply of our INTASYL compounds to conduct our ongoing preclinical studies and initial clinical activities. However, the ultimate impact to the third parties on which we rely is highly uncertain and subject to change. Without a swift and sustained improvement of the impacts experienced by our third-party suppliers and service providers, the effects of our mitigation efforts will diminish and may result in material impacts to our operations. If the global measures to contain the pandemic are insufficient, it could reduce or delay the availability of supplies and services that we purchase and rely on, which may in turn slow or delay our preclinical and clinical activities, and/or result in higher costs.

With the global spread of the coronavirus and the associated safety measures to contain the spread by governmental authorities, a delay in the commencement of new clinical trials and in the enrollment and participation of patients in clinical trials may occur. The steps required for us to initiate our clinical trials with PH-762 in the second half of 2021 are continuing and ongoing, however, the Company does not yet know the full extent of potential delays or impacts related to its planned clinical activities.

Liquidity and Capital Resources

While we believe that the coronavirus pandemic has not had a significant impact on our financial condition at this time, the extent to which the coronavirus pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus pandemic and the actions to contain the coronavirus or treat its impact, among others.

Due to our uncertainty around our ability to access the capital markets to provide the necessary working capital to fund our long-term operations as a result of the coronavirus pandemic, the Company applied for and received a loan of $231,252 in May 2020 under the Paycheck Protection Program (the "**PPP**") as part of the Coronavirus Aid, Relief and Economic Security (the "**CARES Act**"). When applying for the PPP loan, the Company carefully assessed the requirements for application under the program and believed that the loan was necessary to support our operations. The Company believed it used the loan proceeds for the eligible purposes allowed and applied for full loan forgiveness. In February 2021, the Small Business Administration determined that the Company's application for full loan forgiveness was fully approved and the full amount of the PPP loan was remitted to the lender for forgiveness. In connection with and addition to the PPP, the Company took other proactive steps to control costs in response to the coronavirus pandemic, which included the reduction of senior management salaries by 10% from May to December 2020. We believe these savings helped to mitigate the financial impact of the coronavirus pandemic on our financial condition.

Overall, we do not yet know the full extent of potential delays or the impact on our business, financial condition, or our preclinical and clinical trial activities and there may be developments outside of our control that require us to adjust our operating plans and, therefore, given the nature of the situation, cannot reasonably estimate the impact of the coronavirus on our financial condition, results of operations or cash flows in the future.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and could have a material impact on our reported results.

There have been no significant changes to our critical accounting policies disclosed in the Company's most recent Annual Report on Form 10-K.

Results of Operations

The following data summarizes the results of our operations for the periods indicated, in thousands:

	Three Months Ended March 31,		
Description	**2021**	**2020**	**Dollar Change**
Operating expenses	$ 3,638	$ 2,356	$ 1,282
Operating loss	(3,638)	(2,356)	(1,282)
Net loss	$ (3,407)	$ (2,351)	$ (1,056)

Comparison of the Three Months Ended March 31, 2021 and 2020

Operating Expenses

The following table summarizes our total operating expenses, for the periods indicated, in thousands:

Description	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Dollar Change
Research and development	$ 2,621	$ 1,218	$ 1,403
General and administrative	1,017	1,138	(121)
Total operating expenses	$ 3,638	$ 2,356	$ 1,282

Research and Development Expenses

Research and development expenses relate to compensation and benefits for research and development personnel, facility-related expenses, supplies, external services, costs to acquire technology licenses, research activities under our research collaborations, expenses associated with preclinical and clinical development activities and other operating costs. Our research and development programs are focused on the development of immuno-oncology therapeutics based on our INTASYL therapeutic platform.

Research and development expenses for the three months ended March 31, 2021 increased 115% as compared with the three months ended March 31, 2020, primarily due to manufacturing costs and fees for the required preclinical studies in support of the Company's planned clinical trials for PH-762 as compared to the same period in the prior year.

General and Administrative Expenses

General and administrative expenses relate to compensation and benefits for general and administrative personnel, facility-related expenses, professional fees for legal, audit, tax and consulting services, as well as other general corporate expenses.

General and administrative expenses for the three months ended March 31, 2021 decreased 11% as compared with the three months ended March 31, 2020, primarily due to a decrease in legal fees as compared to the same period in the prior year.

Other Income

Other income consists primarily of interest income and expense and various income or expense items of a non-recurring nature.

Other income for the three months ended March 31, 2021 increased by $226,000 as compared with the three months ended March 31, 2020, primarily due to the full forgiveness of the Company's PPP loan by the Small Business Administration in the first quarter of 2021 as compared to the prior year period.

Liquidity and Capital Resources

Historically, the Company's primary source of funding has been through the sale of its securities. In the future, we will be dependent on obtaining funding from third parties, such as proceeds from the issuance of debt, sale of equity, or strategic opportunities, in order to maintain our operations. We have reported recurring losses from operations since inception and expect that we will continue to have negative cash flows from our operations for the foreseeable future. At March 31, 2021, we had cash of $32,695,000 as compared with cash of $14,244,000 at December 31, 2020.

