

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2019

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 001-38174

Citius Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

27-3425913

(IRS Employer
Identification No.)

11 Commerce Drive, First Floor, Cranford, NJ 07016

(Address of principal executive offices and zip code)

(908) 967-6677

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, \$0.001 par value	CTXR	Nasdaq Capital Market
Warrants to purchase common stock	CTXRW	Nasdaq Capital Market

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

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

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

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

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

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

As of August 7, 2019, there were 22,075,781 shares of common stock, \$0.001 par value, of the registrant issued and outstanding.

Citius Pharmaceuticals, Inc.
FORM 10-Q
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EXPLANATORY NOTE

In this Quarterly Report on Form 10-Q, and unless the context otherwise requires, the “Company,” “we,” “us” and “our” refer to Citius Pharmaceuticals, Inc. and its wholly owned subsidiaries, Citius Pharmaceuticals, LLC and Leonard-Meron Biosciences, Inc., taken as a whole.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements.” Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors discussed from time to time in this report and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to:

- our ability to raise funds for general corporate purposes and operations, including our clinical trials;
- the cost, timing and results of our clinical trials;
- our ability to obtain and maintain required regulatory approvals for our product candidates;
- the commercial feasibility and success of our technology;
- our ability to recruit qualified management and technical personnel to carry out our operations; and
- the other factors discussed in the “Risk Factors” section of our most recent Annual Report on Form 10-K and elsewhere in this report.

Any forward-looking statements speak only as of the date on which they are made, and except as may be required under applicable securities laws, we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the filing date of this report.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30, 2019</u>	<u>September 30, 2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,510,751	\$ 9,184,003
Other receivables	—	818,343
Prepaid expenses	46,623	57,732
Total Current Assets	<u>4,557,374</u>	<u>10,060,078</u>
Property and Equipment, Net	<u>777</u>	<u>1,483</u>
Other Assets:		
Deposits	—	2,167
In-process research and development	19,400,000	19,400,000
Goodwill	1,586,796	1,586,796
Total Other Assets	<u>20,986,796</u>	<u>20,988,963</u>
Total Assets	<u>\$ 25,544,947</u>	<u>\$ 31,050,524</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,430,863	\$ 1,573,444
Accrued expenses	158,223	181,657
Accrued compensation	1,205,686	1,198,915
Accrued interest – related parties	70,100	57,854
Notes payable – related parties	172,970	172,970
Total Current Liabilities	<u>4,037,842</u>	<u>3,184,840</u>
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock – \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock – \$0.001 par value; 200,000,000 shares authorized; 22,075,781 and 16,198,791 shares issued and outstanding at June 30, 2019 and September 30, 2018, respectively	22,076	16,199
Additional paid-in capital	73,655,109	68,107,323
Accumulated deficit	(52,170,080)	(40,257,838)
Total Stockholders' Equity	<u>21,507,105</u>	<u>27,865,684</u>
Total Liabilities and Stockholders' Equity	<u>\$ 25,544,947</u>	<u>\$ 31,050,524</u>

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2019 AND 2018
(Unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>
Revenues	\$ —	\$ —	\$ —	\$ —
Operating Expenses				
Research and development	2,766,260	778,856	6,579,237	4,825,230
General and administrative	1,456,451	1,114,740	4,782,972	4,673,405
Stock-based compensation – general and administrative	204,002	124,398	578,946	629,085
Total Operating Expenses	<u>4,426,713</u>	<u>2,017,994</u>	<u>11,941,155</u>	<u>10,127,720</u>
Operating Loss	<u>(4,426,713)</u>	<u>(2,017,994)</u>	<u>(11,941,155)</u>	<u>(10,127,720)</u>
Other Income (Expense)				
Gain on extinguishment of liability	—	—	—	450,000
Interest income	25,268	—	41,159	—
Interest expense	(4,138)	(3,900)	(12,246)	(11,990)
Total Other Income, Net	<u>21,130</u>	<u>(3,900)</u>	<u>28,913</u>	<u>438,010</u>
Net Loss	<u>\$ (4,405,583)</u>	<u>\$ (2,021,894)</u>	<u>\$ (11,912,242)</u>	<u>\$ (9,689,710)</u>
Net Loss Per Share - Basic and Diluted	<u>\$ (0.20)</u>	<u>\$ (0.19)</u>	<u>\$ (0.61)</u>	<u>\$ (0.99)</u>
Weighted Average Common Shares Outstanding				
Basic and diluted	<u>22,000,387</u>	<u>10,677,222</u>	<u>19,412,641</u>	<u>9,759,242</u>

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JUNE 30, 2019
(Unaudited)

