RITTER PHARMACEUTICALS INC
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2018

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: 001-37428

RITTER PHARMACEUTICALS, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**26-3474527**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1880 Century Park East, Suite 1000

Los Angeles, CA 90067

(Address and zip code of principal executive offices)

Registrant's Telephone Number, Including Area Code: **(310) 203-1000**

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 [X] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] 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. (Check one):

Large Accelerated Filer	[ ]	Accelerated Filer	[ ]
Non-accelerated Filer	[ ]	Smaller Reporting Company	[X]
Emerging growth company	[X]		

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

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

As of November 7, 2018, there were 5,734,639 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

RITTER PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

	September 30, 2018 **(unaudited)**	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$12,496,576	$22,631,971
Prepaid expenses	465,784	167,400
Total current assets	12,962,360	22,799,371
Other assets	10,326	10,326
Property and equipment, net	21,624	23,873
Total Assets	$12,994,310	$22,833,570
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$2,130,479	$2,237,579
Accrued expenses	408,560	454,252
Other liabilities	14,396	15,757
Total current liabilities	2,553,435	2,707,588
Stockholders' equity		
Preferred stock, $0.001 par value; 15,000,000 shares authorized, 5,960 and 9,140 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	3,344,209	5,128,536
Common stock, $0.001 par value; 225,000,000 shares authorized, 5,734,639 and 4,940,652 shares issued and outstanding as of as of September 30, 2018 and December 31, 2017, respectively	5,735	4,941
Additional paid-in capital	70,665,970	68,323,939
Accumulated deficit	(63,575,039)	(53,331,434)
Total stockholders' equity	10,440,875	20,125,982
Total Liabilities and Stockholders' Equity	$12,994,310	$22,833,570

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

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RITTER PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended		**For the Nine Months Ended**	
	September 30,		**September 30,**	
	2018	2017	2018	2017
Operating costs and expenses:				
Research and development	$3,459,681	$915,268	$6,180,607	$2,121,898
Patent costs	59,068	47,431	170,418	175,794
General and administrative	1,144,750	1,052,236	3,957,545	3,367,781
Total operating costs and expenses	4,663,499	2,014,935	10,308,570	5,665,473
Operating loss	(4,663,499)	(2,014,935)	(10,308,570)	(5,665,473)
Other income:				
Interest income	17,237	4,083	64,965	18,362
Total other income	17,237	4,083	64,965	18,362
Net loss	$(4,646,262)	$(2,010,852)	$(10,243,605)	$(5,647,111)
Net loss per common share – basic and diluted	$(0.86)	$(0.14)	$(2.00)	$(0.42)
Weighted average common shares outstanding – basic and diluted	5,373,769	14,756,521	5,129,351	13,443,007

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

RITTER PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended	
	September 30,	
	2018	2017
Cash flows from operating activities		
Net loss	$(10,243,605)	$(5,647,111)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,257	3,936
Stock –based compensation	561,755	746,362
Settlement of accounts payable	(893,823)	–
Changes in operating assets and liabilities:		
Prepaid expenses	(298,384)	(103,845)
Accounts payable	786,723	849,002
Accrued expenses	(45,692)	(1,026,157)
Other liabilities	(1,362)	1,191
Net cash used in operating activities	(10,130,131)	(5,176,622)
Cash flows from investing activities		
Purchase of property and equipment	(2,008)	–
Net cash used in investing activities	(2,008)	–
Cash flows from financing activities		
Proceeds from the issuance of shares from common stock purchase agreement	–	2,000,000
Deferred offering costs	–	(310,786)
Payout to shareholders for fractional shares	(3,256)	–
Net cash provided by (used in) financing activities	(3,256)	1,689,214
Net decrease in cash and cash equivalents	(10,135,395)	(3,487,408)
Cash and cash equivalents at beginning of period	22,631,971	7,046,282
Cash and cash equivalents at end of period	$12,496,576	$3,558,874
Supplemental disclosure of non-cash financing activities:		
Conversion of preferred stock to common stock	$1,784,327	$–
Shares issued as a commitment fee	$–	$93,380
Cash paid for taxes	$–	$800

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

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RITTER PHARMACEUTICALS, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Ritter Pharmaceuticals, Inc. (“Ritter” or the “Company”) is a Delaware corporation headquartered in Los Angeles, California. The Company was formed as a Nevada limited liability company on March 29, 2004 under the name Ritter Natural Sciences, LLC, and converted into a Delaware corporation on September 16, 2008.

Ritter Pharmaceuticals, Inc. develops novel therapeutic products that modulate the gut microbiome to treat gastrointestinal diseases. Its lead product candidate, RP-G28, has the potential to become the first FDA-approved treatment for lactose intolerance, a condition that affects millions worldwide. RP-G28 has been studied in Phase 2 trials and is now in Phase 3 clinical development with its first Phase 3 study currently underway. The Company is further exploring the functionality and discovering the therapeutic potential that gut microbiome changes may have on treating/preventing a variety of conditions including: gastrointestinal, cancer, metabolic, and liver diseases.

The Company currently operates in one business segment focusing on the development and commercialization of RP-G28. The Company is not organized by market and is managed and operated as one business. A single management team reports to the chief operating decision maker, the Chief Executive Officer. The Company does not currently operate any separate lines of business or separate business entities.

NOTE 2 - BASIS OF PRESENTATION

The accompanying interim period unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for a fair presentation of the financial position and results of operations have been included and management believes the disclosures that are made are adequate to make the information presented not misleading.

The condensed balance sheet at December 31, 2017 has been derived from the audited financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on

March 19, 2018 (the "2017 Annual Report") but does not include all of the information and footnotes required by GAAP for complete financial statements.

The results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or any other period. The accompanying interim period unaudited condensed financial statements and related financial information included in this Quarterly Report on Form 10-Q ("Quarterly Report") should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2017 Annual Report.

All common share amounts and per share amounts have been adjusted to reflect a 1-for-10 reverse stock split of the Company's common stock effected on March 23, 2018.

Going Concern and Liquidity

The accompanying condensed financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has not generated any product revenue and has not achieved profitable operations. For the nine months ended September 30, 2018, the Company had a net loss of approximately $10.2 million and had net cash used in operating activities of approximately $10.1 million. At September 30, 2018, the Company had working capital of approximately $10.4 million, an accumulated deficit of approximately $63.6 million, and cash and cash equivalents of approximately $12.5 million. There is no assurance that profitable operations will ever be achieved, and, if achieved, could be sustained on a continuing basis. In addition, development activities, clinical and pre-clinical testing, and commercialization of the Company's products will require significant financing. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern.

Since inception, the operations of the Company have been funded through the sale of common shares, preferred shares, warrants and convertible debt. Management cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that the Company raises additional funds by issuing equity securities, the Company's stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that could impact the Company's ability to conduct business. If the Company is not able to raise additional capital when required or on acceptable terms, the Company may have to (i) significantly delay, scale back or discontinue the development and/or commercialization of one or more product candidates; (ii) seek collaborators for product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; or (iii) relinquish or otherwise dispose of rights to technologies, product candidates or products that the Company would otherwise seek to develop or commercialize.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes in the Company's significant accounting policies as of and for the nine months ended September 30, 2018, as compared with the significant accounting policies described in the Company's 2017 Annual Report.