In August 2019, the Company entered into a purchase agreement (the "**Purchase Agreement**") with Lincoln Park Capital, LLC ("**LPC**"), pursuant to which the Company has the right to sell to LPC up to $10,000,000 in shares of the Company's common stock, subject to certain limitations and conditions set forth in the agreement. The Company is initially limited to the issuance of 19.99% of the Company's shares outstanding on the date of the Purchase Agreement to LPC unless stockholder approval is obtained to issue more than such amount or the average price of all sales under the Purchase Agreement exceed certain amounts as set forth in the agreement. The Purchase Agreement expires in May 2022. To date, no shares of common stock have been sold to LPC under the Purchase Agreement.

We believe that our existing cash at March 31, 2021 should be sufficient to fund operations for at least the next 12 months from the date of the release of the associated financial statements.

The following table summarizes our cash flows for the periods indicated, in thousands:

	Three Months Ended March 31,	
	2021	**2020**
Net cash used in operating activities	$ (3,033)	$ (2,176)
Net cash used in investing activities	(6)	(10)
Net cash provided by financing activities	21,490	8,536
Net increase in cash and restricted cash	$ 18,451	$ 6,350

Net Cash Flow from Operating Activities

Net cash used in operating activities was $3,033,000 for the three months ended March 31, 2021, as compared with $2,176,000 for the three months ended March 31, 2020. The increase in cash used in operating activities was primarily due to an increase in net loss as compared to the same period in the prior year as the Company expects its operating cash outflows to increase in 2021 as a result of increased spending primarily related to the Company's preclinical studies in support of and for the planned clinical trials for PH-762.

Net Cash Flow from Investing Activities

Net cash used in investing activities was $6,000 for the three months ended March 31, 2021, as compared with $10,000 for the three months ended March 31, 2020. The decrease in net cash flows from investing activities was primarily related to laboratory and computer equipment purchases as compared to the same period in the period year.

Net Cash Flow from Financing Activities

Net cash provided by financing activities was $21,490,000 for the three months ended March 31, 2021, as compared with $8,536,000 for the three months ended March 31, 2020. The increase in net cashflows from financings activities was primarily due to the net proceeds received by the Company from capital raises activities and warrant exercises as compared to the same period in the prior year.

Off-Balance Sheet Arrangements

In connection with certain license agreements, we are required to indemnify the licensor for certain damages arising in connection with the intellectual property rights licensed under the agreement. In addition, we are a party to a number of agreements entered into in the ordinary course of business that contain typical provisions that obligate us to indemnify the other parties to such agreements upon the occurrence of certain events. These indemnification obligations are considered off-balance sheet arrangements in accordance with ASC Topic 460, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*." To date, we have not encountered material costs as a result of such obligations and have not accrued any liabilities related to such obligations in our financial statements. See Note 8 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 25, 2021, for further discussion of these indemnification agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (who is also acting as our principal financial officer) and our Principal Accounting Officer, evaluated the effectiveness of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this report, management, with the participation of our Chief Executive Officer (who is also acting as our principal financial officer) and our Principal Accounting Officer, concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may become a party to various legal proceedings and complaints arising in the ordinary course of business. There are none deemed to be material at this time.

ITEM 1A. RISK FACTORS

Please carefully consider the information set forth in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 25, 2021. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including these risks. Additional risks not currently known or currently material to us may also harm our business.

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

No sales or issues of unregistered securities occurred that have not previously been disclosed in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Herein	
		Form	**Date**
31.1	Sarbanes-Oxley Act Section 302 Certification of Principal Executive Officer and Principal Financial Officer.*		
32.1	Sarbanes-Oxley Act Section 906 Certification of Principal Executive Officer and Principal Financial Officer. *		
101	The following financial information from the Quarterly Report on Form 10-Q of Phio Pharmaceuticals Corp. for the quarter ended March 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (1) Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020; (2) Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2021 and 2020; (3) Condensed Consolidated Statements of Stockholders’ Equity for the Three Months Ended March 31, 2021 and 2020; (4) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2021 and 2020; and (5) Notes to Condensed Consolidated Financial Statements (Unaudited).*		

* Filed herewith.

SIGNATURES

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

Phio Pharmaceuticals Corp.

By: /s/ Gerrit Dispersyn
Gerrit Dispersyn, Dr. Med. Sc.
President and Chief Executive Officer

Date: May 13, 2021

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerrit Dispersyn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phio Pharmaceuticals Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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, 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 my 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 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of 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 controls over financial reporting.

Dated: May 13, 2021

/s/ Gerrit Dispersyn
Gerrit Dispersyn, Dr. Med. Sc.
President and Chief Executive Officer
(as Principal Executive and Financial 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

In connection with the Quarterly Report on Form 10-Q of Phio Pharmaceuticals Corp. (the “Company”) for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the Company’s financial condition and result of operations.

/s/ Gerrit Dispersyn
Gerrit Dispersyn, Dr. Med. Sc.
President and Chief Executive Officer
(as Principal Executive and Financial Officer)

May 13, 2021