	Preferred Stock	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
		Shares	Amount			
Balance, October 1, 2018	\$ —	16,198,791	\$ 16,199	\$ 68,107,323	\$ (40,257,838)	\$ 27,865,684
Issuance of common stock upon exercise of warrants	—	1,600,000	1,600	14,400	—	16,000
Stock-based compensation	—	—	—	171,249	—	171,249
Net loss	—	—	—	—	(3,874,730)	(3,874,730)
Balance, December 31, 2018	—	17,798,791	17,799	68,292,972	(44,132,568)	24,178,203
Issuance of common stock upon exercise of warrants	—	721,569	721	6,495	—	7,216
Issuance of common stock for services	—	125,000	125	117,375	—	117,500
Stock-based compensation	—	—	—	203,695	—	203,695
Net loss	—	—	—	—	(3,631,929)	(3,631,929)
Balance, March 31, 2019	—	18,645,360	18,645	68,620,537	(47,764,497)	20,874,685
Issuance of common stock in registered direct offering, net of costs of \$466,000	—	3,430,421	3,430	4,830,571	—	4,834,001
Stock-based compensation	—	—	—	204,002	—	204,002
Net loss	—	—	—	—	(4,405,583)	(4,405,583)
Balance, June 30, 2019	\$ —	22,075,781	\$ 22,075	\$ 73,655,110	\$ (52,170,080)	\$ 21,507,105
Balance, October 1, 2017	\$ —	8,345,844	\$ 8,346	\$ 49,660,242	\$ (27,721,200)	\$ 21,947,388
Issuance of common stock in registered direct offering, net of costs of \$525,566	—	1,280,360	1,280	5,481,243	—	5,482,523
Issuance of common stock upon exercise of warrants	—	289,314	290	1,124,858	—	1,125,148
Issuance of common stock for release agreement	—	60,000	60	257,340	—	257,400
Stock-based compensation	—	—	—	290,021	—	290,021
Net loss	—	—	—	—	(3,246,166)	(3,246,166)
Balance, December 31, 2017	—	9,975,518	9,976	56,813,704	(30,967,366)	25,856,314
Issuance of common stock in registered direct offering, net of costs of \$234,893	—	669,504	669	1,762,907	—	1,763,576
Issuance of common stock for services and release agreement	—	22,200	22	88,778	—	88,800
Stock-based compensation	—	—	—	214,666	—	214,666
Net loss	—	—	—	—	(4,421,650)	(4,421,650)
Balance, March 31, 2018	—	10,667,222	10,667	58,880,055	(35,389,016)	23,501,706
Issuance of common stock for services	—	10,000	10	30,990	—	31,000
Stock-based compensation	—	—	—	124,398	—	124,398
Net loss	—	—	—	—	(2,021,894)	(2,021,894)
Balance, June 30, 2018	\$ —	10,677,222	\$ 10,677	\$ 59,035,443	\$ (37,410,910)	\$ 21,635,210

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 2019 AND 2018
(Unaudited)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Net loss	\$ (11,912,242)	\$ (9,689,710)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on extinguishment of liability	—	(450,000)
Stock-based compensation expense	578,946	629,085
Issuance of common stock for services and release agreements	117,500	377,200
Depreciation	706	1,518
Changes in operating assets and liabilities:		
Other receivables	818,343	—
Prepaid expenses and deposits	13,276	147,118
Accounts payable	857,419	309,906
Accrued expenses	(23,434)	4,422
Accrued compensation	6,771	(127,249)
Accrued interest - related parties	12,246	11,797
Due to related party	—	(27,637)
Net Cash Used In Operating Activities	<u>(9,530,469)</u>	<u>(8,813,550)</u>
Cash Flows From Financing Activities:		
Proceeds from common stock warrant exercises	23,216	1,125,148
Net proceeds from registered direct offering	4,834,001	7,246,099
Net Cash Provided By Financing Activities	<u>4,857,217</u>	<u>8,371,247</u>
Net Change in Cash and Cash Equivalents	(4,673,252)	(442,303)
Cash and Cash Equivalents - Beginning of Period	<u>9,184,003</u>	<u>3,204,108</u>
Cash and Cash Equivalents - End of Period	<u>\$ 4,510,751</u>	<u>\$ 2,761,805</u>
Supplemental Disclosures Of Cash Flow Information and Non-cash Transactions:		
Interest paid	\$ —	\$ 193
Par value of common stock issued upon cashless exercise of warrants	\$ —	\$ 17

See notes to unaudited condensed consolidated financial statements.

CITIUS PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2019 AND 2018
(Unaudited)

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Citius Pharmaceuticals, Inc. (“Citius” or the “Company”) is a specialty pharmaceutical company dedicated to the development and commercialization of critical care products targeting unmet needs with a focus on anti-infectives, cancer care and unique prescription products.

On March 30, 2016, Citius acquired Leonard-Meron Biosciences, Inc. (“LMB”) as a wholly-owned subsidiary. The Company acquired all of the outstanding stock of LMB by issuing shares of its common stock. The net assets acquired included identifiable intangible assets of \$19,400,000 related to in-process research and development. The Company recorded goodwill of \$1,586,796 for the excess of the purchase price over the net assets.