Use of Estimates

The preparation of financial statements in conformity 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 as of 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.

Cash and Cash Equivalents

Cash consists of amounts held in financial institutions and consists of immediately available fund balances. The funds are maintained at stable financial institutions, generally at amounts in excess of federally insured limits. The Company has not experienced any losses in such accounts and management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Equity-linked Financial Instruments

The Company classifies outstanding common stock warrants with down-round features as equity if the instrument would otherwise be classified in equity absent the down-round feature. The Company will recognize the value of a down-round feature when it is triggered and the warrant's strike price has been adjusted downward, as a dividend and reduction of income available to common stockholders in computing basic earnings per share.

Net Loss Per Share

The Company determines basic net loss per share and diluted net loss per share in accordance with the provisions of ASC 260, "Earnings per Share." Basic net loss per share was calculated by dividing net loss by the weighted-average common shares outstanding during the period. Diluted net loss per share was calculated by dividing net loss by the weighted-average common shares outstanding during the period using the treasury stock method or the two-class method, whichever is more dilutive. The potentially dilutive stock options issued under the 2015 Stock Plan (described in Note 8), Series A Convertible Preferred Stock (described in Note 6) and warrants on the Company's common stock (described in Notes 6 and 7) were not considered in the computation of diluted net loss per share because they would be anti-dilutive.

Recent Accounting Pronouncements

On August 26, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, *Statement of Cash Flows (Topic 230),* a consensus of the FASB's Emerging Issues Task Force ("ASU 2016-15"). The new guidance amends Accounting Standards Codification No. 230 ("ASC 230") to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued ASU 2016-15 with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU 2016-15 is effective for annual and interim periods in fiscal years beginning after December 15, 2017 and is effective for the Company for the year ending December 31, 2018. The Company adopted ASU 2016-15 on January 1, 2018 and it did not have a material impact on the Company's financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. An entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments are effective for the Company's interim and annual reporting periods beginning January 1, 2018. The Company adopted ASU 2017-09 on January 1, 2018 and it did not have a material impact on its financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure* ("ASU 2018-13"). ASU 2018-13 improves the disclosure requirements on fair value measurements. It is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently evaluating the impact that adopting this guidance will have on its financial statements.

Other accounting standard updates effective after September 30, 2018 are not expected to have a material effect on the Company's financial statements.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated Life	September 30, 2018	December 31, 2017
Computers and equipment	5 years	$ 15,589	$ 13,582
Furniture and fixtures	7 years	19,158	19,158
Total property and equipment		34,747	32,740
Accumulated depreciation		(13,123)	(8,867)
Total property and equipment, net		$ 21,624	$ 23,873

Depreciation expense of approximately $1,500 and $1,300 was recognized for each of the three months ended September 30, 2018 and 2017, respectively, and approximately $4,300 and $3,900 was recognized for the nine months ended September 30, 2018 and 2017, respectively, and classified in general and administrative expense in the accompanying unaudited condensed statements of operations.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Master Services Agreement

On December 30, 2015, the Company entered into a Master Service Agreement with a clinical research organization, with an effective date of December 29, 2015. During the nine months ended September 30, 2018, the Company settled a balance with this clinical research organization resulting in a $894,000 decrease in accounts payable and a reduction

in research and development expense under the Master Service Agreement.

On May 1, 2018, the Company entered into an Amended and Restated Master Services Agreement ("Service Agreement") with a different clinical research organization ("CRO"), pursuant to which the CRO will perform certain services related to the management and execution of certain clinical trials involving the Company's lead product candidate, RP-G28. The Services Agreement supersedes the Master Service Agreement, dated August 30, 2016, by and between the Company and the CRO. The precise services to be performed by the CRO under the Services Agreement will be mutually agreed upon by the parties in writing and set forth in one or more task orders. The Company is not obligated to purchase any minimum or specific volume or dollar amount of services under the Services Agreement.

The term of the Services Agreement is four years from the effective date of the Service Agreement unless earlier terminated. The Company may terminate the Services Agreement or any task without cause immediately upon giving the CRO notice of such termination. The CRO may terminate a task order if the Company has materially defaulted on its obligations under the Services Agreement or any task order and has not cured such material default with advance notice to the Company, as described in the Services Agreement.

Clinical Supply and Cooperation Agreement

Effective July 24, 2015, the Company entered into an amended Clinical Supply and Cooperation Agreement (the "Amended Supply Agreement") with a contract manufacturer ("Manufacturer") of active pharmaceutical ingredients and one of its affiliates. The Amended Supply Agreement amends certain terms of the Clinical Supply and Cooperation Agreement, dated December 16, 2009, amended on September 25, 2010 (the "Existing Supply Agreement").

Under the Existing Supply Agreement, the Manufacturer granted the Company an exclusive worldwide option in a specified field and territory to assignment of all right, title and interest to a purified galacto-oligosaccharides product ("Improved GOS"), the composition of matter of the Improved GOS and any information relating to the Improved GOS, including certain specified technical information and other intellectual property rights (the "Improved GOS IP"). Pursuant to the amended terms, the Company could exercise the option by paying the Manufacturer $800,000 within ten days after the effective date of the Amended Supply Agreement. The Company exercised this option on July 30, 2015 and the Manufacturer transferred the Improved GOS IP to the Company. Under the terms of the Amended Supply Agreement, if a further option payment of $1 million due in the future is not made, the Company may be required to return the Improved GOS IP to the Manufacturer.

The Amended Supply Agreement also provides that the Company must pay the Manufacturer $400,000 within 10 days following FDA approval of a new drug application for the first product owned or controlled by the Company using Improved GOS as its active pharmaceutical ingredient.

Lease Agreement

On July 9, 2015, the Company entered into a lease with Century Park, a California limited partnership, pursuant to which the Company leased approximately 2,780 square feet of office space in Los Angeles, California for its headquarters. The lease provides for a term of sixty-one (61) months, commencing on October 1, 2015. The Company paid no rent for the first month of the term and paid base rent of $9,174 per month for months 2 through 13 of the term, with increasing base rent for each twelve-month period thereafter under the term of the lease to a maximum of $10,325 per month for months 50 through 61. The base rent payments do not include the Company's proportionate share of any operating expenses, including real estate taxes. The Company has the option to extend the term of the lease for one five-year term, provided that the rent would be subject to market adjustment at the beginning of the renewal term.

Rent expense is recognized on a straight-line basis over the lease term and is recorded in general and administrative expenses in the accompanying unaudited condensed statements of operations. Approximately $29,000 of rent expense was recognized for the three months ended September 30, 2018 and 2017, and $88,000 and $86,000 of rent expense was recognized for the nine months ended September 30, 2018 and 2017, respectively.