In-process research and development represents the value of LMB’s leading drug candidate which is an antibiotic solution used to treat catheter-related bloodstream infections (Mino-Lok®) and is expected to be amortized on a straight-line basis over a period of eight years commencing upon revenue generation. Goodwill represents the value of LMB’s industry relationships and its assembled workforce. Goodwill will not be amortized but will be tested at least annually for impairment.

Citius is subject to a number of risks common to companies in the pharmaceutical industry including, but not limited to, risks related to the development by Citius or its competitors of research and development stage product candidates, market acceptance of its product candidates that might be approved, competition from larger companies, dependence on key personnel, dependence on key suppliers and strategic partners, the Company’s ability to obtain additional financing and the Company’s compliance with governmental and other regulations.

Basis of Presentation and Summary of Significant Accounting Policies

Basis of Preparation— The accompanying condensed consolidated financial statements include the operations of Citius Pharmaceuticals, Inc., and its wholly-owned subsidiaries, Citius Pharmaceuticals, LLC, and LMB. All significant inter-company balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to fairly state the condensed consolidated financial position of the Company as of June 30, 2019, the results of its operations for the three- and nine-month periods ended June 30, 2019 and 2018, and cash flows for the nine-month periods ended June 30, 2019 and 2018. The operating results for the three- and nine-month periods ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending September 30, 2019. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2018 filed with the Securities and Exchange Commission.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 requires a lessee to record a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, on the balance sheet for all leases with terms longer than 12 months, as well as the disclosure of key information about leasing arrangements. ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. ASU 2016-02 requires classification of all cash payments within operating activities in the statement of cash flows. Disclosures are required to provide the amount, timing and uncertainty of cash flows arising from leases. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We elected to adopt the package of practical expedients, which among other things, allows us to carry forward the historical lease classification and combine lease and non-lease components as a single lease component. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company will adopt the provisions of ASU 2016-02 in the quarter beginning October 1, 2019. This adoption approach will result in a balance sheet presentation that will not be comparable to the prior period in the first year of adoption. The adoption of this ASU will result in the recognition of a right of use asset and lease liability of approximately \$1,115,000.

There have been no other recently issued accounting pronouncements that have had or are expected to have a material impact on the Company’s consolidated financial statements.

Use of Estimates — Our accounting principles require our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Estimates having relatively higher significance include stock-based compensation, valuation of warrants, and income taxes. Actual results could differ from those estimates and changes in estimates may occur.

Basic and Diluted Net Loss per Common Share — Basic and diluted net loss per common share is computed by dividing net loss in each period by the weighted average number of shares of common stock outstanding during such period. For the periods presented, common stock equivalents, consisting of stock options and warrants were not included in the calculation of the diluted loss per share because they were anti-dilutive.

Income Taxes — We recognize deferred tax assets and liabilities for the expected future tax consequences or events that have been included in our condensed consolidated financial statements and/or tax returns. Deferred tax assets and liabilities are based upon the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and for loss and credit carryforwards using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions when management determines that it is probable that a loss will be incurred related to these matters and the amount of the loss is reasonably determinable.

2. GOING CONCERN UNCERTAINTY AND MANAGEMENT’S PLAN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company experienced negative cash flows from operations of \$9,530,469 for the nine months ended June 30, 2019. The Company has generated no operating revenue to date and has principally raised capital through the issuance of debt and equity instruments to finance its operations. At June 30, 2019, the Company had limited capital to fund its operations. This raises substantial doubt about the Company’s ability to continue as a going concern.

The Company plans to raise capital through equity financings from outside investors as well as raise additional funds from existing investors and continued borrowings under related party debt agreements. There is no assurance, however, that the Company will be successful in raising the needed capital and, if funding is available, that it will be available in amounts sufficient for and on terms acceptable to the Company. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of the above uncertainty.

3. PATENT AND TECHNOLOGY LICENSE AGREEMENTS

Patent and Technology License Agreement – Mino-Lok

LMB has a patent and technology license agreement with Novel Anti-Infective Therapeutics, Inc. (“NAT”) to develop and commercialize Mino-Lok® on an exclusive, worldwide sub licensable basis, as amended. LMB pays an annual maintenance fee each June until commercial sales of a product subject to the license commence. The annual fee paid in June 2019 was \$90,000 (at which level it will remain for as long as it is due) and the annual fee paid in June 2018 was \$75,000.

LMB will also pay annual royalties on net sales of licensed products, with royalties ranging from the mid-single digits to the low double digits. In limited circumstances in which the licensed product is not subject to a valid patent claim and a competitor is selling a competing product, the royalty rate is in the low single digits. After a commercial sale is obtained, LMB must pay minimum aggregate annual royalties of \$100,000 in the first commercial year which is prorated for a less than 12-month period, increasing \$25,000 per year to a maximum of \$150,000 annually. LMB must also pay NAT up to \$1,390,000 upon achieving specified regulatory and sales milestones. Finally, LMB must pay NAT a specified percentage of payments received from any sub licensees.

Unless earlier terminated by NAT, based on the failure to achieve certain development and commercial milestones, the license agreement remains in effect until the date that all patents licensed under the agreement have expired and all patent applications within the licensed patent rights have been cancelled, withdrawn or expressly abandoned.