Legal

From time to time, we are party to legal claims and proceedings that arise in the ordinary course of business, which may relate to our operations or assets. These may include disputes and lawsuits related to intellectual property, licensing, contract law and employee relations matters. Periodically, the Company reviews the status of significant matters, if any exist, and assesses its potential financial exposure. If the potential loss from any claim or legal claim is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to pending claims and litigation. We do not believe that any individual legal claim or proceeding that is currently pending is material to the Company or that these claims and proceedings in the aggregate are material to the Company.

NOTE 6 - STOCKHOLDERS' EQUITY

On September 15, 2017, the Company amended its Amended and Restated Certificate of Incorporation to authorize the issuance of up to 225,000,000 shares of common stock, $0.001 par value per share, and 15,000,000 shares of preferred stock, $0.001 par value per share.

Effective March 23, 2018, all common share amounts and per share amounts have been adjusted to reflect a 1-for-10 reverse stock split.

As of September 30, 2018, the Company had 5,734,639 shares of common stock and 5,960 shares of Series A convertible preferred stock issued and outstanding. Each share of the Company’s common stock is entitled to one vote, and all shares rank equally as to voting and other matters. Each share of Series A preferred stock is convertible by the holder into 250 shares of common stock at a conversion price of $4.00 per share; subject to adjustment for stock splits, stock dividends, subsequent rights offerings, pro rata distributions, and fundamental transactions. Holders are entitled to receive, and the Company shall pay, dividends on outstanding shares of Series A preferred stock, on an as-if-converted-to-common-stock basis, equal to and in the same form as dividends actually paid on outstanding common shares when, as and if such dividends are paid on outstanding common shares. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of Series A preferred stock shall be entitled to receive out of the assets, whether capital or surplus, of the Company the same amount that a holder of common stock would receive if the Series A preferred stock were fully converted to common stock, which amounts shall be paid pari passu with all common shareholders. Holders of Series A preferred stock have no voting rights. However, as long as any shares of Series A preferred stock are outstanding, the Company shall not, without the affirmative vote of the holders of a majority of the then outstanding shares of Series A preferred stock, (a) alter or change adversely the powers, preferences or rights given to the Series A preferred stock or alter or amend the applicable Certificate of Designation, (b) amend the Company’s certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders of Series A preferred stock, (c) increase the number of authorized shares of Series A preferred stock, or (d) enter into any agreement with respect to any of the foregoing.

Aspire Capital Financing Arrangement

On May 4, 2017, the Company entered into a common stock purchase agreement with Aspire Capital Fund, LLC ("Aspire Capital") (the "2017 Aspire Purchase Agreement"), which provides that upon the terms and conditions set forth therein, Aspire Capital is committed to purchase up to an aggregate of $6.5 million shares of the Company's common stock over the 30-month term of the 2017 Aspire Purchase Agreement. On any trading day on which the closing sale price of the Company's common stock exceeds $2.50 per share, the Company has the right, in its sole discretion, to present Aspire Capital with a purchase notice, directing Aspire Capital (as principal) to purchase up to 10,000 shares of the Company's common stock per trading day, for up to $6.5 million of the Company's common stock in the aggregate at a per share price, calculated by reference to the prevailing market price of the Company's common stock (as provided in the 2017 Aspire Purchase Agreement); provided, however, that (subject to limited exceptions) the total number of shares that may be sold pursuant to the 2017 Aspire Purchase Agreement will be limited to 284,242 shares, which represents 19.99% of our outstanding shares of common stock as of May 2, 2017, unless stockholder approval or an exception pursuant to the rules of Nasdaq is obtained to issue more than 19.99% of our outstanding shares as of May 2, 2017.

As a condition to the 2017 Aspire Purchase Agreement, the Company issued 13,732 shares of its common stock to Aspire Capital as a commitment fee. As of September 30, 2018, no shares of common stock have been sold to Aspire Capital under the 2017 Aspire Purchase Agreement.

October 2017 Public Offering

On October 3, 2017, the Company closed a public offering, selling an aggregate of (i) 3,455,000 Class A Units consisting of 3,455,000 shares of the Company's common stock and warrants to purchase 3,455,000 shares of the Company's common stock at a public offering price of $4.00 per unit, and (ii) 9,180 Class B Units consisting of 9,180 shares of Series A convertible preferred stock, with a stated value of $1,000 per unit, and convertible into an aggregate of 2,295,000 shares of the Company's common stock, and warrants to purchase an aggregate of 2,295,000 shares of the Company's common stock. The securities were offered by the Company pursuant to a registration statement filed with the SEC that was declared effective on September 28, 2017. The final prospectus relating to the offering was filed with the SEC on October 2, 2017.

The warrants have an exercise price of $4.40, are exercisable upon issuance and expire five years from the date of issuance. The warrant agreements provide for an adjustment to the number of common shares issuable under the warrants and/or adjustment to the exercise price, including but not limited to, if: (a) the Company issues shares of common stock as a dividend or distribution to holders of its common stock; (b) the Company subdivides or combines its common stock; or (c) the Company issues new securities at a price less than the exercise price of the warrants.

The Company granted the underwriters a 45-day option to purchase an additional 862,500 shares of the Company's common stock and/or warrants to purchase an additional 862,500 shares of the Company's common stock. At the closing of the offering, the underwriters exercised their over-allotment option for warrants to purchase 297,500 shares of the Company's common stock.

Aggregate gross proceeds to the Company from the public offering were approximately $23.0 million. The Company paid underwriting discounts and commissions of approximately $1.6 million in connection with the offering, and approximately $0.4 million of other expenses in connection with the offering.

The Company early adopted the provisions of ASU 2017-11 in recognizing the warrants. As a result, the exercise price reset provisions were excluded from the assessment of whether the warrants are considered indexed to the Company's own stock. The warrants otherwise meet the requirements for equity classification, and as such were initially classified in Stockholders' Equity. The Company will recognize the value of the exercise price reset provision if and when it becomes triggered, by recognizing the value of the effect of the exercise price reset as a deemed dividend and a reduction of income available to common shareholders in computing basic earnings per share.

The proceeds received in the October 2017 Public Offering were allocated to each instrument on a relative fair value basis. Total proceeds of $23.0 million were allocated as follows: $10.1 million to warrants issued, $7.8 million to Common Stock, and $5.1 million to Series A convertible preferred stock. The allocation resulted in an effective conversion price for the Series A preferred stock that was below the quoted market price of the Company's common stock on the closing date. As such, the Company recognized a beneficial conversion feature equal to the intrinsic value of the conversion feature on the closing date, resulting in a deemed dividend for the Series A convertible preferred stock of approximately $3.1 million recognized on the closing date.

In the nine-month period ended September 30, 2018, holders of 3,180 shares of Series A convertible preferred stock converted their shares of preferred stock into an aggregate of 795,000 shares of common stock at the stated conversion price of $4.00 per share.

NOTE 7 - WARRANTS

Warrants to purchase an aggregate of 6,105,332 shares of the Company's common stock were outstanding at September 30, 2018. These warrants are all vested and exercisable, have exercise prices ranging from $4.40 to $93.00 per share, with a weighted average exercise price of $5.20, and expire at various dates through October 2022.

NOTE 8 - STOCK-BASED COMPENSATION

Equity Incentive Plans

The Company has issued equity awards pursuant to its 2015 Equity Incentive Plan (the "2015 Plan"), 2009 Stock Plan and 2008 Stock Plan (collectively the "Plans"). The Plans permit the Company to grant non-statutory stock options, incentive stock options and other equity awards to the Company's employees, outside directors and consultants; however, incentive stock options may only be granted to the Company's employees. Beginning June 29, 2015, no further awards may be granted under the 2009 Stock Plan or 2008 Stock Plan. However, to the extent awards under the 2008 Plan or 2009 Plan are forfeited or lapse unexercised or are settled in cash, the common stock subject to such awards will be available for future issuance under the 2015 Plan.

On June 2, 2017, the stockholders of the Company approved an amendment to the 2015 Plan at the 2017 annual meeting of stockholders, which among other things, increased the number of shares that may be issued pursuant to awards under the 2015 Plan by 83,800 shares of common stock.

On September 15, 2017, the stockholders of the Company approved an amendment to the 2015 Plan at a special meeting of stockholders, which among other things, increased the number of shares that may be issued pursuant to awards under the 2015 Plan by 2,585,871 shares of common stock. As of September 30, 2018, the aggregate number of shares of common stock authorized for issuance under the 2015 Plan, as amended, was 2,750,000 and 2,697,950 shares were available for issuance as of September 30, 2018.

The following represents a summary of the options granted to employees and non-employees that are outstanding at September 30, 2018 and changes during the nine-month period then ended:

Options

		Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2017	254,171	$ 47.43	$ –	7.3
Granted	456,718	$ 3.16	$ –	9.3
Exercised/ Expired/ Forfeited	(14,504)	$ 4.69	$ –	–
Outstanding at September 30, 2018	696,385	$ 19.29	$ –	8.5
Exercisable at September 30, 2018	258,523	$ 53.07	$ –	6.9

The exercise price for an option issued under the Plans is determined by the Board of Directors, but will be (i) in the case of an incentive stock option (A) granted to an employee who, at the time of grant of such option, is a 10% stockholder, no less than 110% of the fair market value per share on the date of grant; or (B) granted to any other employee, no less than 100% of the fair market value per share on the date of grant; and (ii) in the case of a non-statutory stock option, no less than 100% of the fair market value per share on the date of grant. The options awarded under the Plans will vest as determined by the Board of Directors but will not exceed a ten-year period. The weighted average grant date fair value per share of options granted during the nine months ended September 30, 2018 was $0.90.

Fair Value of Equity Awards

The Company utilizes the Black-Scholes option pricing model to value awards under its Plans. Key valuation assumptions include:

Expected dividend yield. The expected dividend is assumed to be zero as the Company has never paid dividends and has no current plans to pay any dividends on the Company’s common stock.

Expected stock-price volatility. As the Company’s common stock only recently became publicly traded, the expected volatility is derived from the average historical volatilities of publicly traded companies within the Company’s industry that the Company considers to be comparable to the Company’s business over a period approximately equal to the expected term.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term.

Expected term. The expected term represents the period that the stock-based awards are expected to be outstanding. The Company’s historical share option exercise experience does not provide a reasonable basis upon which to estimate an expected term because of a lack of sufficient data. Therefore, the Company estimates the expected term by using the simplified method provided by the SEC. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options.

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The material factors incorporated in the Black-Scholes model in estimating the fair value of the options granted for the periods presented were as follows (adjusted for 1-for-10 reverse stock split):

	For the three months ended		For the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Expected dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Expected stock-price volatility	48.89% – 50.22%	53.08% – 53.68%	46.47% – 53.11%	53.08% – 53.90 %
Risk-free interest rate	2.78% – 3.07 %	1.89% – 2.29 %	2.46% – 3.07 %	1.98% – 2.37 %
Expected average term of options	7 – 10	10	5 – 10	10
Stock price	$ 1.85 – $2.22	$ 3.50 – $6.50	$ 1.85 – $3.40	$ 3.50 – $10.80

Stock-Based Compensation

The Company recognized stock-based compensation expense for services within general and administrative expense in the accompanying statements of operations of approximately $171,000 and $203,000 for the three months ended September 30, 2018 and 2017, respectively, and $562,000 and $746,000 for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was approximately $613,000 of total unrecognized compensation cost related to unvested stock-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.7 years.

No stock options were exercised during the three and nine months ended September 30, 2018 and 2017.

NOTE 9 - RELATED PARTY TRANSACTIONS

A director of the Company is a managing director of Javelin Venture Partners GP, LLC, the general partner of Javelin Venture Partners GP, L.P., which holds a significant investment in the Company’s common stock and warrants. Two directors of the Company have acted as a managing director of Stonehenge Partners, LLC, which holds an investment in the Company’s common stock.

The Company has not entered into or been a participant in any other transaction in which a related party had or will have a direct or indirect material interest.

NOTE 10 – SUBSEQUENT EVENTS

On November 5, 2018, the Company closed a private placement ("PIPE financing") with certain institutional investors, a key vendor and a member of its board of directors. Gross proceeds from the PIPE financing were approximately $6.0 million, before deducting placement agent fees and other offering expenses. The securities sold by the Company consisted of 6,000 shares of a newly designated class of Series B convertible preferred stock of the Company, with a stated value of $1,000 per share and an initial conversion price per share of $1.30 (subject to customary adjustment for stock dividends and stock splits). In addition, each investor received a warrant to purchase a number of shares of common stock equal to one half the number of shares of common stock into which their Series B convertible preferred stock is initially convertible. The warrants are exercisable immediately for a five-year period and have an exercise price of $1.30 per share (subject to customary adjustment for stock dividends and stock splits). Certain investors in the PIPE financing who at the time of closing of the PIPE financing owned shares of the Company's Series A convertible preferred stock, exchanged, on a 1 for 1 share basis, their shares of Series A convertible preferred stock for shares of a newly designated class of Series C convertible preferred stock of the Company, with a stated value of $1,000 per share and convertible into shares of the Company's common stock at an initial conversion price per share of $1.64 (subject to customary adjustment for stock dividends and stock splits).

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our interim unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q ("Quarterly Report") and the audited financial statements and notes thereto as of and for the year ended December 31, 2017 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission ("SEC") on March 19, 2018 (the "2017 Annual Report"). As used in this report, unless the context suggests otherwise, "we," "us," "our," or "Ritter" refer to Ritter Pharmaceuticals, Inc. All common share amounts and per share amounts have been adjusted to reflect a 1-for-10 reverse stock split of our common stock on March 23, 2018. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions.