Patent and Technology License Agreement – Mino-Wrap

On January 2, 2019, we entered into a patent and technology license agreement with the Board of Regents of the University of Texas System on behalf of the University of Texas M. D. Anderson Cancer Center (“Licensor”), whereby we in-licensed exclusive worldwide rights to the patented technology for any and all uses relating to breast implants. We intend to develop a liquefying gel-based wrap containing minocycline and rifampin for the reduction of infections associated with breast implants following breast reconstructive surgeries (“Mino-Wrap”). We are required to use commercially reasonable efforts to commercialize Mino-Wrap under several regulatory scenarios and achieve milestones associated with these regulatory options leading to an approval from the U.S. Food and Drug Administration.

Under the license agreement, the Company paid a nonrefundable upfront payment of \$125,000 which was recorded as research and development expense during the nine months ended June 30, 2019. We are obligated to pay an annual maintenance fee of \$30,000, commencing in January 2020, that increases annually by \$15,000 per year up to a maximum of \$90,000. Annual maintenance fees cease on the first sale of product. We also must pay up to an aggregate of \$2.1 million in milestone payments, contingent on the achievement of various regulatory and commercial milestones. Under the terms of the license agreement, we also must pay a royalty of mid- to upper-single digit percentages of net sales, depending on the amount of annual sales, and subject to downward adjustment to lower- to mid-single digit percentages in the event there is no valid patent for the product in the United States at the time of sale. After the first sale of product, we will owe an annual minimum royalty payment of \$100,000 that will increase annually by \$25,000 for the duration of the term. We will be responsible for all patent expenses incurred by Licensor for the term of the agreement although Licensor is responsible for filing, prosecution and maintenance of all patents. The agreement expires on the later of the expiration of the patents or January 2, 2034.

4. NOTES PAYABLE – RELATED PARTIES

The aggregate principal balance as of June 30, 2019 consists of notes payable held by our Chairman, Leonard Mazur, in the amount of \$160,470 and notes payable held by our Chief Executive Officer, Myron Holubiak, in the amount of \$12,500. Notes with an aggregate principal balance of \$104,000 accrue interest at the prime rate plus 1.0% per annum and notes with an aggregate principal balance of \$68,970 accrue interest at 12% per annum.

Interest expense on notes payable – related parties was \$4,138 and \$3,900, respectively, for the three months ended June 30, 2019 and 2018. Interest expense on notes payable – related parties was \$12,246 and \$11,797, respectively, for the nine months ended June 30, 2019 and 2018.

5. COMMON STOCK, STOCK OPTIONS AND WARRANTS

2017 Public Offering and Release Agreement

On November 7, 2017, the Company entered into a release agreement with the underwriter of the public offering that closed in August 2017. The Company had previously granted a right of first refusal to underwrite all equity and debt offerings for a period of twelve months following completion of the August 2017 public offering (“Right of First Refusal”). Under the release, the Company agreed to pay the underwriter \$100,000 in cash and issue 60,000 shares of restricted common stock with a fair value of \$257,400 in exchange for a full release from all obligations related to the Right of First Refusal. The Company expensed the \$357,400 cost of the release agreement in November 2017.

Registered Direct/Private Placement Offerings

On December 19, 2017, the Company closed a registered direct offering with several institutional and accredited investors for the sale of 1,280,360 shares of common stock at \$4.6925 per share for gross proceeds of \$6,008,089. Simultaneously, the Company privately sold and issued to the investors 640,180 immediately exercisable five and a half year warrants with an exercise price of \$4.63 per share. The Company paid the placement agent for the offering a fee of 7% of the gross proceeds totaling \$420,566 and issued the placement agent 89,625 immediately exercisable five-year warrants with an exercise price of \$5.8656 per share. The Company also reimbursed the placement agent for \$85,000 in expenses and incurred \$20,000 in other expenses. Net proceeds from the offering were \$5,482,523. The estimated fair value of the 640,180 warrants issued to the investors was \$2,407,276 and the estimated fair value of the 89,625 warrants issued to the placement agent was \$316,071.

On March 29, 2018, the Company closed a registered direct offering with an institutional and an accredited investor for the sale of 669,504 shares of common stock at \$2.985 per share for gross proceeds of \$1,998,469. Simultaneously, the Company privately sold and issued to investors 669,504 immediately exercisable five and a half year warrants with an exercise price of \$2.86 per share. The Company paid the placement agent for the offering a fee of 7% of the gross proceeds totaling \$139,893 and issued the placement agent 46,866 immediately exercisable five-year warrants with an exercise price of \$3.73125 per share. The Company also reimbursed the placement agent for \$85,000 in expenses and incurred \$10,000 in other expenses. Net proceeds from the offering were \$1,763,576. The estimated fair value of the 669,504 warrants issued to the investors was \$1,679,482 and the estimated fair value of the 46,866 warrants issued to the placement agent was \$110,511.

On April 3, 2019, the Company closed a registered direct offering with several institutional and accredited investors for the sale of 3,430,421 shares of common stock at \$1.545 per share for gross proceeds of \$5,300,001. Simultaneously, the Company also privately sold and issued 3,430,421 immediately exercisable two-year unregistered warrants to the investors with an exercise price of \$1.42 per share. The Company paid the placement agent for the offering a fee of 7% of the gross proceeds totaling \$371,000 and issued the placement agent 240,130 immediately exercisable two-year warrants with an exercise price of \$1.93125 per share. The Company also reimbursed the placement agent for \$85,000 in expenses and incurred \$10,000 in other expenses. Net proceeds from the offering were \$4,834,001. The estimated fair value of the 3,430,421 warrants issued to the investors was \$2,709,467 and the estimated fair value of the 240,130 warrants issued to the placement agent was \$169,854.

August 2018 Offering

On August 13, 2018, Citius closed an underwritten offering of (i) 5,521,569 units, each unit consisting of one share of common stock and one immediately exercisable five-year warrant to purchase one share with an exercise price of \$1.15 per share, and (ii) 2,321,569 pre-funded units, each pre-funded unit consisting of one pre-funded warrant to purchase one share and one immediately exercisable five-year warrant to purchase one share with an exercise price of \$1.15 per share. The pre-funded warrants included in the pre-funded units are immediately exercisable at a price of \$0.01 per share and do not expire. The offering price was \$1.275 per unit and \$1.265 per pre-funded unit. The net proceeds of the offering were \$8,926,786. The Company issued underwriter warrants to purchase up to 549,020 shares with an exercise price of \$1.59375 per share with an estimated fair value of \$491,737. The underwriter warrants are exercisable following February 8, 2019 and expire on August 8, 2023. The estimated fair value of the 2,321,569 pre-funded warrants was \$2,630,072, and the estimated fair value of the 7,843,138 warrants included in the units and the pre-funded units issued to the investors was \$7,311,727.

Unit Purchase Options

On April 7, 2017, the Company issued a three-year Unit Purchase Option Agreement for 38,000 units at a purchase price of \$9.00 per unit. Each unit consists of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$9.00 per share which expires on the earlier of three years after exercise of the Unit Purchase Option Agreement or April 7, 2023.

On June 29, 2017, the Company issued a three-year Unit Purchase Option Agreement for 62,667 units at a purchase price of \$9.00 per unit. Each unit consists of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$9.00 per share which expires on the earlier of three years after exercise of the Unit Purchase Option Agreement or June 29, 2022. The Company estimated the fair value of the unit purchase option agreement at \$193,860 and recorded it as a prepaid expense. The Company recorded an expense of \$96,930 for this agreement during the year ended September 30, 2017 and expensed the remaining balance of \$96,930 during the three months ended December 31, 2017.

Common Stock Issued for Services

On February 7, 2018, the Company issued 22,200 shares of common stock for services provided by two consultants and expensed the \$88,800 fair value of the common stock issued. On April 1, 2018, the Company issued 10,000 shares of common stock for services provided by a consultant and expensed the \$31,000 fair value of the common stock issued.

On February 13, 2019, the Company issued 125,000 shares of common stock for investor relations services and expensed the \$117,500 fair value of the common stock issued.

Stock Option Plans

Pursuant to its 2014 Stock Incentive Plan (the "2014 Plan") the Company reserved 866,667 shares of common stock for issuance to employees, directors and consultants. The Board of Directors (or committees and/or executive officers delegated by the Board of Directors) may grant stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and cash-based awards under the 2014 Plan. As of June 30, 2019, there were options to purchase an aggregate of 856,039 shares of common stock outstanding under the 2014 Plan, options to purchase 4,829 shares were exercised, and 5,799 shares remain available for future grants.

On February 7, 2018, our stockholders approved the 2018 Omnibus Stock Incentive Plan (the "2018 Plan") and the Company reserved 2,000,000 shares of common stock for issuance to employees, directors and consultants. Pursuant to the 2018 Plan, the Board of Directors (or committees and/or executive officers delegated by the Board of Directors) may grant stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and cash-based awards. As of June 30, 2019, there were options to purchase an aggregate of 915,000 shares of common stock outstanding under the 2018 Plan and 1,085,000 shares available for future grants.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. Due to its limited operating history and limited number of sales of its common stock, the Company estimated its volatility in consideration of a number of factors including the volatility of comparable public companies through December 31, 2018. During the six months ended June 30, 2019, the Company estimated its volatility using the trading activity of its common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption. The expected term of stock options granted, all of which qualify as "plain vanilla," is based on the average of the contractual term (generally 10 years) and the vesting period. For non-employee options, the expected term is the contractual term.