Special Note Regarding Forward-Looking Statements and Industry Data

This Quarterly Report contains forward-looking statements that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," "would" and similar intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that we believe could cause actual results to differ from those anticipated or predicted include:

- our ability to obtain additional financing;
- the accuracy of our estimates regarding expenses, future revenues and capital requirements;
- the success and timing of our preclinical studies and clinical trials;
- our ability to obtain and maintain regulatory approval of RP-G28 and any other product candidates we may develop, and the labeling under any approval we may obtain;
- regulatory developments in the United States and other countries;

the performance of third-party manufacturers;

our ability to develop and commercialize RP-G28 and any other product candidates that we may develop in the future;

our ability to obtain and maintain intellectual property protection for RP-G28 and any other product candidates we may develop in the future;

the successful development of our sales and marketing capabilities;

the potential markets for RP-G28 and any other product candidates we may develop in the future and our ability to serve those markets;

the rate and degree of market acceptance of our products, if approved;

the success of competing drugs that are or become available; and

the loss of key scientific or management personnel.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics, and healthcare, regulatory and scientific developments and depend on the economic circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this Quarterly Report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report, they may not be predictive of results or developments in future periods.

Any forward-looking statement that we make in this Quarterly Report speaks only as of the date of such statement, and we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report. You should also read carefully the factors described in the “Risk Factors” section of our 2017 Annual Report and this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

Overview

Ritter Pharmaceuticals, Inc. develops novel therapeutic products that modulate the gut microbiome to treat gastrointestinal diseases. Our lead product candidate, RP-G28, has the potential to become the first drug approved by the Food and Drug Administration (“FDA”) for the treatment of lactose intolerance, a condition that affects millions worldwide. RP-G28 has been studied in Phase 2 clinical trials and is now in Phase 3 clinical development with its first Phase 3 study currently underway. We are further exploring the functionality and discovering the therapeutic potential that gut microbiome changes may have on treating/preventing a variety of conditions including: gastrointestinal cancer, metabolic, and liver diseases.

Our first novel microbiome modulator, RP-G28, an orally administered, high purity galacto-oligosaccharide, is currently under development for the treatment of lactose intolerance. RP-G28 is designed to selectively stimulate the growth of lactose-metabolizing bacteria in the colon, thereby effectively adapting the gut microbiome to assist in digesting lactose (the sugar found in milk) that reaches the large intestine.

Our current Phase 3 clinical program includes two confirmatory clinical trials of similar trial design as our Phase 2b clinical trial. The first Phase 3 clinical trial was initiated in the second quarter of 2018.

We have devoted substantially all of our resources to development efforts relating to RP-G28, including conducting clinical trials of RP-G28, providing general and administrative support for these operations and protecting our intellectual property. We currently do not have any products approved for sale and we have not generated any revenue from product sales since our inception.

Financial Operations Overview

We have incurred net losses in each year since our inception, including net losses of approximately $10.2 million for the nine months ended September 30, 2018. We had an accumulated deficit of approximately $63.6 million as of September 30, 2018. Substantially all of our net losses resulted from costs incurred in connection with our research

and development programs, patent costs, stock-based compensation, and from general and administrative costs associated with our operations.

We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. We anticipate that our expenses will increase substantially as we:

- complete the development of our lead product candidate, RP-G28;
- seek to obtain regulatory approvals for RP-G28;
- outsource the commercial manufacturing of RP-G28 for any indications for which we receive regulatory approval;
- contract with third parties to develop our commercial strategies and for the sales, marketing and distribution of RP-G28 for any indications for which we receive regulatory approval;
- maintain, expand and protect our intellectual property portfolio;
- continue our research and development efforts; and
- add operational, financial and management information systems and personnel, including personnel to support our business and product development and commercialization efforts.

Research and Development Expenses

Since our inception, we have focused our resources on our research and development activities, including conducting nonclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for RP-G28. Our research and development expenses consist primarily of:

- fees paid to consultants and clinical research organizations ("CROs"), including in connection with our nonclinical and clinical trials, and other related clinical trial fees, such as for investigator grants, patient screening, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis;
- costs related to acquiring and manufacturing clinical trial materials;
- depreciation of equipment, computers and furniture and fixtures;
- costs related to compliance with regulatory requirements; and
- overhead expenses for personnel in research and development functions.

From inception through September 30, 2018, we have incurred approximately $28.3 million in research and development expenses. We plan to increase our research and development expenses for the foreseeable future as we continue the development of RP-G28 for lactose intolerance and other indications, subject to the availability of additional funding.

The successful development of RP-G28 is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the development of RP-G28 or when, if ever, net cash inflows from RP-G28 may commence. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress and expense of our ongoing, as well as any additional, clinical trials and other research and development activities;
- future clinical trial results; and
- the timing and receipt of any regulatory approvals.

For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of the clinical development of RP-G28 or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional

financial resources and time on the completion of clinical development.

Patent Costs

Patent costs consist primarily of professional fees for legal services to prosecute patents and maintain patent rights.

General and Administrative Expenses

General and administrative expenses include allocation of facilities costs, salaries, benefits, and stock-based compensation for employees, professional fees for directors, fees for independent contractors and accounting and legal services.

We expect that our general and administrative expenses will increase if RP-G28 is approved for commercialization. We believe that these increases will likely include increased costs for director and officer liability insurance, and increased fees for outside consultants, lawyers and accountants, among other expenses.

Interest Income and Interest Expense

Interest income consists of interest earned on our cash.

Critical Accounting Policies and Estimates

This discussion and analysis is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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 the disclosure of contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to fair value of financial instruments, research and development costs, accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operation and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2017 Annual Report on Form 10-K. There have not been any material changes to such critical accounting estimates since December 31, 2017.

Fair Value of Financial Instruments

Fair value measurement guidelines are prescribed by GAAP to value financial instruments. The guidance includes a definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models consider various assumptions, including volatility factors, current market prices and contractual prices for the underlying financial instruments. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 - Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable

The carrying amounts reported in the balance sheet for cash and cash equivalents, prepaid expenses, accounts payable, accrued expenses, and the notes payable approximate the fair values due to the short-term nature of the instruments.

Research and Development Costs

We expense the cost of research and development as incurred. Research and development expenses comprise costs incurred in performing research and development activities, including clinical study costs, contracted services, and other external costs. Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity is performed or when the goods have been received, rather than when payment is made, in accordance with ASC 730, *Research and Development*.

Accrued Expenses

As part of the process of preparing our financial statements, we are required to estimate our accrued expenses. This process involves reviewing quotations and contracts, identifying services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of the actual cost. The majority of our service providers invoice us monthly in arrears for services performed or when contractual milestones are met. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. We periodically confirm the accuracy of our estimates with the service providers and make accrued expense adjustments, if necessary. The significant estimates in our accrued research and development expenses include fees due to service providers.