A summary of option activity under the 2014 Plan and 2018 Plan is presented below:

	Option Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2018	1,601,039	\$ 4.35	8.56 years	\$ 173,291
Granted	190,000	1.04		
Exercised	—	—		
Forfeited or expired	(20,000)	0.94		
Outstanding at June 30, 2019	<u>1,771,039</u>	<u>\$ 4.03</u>	8.01 years	<u>\$ 65,072</u>
Exercisable at June 30, 2019	<u>796,714</u>	<u>\$ 6.92</u>	6.42 years	<u>\$ 64,239</u>

Stock-based compensation expense for the nine months ended June 30, 2019 and 2018 was \$578,946 and \$629,085, respectively.

At June 30, 2019, unrecognized total compensation cost related to unvested awards of \$973,826 is expected to be recognized over a weighted average period of 1.8 years.

Warrants

As of June 30, 2019, the Company has reserved shares of common stock for the exercise of outstanding warrants. The following table summarizes the warrants outstanding:

	Exercise price	Number	Expiration Dates
Investor and Placement Agent Warrants	\$ 9.00	384,006	September 12, 2019
Investor Warrants	9.00	202,469	March 19, 2020 – September 14, 2020
Investor Warrants	9.00	307,778	November 5, 2020 – April 25, 2021
LMB Warrants	6.15	38,771	November 20, 2020 – March 2, 2021
LMB Warrants	9.90	8,155	September 30, 2019 – January 8, 2020
LMB Warrants	20.70	17,721	November 3, 2019 – March 6, 2020
LMB Warrants	7.50	73,883	August 18, 2020 – March 14, 2021
LMB Warrants	7.50	53,110	March 24, 2022 – April 29, 2022
Financial Advisor Warrants	3.00	25,833	August 15, 2021
2016 Offering Warrants	4.13	140,819	November 23, 2021 – February 27, 2022
Convertible Note Warrants	9.75	40,436	September 12, 2019
2017 Public Offering Warrants	4.13	1,622,989	August 2, 2022
2017 Public Offering Underwriter Warrants	4.54	65,940	February 2, 2023
December 2017 Registered Direct/Private Placement Offering Investor Warrants	4.63	640,180	June 19, 2023
December 2017 Registered Direct/Private Placement Offering Placement Agent Warrants	5.87	89,625	December 19, 2022
March 2018 Registered Direct/Private Placement Offering Investor Warrants	2.86	669,504	October 2, 2023
March 2018 Registered Direct/Private Placement Offering Placement Agent Warrants	3.73	46,866	March 28, 2023
August 2018 Offering Investor Warrants	1.15	7,843,138	August 14, 2023
August 2018 Offering Agent Warrants	1.59	549,020	August 8, 2023
April 2019 Registered Direct/Private Placement Offering Investor Warrants	1.42	3,430,421	April 5, 2021
April 2019 Registered Direct/Private Placement Offering Placement Agent Warrants	1.93	240,130	April 5, 2021
		<u>16,490,794</u>	

During the nine months ended June 30, 2018, 40,834 of the Financial Advisor Warrants were exercised on a cashless basis resulting in the issuance of 16,547 shares of common stock and 272,767 of the August 2017 public offering warrants were exercised at \$4.125 per share for net proceeds of \$1,125,148.

During the nine months ended June 30, 2019, the 2,321,569 August 2018 Offering Pre-Funded Unit Warrants were exercised at \$0.01 per share for net proceeds of \$23,216.

At June 30, 2019, the weighted average remaining life of the outstanding warrants is 3.26 years, all warrants are exercisable, and there was no aggregate intrinsic value for the warrants outstanding.

Common Stock Reserved

A summary of common stock reserved for future issuances as of June 30, 2019 is as follows:

Stock plan options outstanding	1,771,039
Stock plan shares available for future grants	1,090,799
Warrants outstanding	16,490,794
Unit purchase options outstanding	201,334
Total	19,553,966

6. RELATED PARTY TRANSACTIONS

Our Chairman of the Board, Leonard Mazur, was the cofounder and Vice Chairman of Akrimax Pharmaceuticals, LLC (“Akrimax”), a privately held pharmaceutical company specializing in producing cardiovascular and general pharmaceutical products. The Company leased office space from Akrimax through April 30, 2019 (see Note 7).

The Company has outstanding debt due to Leonard Mazur (Chairman of the Board) and Myron Holubiak (Chief Executive Officer) (see Note 4).

In connection with the December 2017 Registered Direct/Private Placement Offering, Mr. Mazur purchased 213,106 shares of common stock at \$4.6925 per share and received 106,553 warrants with an exercise price of \$4.63 per share (See Note 5). In connection with the March 2018 Registered Direct/Private Placement Offering, Mr. Mazur purchased 167,504 shares of common stock at \$2.985 per share and received 167,504 warrants with an exercise price of \$2.86 per share (See Note 5). The purchases were made on the same terms as for all other investors.

In connection with the August 2018 offering, Mr. Mazur purchased 3,137,255 shares of common stock at \$1.275 per share and received 3,137,255 warrants with an exercise price of \$1.15 per share, and Mr. Holubiak purchased 784,314 shares of common stock at \$1.275 per share and received 784,314 warrants with an exercise price of \$1.15 per share (See Note 5). The purchases were made on the same terms as for all other investors.

In connection with the April 2019 Registered Direct/Private Placement Offering, Mr. Mazur purchased 1,165,048 shares of common stock at \$1.545 per share and received 1,165,048 warrants with an exercise price of \$1.42 per share, and Mr. Holubiak purchased 129,450 shares of common stock at \$1.545 per share and received 129,450 warrants with an exercise price of \$1.42 per share (See Note 5). The purchases were made on the same terms as for all other investors.

General and administrative expense for the nine months ended June 30, 2019 and 2018 includes \$20,000 and \$36,000, respectively, paid to a financial consultant who is a stockholder of the Company. The consulting agreement ended in February 2019.

7. OPERATING LEASE

LMB leased office space from Akrimax (see Note 6) in Cranford, New Jersey at a monthly rental rate of \$2,167 pursuant to an agreement which expired on April 30, 2019. Rent expense for the nine months ended June 30, 2019 and 2018 was \$56,063 and \$19,500, respectively.

Effective July 1, 2019, Citius entered into a 76-month lease for office space in Cranford, NJ. Annual base rent for the years ending June 30, 2020, 2021, 2022, 2023, 2024, 2025 and 2026 is \$152,249, \$233,232, \$238,091, \$242,950, \$247,809, \$252,668 and \$85,842, respectively. Citius will also pay its proportionate share of real estate taxes and operating expenses in excess of the base year expenses.

8. SUBSEQUENT EVENTS

Effective July 1, 2019, Citius entered into a 76-month lease for office space (See Note 7).

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

The following discussion and analysis of our financial condition and results of operations for the three and nine months ended June 30, 2019 should be read together with our unaudited consolidated financial statements and related notes included elsewhere in this report and in conjunction with the audited financial statements of Citius Pharmaceuticals, Inc. included in our Annual Report on Form 10-K for the year ended September 30, 2018. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Please see "Cautionary Note Regarding Forward-Looking Statements."

Historical Background

Citius Pharmaceuticals, Inc. ("Citius" or the "Company") is a specialty pharmaceutical company dedicated to the development and commercialization of critical care products targeting unmet needs with a focus on anti-infectives, cancer care and unique prescription products. On September 12, 2014, we acquired Citius Pharmaceuticals, LLC as a wholly-owned subsidiary.

On March 30, 2016, the Company acquired all of the outstanding stock of Leonard-Meron Biosciences, Inc. ("LMB").

In-process research and development represents the value of LMB's leading drug candidate, Mino-Lok®, which is an antibiotic solution used to treat catheter-related bloodstream infections. Goodwill represents the value of LMB's industry relationships and its assembled workforce. In-process research and development is expected to be amortized on a straight-line basis over a period of eight years commencing upon revenue generation. Goodwill will not be amortized, but will be tested at least annually for impairment.

Through June 30, 2019, the Company has devoted substantially all of its efforts to product development, raising capital, building infrastructure through strategic alliances and coordinating activities relating to its proposed proprietary products. The Company is focusing on the Phase 3 development of Mino-Lok®, developing a regulatory pathway for Mino-Wrap and the Phase 2b development of Hydro-Lido for hemorrhoids. The Company has not yet realized any revenues from its planned principal operations.

Patent and Technology License Agreements

Mino-Lok® - LMB has a patent and technology license agreement with Novel Anti-Infective Therapeutics, Inc. ("NAT") to develop and commercialize Mino-Lok® on an exclusive, worldwide sub-licensable basis, as amended. Since May 2014, LMB has paid an annual maintenance fee, which began at \$30,000 and that increased over five years to \$90,000, where it will remain until commercial sales of a product subject to the license commence. LMB will also pay annual royalties on net sales of licensed products, with royalties ranging from the mid-single digits to the low double digits. In limited circumstances in which the licensed product is not subject to a valid patent claim and a competitor is selling a competing product, the royalty rate is in the low single digits. After a commercial sale is obtained, LMB must pay minimum aggregate annual royalties that increase in subsequent years. LMB must also pay NAT up to \$1,390,000 upon achieving specified regulatory and sales milestones. Finally, LMB must pay NAT a specified percentage of payments received from any sub licensees.

Mino-Wrap - On January 2, 2019, we entered into a patent and technology license agreement with the Board of Regents of the University of Texas System on behalf of the University of Texas M. D. Anderson Cancer Center ("Licensor"), whereby we in-licensed exclusive worldwide rights to the patented technology for any and all uses relating to breast implants. We intend to develop a liquefying gel-based wrap containing minocycline and rifampin for the reduction of infections associated with breast implants following breast reconstructive surgeries ("Mino-Wrap"). We are required to use commercially reasonable efforts to commercialize Mino-Wrap under several regulatory scenarios and achieve milestones associated with these regulatory options leading to an approval from the U.S. Food and Drug Administration.