Emerging Growth Company Status

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "Securities Act"), for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

We are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company," we intend to rely on certain of these exemptions, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (i) the last day of the fiscal year (a) following the fifth anniversary of the date we completed our initial public offering, which was June 29, 2015, (b) in which we have total annual gross revenue of at least $1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeded $700.0 million as of the prior June 30th, and (ii) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Results of Operations

Comparison of the Three Months Ended September 30, 2018 and 2017

The following table summarizes our results of operations for the three months ended September 30, 2018 and 2017, together with the changes in those items in dollars and as a percentage:

	For the Three Months Ended September 30,		Dollar	Percentage	
	2018	2017	Change	Change	
Statement of Operations Data:					
Operating costs and expenses					
Research and development	$3,459,681	$915,268	$2,544,413	278	%
Patent costs	59,068	47,431	11,637	25	%
General and administrative	1,144,750	1,052,236	92,514	9	%
Total operating costs and expenses	4,663,499	2,014,935	2,648,564	131	%
Operating loss	(4,663,499)	(2,014,935)	(2,648,564)	131	%
Other income:					
Interest income	17,237	4,083	13,154	322	%
Total other income	17,237	4,083	13,154	322	%
Net Loss	$(4,646,262)	$(2,010,852)	$(2,635,411)	131	%

Research and Development Expenses

Research and development expenses increased by approximately $2.5 million, or 278%, during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. The primary reason for this increase is due to the costs associated with the launch and conduct of our Phase 3 clinical trial of RP-G28 in the current period, including manufacturing costs. Research and development expenses during the three months ended September 30, 2017 primarily reflect extension study costs and continued Phase 3 program analysis costs.

Patent Costs

Patent costs during the three months ended September 30, 2018 were relatively consistent as compared to the same period in 2017. Patent costs relate to our maintenance of patent rights and the prosecution of patents, new patent applications and our preparation to file national phase applications in certain foreign countries. During the three months ended September 30, 2018, there were no patents issued.

General and Administrative Expenses

General and administrative expenses increased approximately $93,000, or 9%, during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to increased insurance expenses, public and investor relations fees and professional fees, offset by a decrease in stock-based compensation. Approximately $171,000 in stock-based compensation expense was recognized during the three months ended September 30, 2018, as compared to approximately $203,000 during the same period in 2017.

Other Income

Other income increased by approximately $13,000, or 322%, during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, due to interest income on higher average cash balance in the three months ended September 30, 2018 as compared to the comparative period ended September 30, 2017.

Comparison of the Nine Months Ended September 30, 2018 and 2017

The following table summarizes our results of operations for the nine months ended September 30, 2018 and 2017, together with the changes in those items in dollars and as a percentage:

	For the Nine Months Ended September 30,		Dollar	Percentage
	2018	2017	Change	Change
Statement of Operations Data:				
Operating costs and expenses				
Research and development	$6,180,607	$2,121,898	$4,058,709	191 %
Patent costs	170,418	175,794	(5,376)	(3 %)
General and administrative	3,957,545	3,367,781	589,764	18 %
Total operating costs and expenses	10,308,570	5,665,473	4,643,097	82 %
Operating loss	(10,308,570)	(5,665,473)	(4,643,097)	82 %
Other income:				
Interest income	64,965	18,362	46,603	254 %
Total other income	64,965	18,362	46,603	254 %
Net Loss	$(10,243,605)	$(5,647,111)	$(4,596,494)	81 %

Research and Development Expenses

Research and development expenses increased by approximately $4.1 million, or 191%, during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The primary reason for this increase is due to costs associated with the preparation, launch and conduct of our Phase 3 clinical trial of RP-G28 in the current period, including manufacturing costs. Research and development expenses during the nine months ended September 30, 2017 primarily reflect extension study costs and continued Phase 3 program analysis costs.

Patent Costs

Patent costs during the nine months ended September 30, 2018 were relatively consistent as compared to the same period in 2017. Patent costs relate to our maintenance of patent rights and the prosecution of patents, new patent applications and our preparation to file national phase applications in certain foreign countries. During the nine months ended September 30, 2018, there were no patents issued.

General and Administrative Expenses

General and administrative expenses increased by approximately $590,000, or 18%, during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to increased personnel costs due to hiring and one-time employee separation payments and an increase in professional fees, offset by a decrease in stock-based compensation. Approximately $562,000 in stock-based compensation expense was recognized during the nine months ended September 30, 2018, as compared to approximately $746,000 during the same period in 2017.

Other Income

Other income increased by approximately $47,000, or 254%, during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, due to increased interest income on higher average cash balance in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017.

Liquidity and Capital Resources

Since our inception, we have incurred net losses and negative cash flows from operations, and, as of September 30, 2018, we had an accumulated deficit of approximately $63.6 million. Substantially all of our net losses resulted from costs incurred in connection with our research and development programs, stock-based compensation, and from general and administrative costs associated with our operations.

At September 30, 2018, we had working capital of approximately $10.4 million, and cash of approximately $12.5 million. We have not generated any product revenues and have not achieved profitable operations.

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods set forth below:

	For the Nine Months Ended September 30,	
	2018	2017
Net cash (used in) provided by:		
Operating activities	$(10,130,131)	$(5,176,622)
Investing activities	(2,008)	–
Financing activities	(3,256)	1,689,214
Net decrease in cash and cash equivalents	$(10,135,395)	$(3,487,408)

Operating Activities

During the nine months ended September 30, 2018, net cash used in operating activities of approximately $10.1 million primarily reflects our net loss for the period of approximately $10.2 million and a non-cash adjustment of approximately $894,000 relating to an accounts payable settlement, offset by non-cash charges of approximately $562,000 for stock-based compensation expense and changes in our working capital accounts, mainly consisting of an increase in accounts payable of $787,000 and a decrease in accrued expenses of $46,000.

Net cash used in operating activities of approximately $5.2 million during the nine months ended September 30, 2017 primarily reflects our net loss for the period of approximately $5.6 million, offset by non-cash charges of approximately $746,000 for stock-based compensation expense and changes in our working capital accounts, mainly consisting of an increase in accounts payable of $849,000 and a decrease in accrued expenses of approximately $1.0 million.

Investing Activities

Net cash used in investing activities of approximately $2,000 during the nine months ended September 30, 2018 related to the purchase of office furniture and equipment.

No cash was used in investing activities for the nine months ended September 30, 2017.

Financing Activities

Net cash used in financing activities of approximately $3,000 during the nine months ended September 30, 2018 related to the payout of fractional shares to stockholders relating to the reverse stock split.

Net cash provided by financing activities of approximately $1.7 million during the nine months ended September 30, 2017 resulted from proceeds received from the sale of common shares to Aspire Capital Fund, LLC ("Aspire Capital") pursuant to a previous stock purchase agreement with Aspire Capital which was terminated on May 4, 2017, offset by $0.3 million of deferred offering costs.

Sources of Liquidity

Aspire Capital Financing Arrangement

On May 4, 2017, we entered into a common stock purchase agreement (the "2017 Aspire Purchase Agreement") with Aspire Capital. The 2017 Aspire Purchase Agreement provides us with access of up to an aggregate of $6.5 million through the sale of shares of our common stock, over a 30-month period (subject to limitations described below). In consideration for entering into the 2017 Aspire Purchase Agreement, we issued to Aspire Capital 13,732 shares of our common stock with an aggregate dollar value equal to $97,500 (the "Commitment Shares").

Under the 2017 Aspire Purchase Agreement, on any trading day on which the closing price of our common stock exceeds $2.50 per share, we have the right, in our sole discretion, to present Aspire Capital with a purchase notice (each, a "Purchase Notice"), directing Aspire Capital (as principal) to purchase up to 10,000 shares of our common stock per trading day (which may be increased by as much as an additional 200,000 shares per trading day by mutual agreement), up to an aggregate of $6.5 million of our common stock (subject to limitations described below), at a per share price (the "Purchase Price") equal to the lesser of:

- the lowest sale price of our common stock on the sale date; or
- the arithmetic average of the three lowest closing sale prices for our common stock during the ten (10) consecutive trading days ending on the trading day immediately preceding the sale date.

The aggregate purchase price payable by Aspire Capital on any one purchase date may not exceed $50,000, unless otherwise mutually agreed.

In addition, on any date on which we submit a Purchase Notice to Aspire Capital in an amount equal to 10,000 shares and our stock price is not less than $2.50 per share, we may also, in our sole discretion, present Aspire Capital with a volume-weighted average price purchase notice (each, a "VWAP Purchase Notice") directing Aspire Capital to purchase an amount of our common stock equal to up to 30% of the aggregate shares of our common stock traded on its principal market on the next trading day (the "VWAP Purchase Date"), as determined by us. The purchase price per share pursuant to such VWAP Purchase Notice is generally 97% of the volume-weighted average price for our common stock traded on its principal market on the VWAP Purchase Date.

We may deliver multiple Purchase Notices and VWAP Purchase Notices to Aspire Capital from time to time during the term of the 2017 Aspire Purchase Agreement, so long as the most recent purchase has been completed.

The 2017 Aspire Purchase Agreement provides that the number of shares that may be sold to Aspire Capital (including the Commitment Shares) will be limited to 284,242 shares (the "Exchange Cap"), which represents 19.99% of our outstanding shares of common stock as of May 2, 2017, unless stockholder approval or an exception pursuant to the rules of Nasdaq is obtained to issue more than 19.99% of our outstanding shares as of May 2, 2017. This limitation will not apply if, at any time the Exchange Cap is reached and at all times thereafter, the average price paid for all shares issued under the 2017 Aspire Purchase Agreement is equal to or greater than $6.80, which was the consolidated closing bid price of our common stock on May 4, 2017. We are not required or permitted to issue any shares of common stock under the 2017 Aspire Purchase Agreement if such issuance would breach our obligations under the rules or regulations of Nasdaq.

As of September 30, 2018, no shares of common stock have been sold to Aspire Capital under the 2017 Aspire Purchase Agreement.

October 2017 Public Offering

On October 3, 2017, we closed a public offering of (i) 3,455,000 Class A Units consisting of 3,455,000 shares of our common stock and warrants to purchase 3,455,000 shares of our common stock, at a public offering price of $4.00 per unit, and (ii) 9,180 Class B Units consisting of 9,180 shares of our Series A Convertible Preferred stock, with a stated value of $1,000, and convertible into an aggregate of 2,295,000 shares of our common stock, and warrants to purchase 2,295,000 shares of our common stock, at a public offering price of $1,000 per unit. We received approximately $21.0 million in net proceeds from this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. The offering was made pursuant to a shelf registration statement on Form S-1

(Registration Number 333-219147).

November 2018 Private Placement Financing

On November 5, 2018, we closed a private placement ("PIPE financing") with certain institutional investors, a key vendor and a member of our board of directors. Gross proceeds from the PIPE financing were approximately $6.0 million, before deducting placement agent fees and other offering expenses. The securities that we sold consisted of 6,000 shares of our newly designated class of Series B convertible preferred stock, with a stated value of $1,000 per share and an initial conversion price per share of $1.30 (subject to customary adjustment for stock dividends and stock splits). In addition, each investor received a warrant to purchase a number of shares of common stock equal to one half the number of shares of common stock into which their Series B convertible preferred stock is initially convertible. The warrants are exercisable immediately for a five-year period and have an exercise price of $1.30 per share (subject to customary adjustment for stock dividends and stock splits). Certain investors in the PIPE financing who at the time of closing of the PIPE financing owned shares of our Series A convertible preferred stock, exchanged, on a 1 for 1 share basis, their shares of Series A convertible preferred stock for shares of our newly designated class of Series C convertible preferred stock, with a stated value of $1,000 per share and convertible into shares of the our common stock at an initial conversion price per share of $1.64 (subject to customary adjustment for stock dividends and stock splits).

Future Funding Requirements

To date, we have not generated any revenue. We do not know when, or if, we will generate any revenue from product sales. We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize RP-G28 or any of our other product candidates. At the same time, we expect our expenses to increase in connection with our ongoing development activities, particularly as we continue the research, development and clinical trials of, and seek regulatory approval for, RP-G28. In addition, subject to obtaining regulatory approval of RP-G28, we expect to incur significant commercialization expenses for product sales, marketing, manufacturing and distribution. We anticipate that we will need substantial additional funding in connection with our continuing operations.

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

- the ability of RP-G28 and any other product candidates that we may develop in the future to progress through clinical development successfully;
- the outcome, costs and timing of seeking and obtaining FDA approval;
- the willingness of the European Medicines Agency or other regulatory agencies outside the United States to accept our Phase 2b and any Phase 3 trials of RP-G28, as well as our other completed and planned clinical and nonclinical studies and other work, as the basis for review and approval of RP-G28 in the European Union for the reduction of symptoms associated with lactose intolerance in patients;
- our need to expand our research and development activities;
- the costs associated with securing and establishing commercialization and manufacturing capabilities;
- market acceptance of RP-G28 and any other product candidates that we may develop in the future;
- the costs of acquiring, licensing or investing in businesses, products, product candidates and technologies;
- our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;
- our need and ability to hire additional management and scientific and medical personnel;
- the effect of competing technological and market developments;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems;
- the economic and other terms, timing of and success of our existing licensing arrangements and any collaboration, licensing or other arrangements into which we may enter in the future; and
- the costs of operating as a public company.

We expect that significant ongoing operating expenditures will be necessary to successfully implement our business plan and develop, manufacture, and market our products. Based on our current operating plan, our existing cash and cash equivalents, together with interest, may not be sufficient to fund our operations for the next twelve months from the date of this filing. Our operations have been and will continue to be dependent upon management’s ability to raise operating capital through a combination of equity offerings (including sales pursuant to the 2017 Aspire Purchase Agreement), debt financings, government or other third-party funding, commercialization, marketing and distribution arrangements and other collaborations, strategic alliances and licensing agreements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that

adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through government or other third-party funding, commercialization, marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

Contractual Obligations and Commitments

Other than as disclosed in Note 5 Commitment and Contingencies of our unaudited financial statements included in the Quarterly Report, there have been no material changes to our contractual obligations and commitments from those disclosed in our 2017 Annual Report.

Off-Balance Sheet Arrangements

Through September 30, 2018, we do not have any off-balance sheet arrangements, as defined by applicable SEC regulations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide the information required by Item 3.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018, the end of the period covered by this Quarterly Report.

Based on their evaluation, we believe that our disclosure controls and procedures as of September 30, 2018 were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls 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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any legal matters arising in the normal course of business. From time to time, the Company could become involved in disputes and various litigation matters that arise in the normal course of business. These may include disputes and lawsuits related to intellectual property, licensing, contract law and employee relations matters.

ITEM 1A. RISK FACTORS.

The risks described in Item 1A. Risk Factors of our 2017 Annual Report filed with the SEC on March 19, 2018 could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in our 2017 Annual Report do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. Except as set forth below, there are no material changes from the disclosure provided in the Annual Report with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

Our failure to meet the continued listing requirements of Nasdaq could result in a de-listing of our common stock.

If we fail to satisfy the continued listing requirements of Nasdaq, such as the corporate governance requirements or the minimum closing bid price requirement, Nasdaq may take steps to de-list our common stock. Such a de-listing would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a de-listing, we would take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with Nasdaq's listing requirements.

On June 7, 2017, we received a notice from Nasdaq that, because the closing bid price of our common stock had been below $1.00 per share for 30 consecutive business days, we no longer complied with the minimum bid price requirement for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 550(a)(2) requires listed securities to maintain a minimum bid price of $1.00 per share, and Listing Rule 5810(c)(3)(A) provides that a failure

to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days.

On November 2, 2017, our board of directors approved a reverse stock split of our outstanding shares of common stock at a ratio within a range of 1-for-8 to 1-for-15, to be determined by the board of directors at a later date, and subject to stockholder approval. At a special meeting of stockholders held on December 20, 2017, our stockholders approved the reverse stock split within a range of 1-for-8 to 1-for-15. On March 1, 2018, our board of directors approved a 1-for-10 reverse stock split, with an anticipated effective date of on or before March 23, 2018. On May 23, 2018, we effected a 1-for-10 reverse stock split in order to regain compliance with the minimum bid price requirement. On April 9, 2018, after 10 consecutive days of trading, we received notification from the Nasdaq Stock Market indicating that we had regained compliance. However, there can be no assurance that the closing bid price of our common stock will not fall below the minimum bid price requirement again.

We cannot be certain that RP-G28 will receive regulatory approval, and without regulatory approval we will not be able to market RP-G28.

The development of a product candidate and issues relating to its approval and marketing are subject to extensive regulation by the FDA in the United States, the EMA in Europe, and regulatory authorities in other countries, with regulations differing from country to country. We are not permitted to market our product candidates in the United States or Europe until we receive approval of a NDA from the FDA or a MAA from the EMA, respectively. We have not submitted any marketing applications for RP-G28.

NDAs and MAAs must include extensive preclinical and clinical data and supporting information to establish the product candidate’s safety and effectiveness for each desired indication. NDAs and MAAs must also include significant information regarding the chemistry, manufacturing and controls for the product. Obtaining approval of a NDA or a MAA is a lengthy, expensive and uncertain process, and we may not be successful in obtaining approval. The FDA and the EMA review processes can take years to complete and approval is never guaranteed. If we submit a NDA to the FDA, the FDA must decide whether to accept or reject the submission for filing. We cannot be certain that any submissions will be accepted for filing and review by the FDA. Regulators of other jurisdictions, such as the EMA, have their own procedures for approval of product candidates. Even if a product is approved, the FDA or the EMA, as the case may be, may limit the indications for which the product may be marketed, require extensive warnings on the product labeling or require expensive and time-consuming clinical trials or reporting as conditions of approval. Regulatory authorities in countries outside of the United States and Europe also have requirements for approval of drug candidates with which we must comply prior to marketing in those countries. Obtaining regulatory approval for marketing of a product candidate in one country does not ensure that we will be able to obtain regulatory approval in any other country. In addition, delays in approvals or rejections of marketing applications in the United States, Europe or other countries may be based upon many factors, including regulatory requests for additional analyses, reports, data, preclinical studies and clinical trials, regulatory questions regarding different interpretations of data and results, changes in regulatory policy during the period of product development and the emergence of new information regarding our product candidates or other products. Also, regulatory approval for any of our product candidates may be withdrawn.

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We have completed a Phase 2a clinical trial and a Phase 2b clinical trial for RP-G28. In June 2018, we commenced the first pivotal Phase 3 clinical trial of RP-G28.

We will also need to conduct rat and embryo-fetal development toxicity studies.

Additional non-clinical development may be required to be conducted based on future FDA feedback and guidance. We cannot predict whether our future trials and studies will be successful or whether regulators will agree with our conclusions regarding the preclinical studies and clinical trials we have conducted to date.

If we are unable to obtain approval from the FDA, the EMA or other regulatory agencies for RP-G28, we will not be able to market RP-G28. If we are unable to market RP-G28, we may not be able to ever become profitable.

Our current and future operations substantially depend on our Chief Executive Officer and our ability to hire other key personnel, the loss of any of whom could disrupt our business operations.

Our business depends and will continue to depend in substantial part on the continued service of Mr. Andrew Ritter, the Company's Chief Executive Officer. The loss of the services of Mr. Ritter would significantly impede implementation and execution of our business strategy and may result in the failure to reach our goals.

Our future viability and ability to achieve sales and profits will also depend on our ability to attract, train, retain and motivate highly qualified personnel in the diverse areas required for continuing operations. There is a risk that we will be unable to attract, train, retain or motivate qualified personnel, both near term or in the future, and the failure to do so may severely damage its prospects.

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

Unregistered Sales of Equity Securities

None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None

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ITEM 6. EXHIBITS

Exhibit No.	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock				
3.2	Certificate of Designation of Preferences, Rights and Limitations Series C Convertible Preferred Stock				
4.2	Agreement and General Release, dated June 26, 2018, by and between Ritter Pharmaceuticals, Inc. and Michael D. Step	8-K	001-37428	10.1	7/2/2018
10.1	Consulting Agreement, dated June 28, 2018, by and between Ritter Pharmaceuticals, and Michael D. Step	8-K	001-37428	10.2	7/2/2018
10.2	Amended and Restated Offer Letter, dated June 26, 2018, by and between Ritter Pharmaceuticals, Inc and Andrew J. Ritter	10-Q	001-37428	10.5	8/14/2018
10.3	Securities Purchase Agreement, by and among Ritter Pharmaceuticals, Inc. and the Purchasers signatory thereto, dated October 30, 2018				
10.4	Form of Common Stock Purchase Warrant				
10.5	Registration Rights Agreement, by and among Ritter Pharmaceuticals, Inc. and the Purchasers signatory thereto, dated October 30, 2018				
10.6	Placement Agency Agreement, by and between Ritter Pharmaceuticals, Inc. and A.G.P./Alliance Global Partners, dated October 30, 2018				
31.1	Certificate of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certificate of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1	Certificate of principal executive officer and principal financial officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				

101.INS# XBRL Instance Document.

101.SCH# XBRL Taxonomy Extension Schema Document.

101.CAL# XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF# XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB# XBRL Taxonomy Extension Label Linkbase Document.

101.PRE# XBRL Taxonomy Extension Presentation Linkbase Document.

XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

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

November 9, 2018 **RITTER PHARMACEUTICALS, INC.**

By: */s/ Andrew J. Ritter*
Name: Andrew J. Ritter
Title: Chief Executive Officer (Principal Executive Officer)