Under the license agreement, the Company paid a nonrefundable upfront payment of \$125,000. We are obligated to pay an annual maintenance fee of \$30,000, commencing in January 2020, that increases annually by \$15,000 per year up to a maximum of \$90,000. Annual maintenance fees cease on the first sale of product. We also must pay up to an aggregate of \$2.1 million in milestone payments, contingent on the achievement of various regulatory and commercial milestones. Under the terms of the license agreement, we also must pay a royalty of mid- to upper-single digit percentages of net sales, depending on the amount of annual sales, and subject to downward adjustment to lower- to mid-single digit percentages in the event there is no valid patent for the product in the United States at the time of sale. After the first sale of product, we will owe an annual minimum royalty payment of \$100,000 that will increase annually by \$25,000 for the duration of the term. We will be responsible for all patent expenses incurred by Licensor for the term of the agreement although Licensor is responsible for filing, prosecution and maintenance of all patents. The agreement expires on the later of the expiration of the patents or January 2, 2034.

RESULTS OF OPERATIONS

Three months ended June 30, 2019 compared with the three months ended June 30, 2018

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Revenues	\$ —	\$ —
Operating expenses:		
Research and development	2,766,260	778,856
General and administrative	1,456,451	1,114,740
Stock-based compensation expense	204,002	124,398
Total operating expenses	<u>4,426,713</u>	<u>2,017,994</u>
Operating loss	(4,426,713)	(2,017,994)
Interest income	25,268	—
Interest expense	(4,138)	(3,900)
Net loss	<u>\$ (4,405,583)</u>	<u>\$ (2,021,894)</u>

Revenues

We did not generate any revenues for the three months ended June 30, 2019 or 2018.

Research and Development Expenses

For the three months ended June 30, 2019, research and development expenses were \$2,766,260 as compared to \$778,856 during the three months ended June 30, 2018. The \$1,987,404 increase in 2019 was primarily due to an increase in expenses for Mino-Lok®. Research and development costs for Mino-Lok® increased by \$1,648,038 to \$2,370,800 for the three months ended June 30, 2019 as compared to \$722,762 for the three months ended June 30, 2018. Research and development costs for our Hydro-Lido product candidate increased by \$339,366 to \$395,460 for the three months ended June 30, 2019 as compared to \$56,094 for the three months ended June 30, 2018. We expect that research and development expenses will increase in fiscal 2019 as we continue to focus on our Phase 3 trial for Mino-Lok® and commence our research and development efforts related to Mino-Wrap. We are actively seeking to raise additional capital in order to fund our research and development efforts.

General and Administrative Expenses

For the three months ended June 30, 2019, general and administrative expenses were \$1,456,451 as compared to \$1,114,740 during the three months ended June 30, 2018. General and administrative expenses increased by \$341,711 in comparison with the prior period. The increase was primarily due to an increase of \$111,054 in investor relations expenses, an increase of \$216,308 in compensation costs and an increase in rent of \$36,563. General and administrative expenses consist primarily of compensation costs, consulting fees incurred for financing activities and corporate development services, and investor relations expenses.

Stock-based Compensation Expense

For the three months ended June 30, 2019, stock-based compensation expense was \$204,002 as compared to \$124,398 for the three months ended June 30, 2018. Stock-based compensation expense includes options granted to directors, employees and consultants. Stock-based compensation expense for the most recently completed quarter increased by \$79,604 as the Company granted new options under the 2018 Omnibus Stock Incentive Plan.

Other Income (Expense)

Interest income for the three months ended June 30, 2019 was \$25,268 as we invested some of the proceeds from the April 2019 offering. There was no interest income for the three months ended June 30, 2018.

Interest expense on notes payable – related parties for the three months ended June 30, 2019 was \$4,138 compared to \$3,900 for the three months ended June 30, 2018.

Net Loss

For the three months ended June 30, 2019, we incurred a net loss of \$4,405,583 compared to a net loss for the three months ended June 30, 2018 of \$2,021,894. The \$2,383,689 increase in the net loss was primarily due to the increase of \$1,987,404 in research and development expenses.

Nine months ended June 30, 2019 compared with the nine months ended June 30, 2018

	Nine Months Ended June 30, 2019	Nine Months Ended June 30, 2018
Revenues	\$ —	\$ —
Operating expenses:		
Research and development	6,579,237	4,825,230
General and administrative	4,782,972	4,673,405
Stock-based compensation expense	578,946	629,085
Total operating expenses	<u>11,941,155</u>	<u>10,127,720</u>
Operating loss	(11,941,155)	(10,127,720)
Gain on extinguishment of liability	—	450,000
Interest income	41,159	—
Interest expense	(12,246)	(11,990)
Net loss	<u>\$ (11,912,242)</u>	<u>\$ (9,689,710)</u>

Revenues

We did not generate any revenues for the nine months ended June 30, 2019 and 2018.

Research and Development Expenses

For the nine months ended June 30, 2019, research and development expenses were \$6,579,237 as compared to \$4,825,230 during the nine months ended June 30, 2018. The \$1,754,007 increase in 2019 was primarily due to increased expenses related to the ongoing Phase 3 trial of Mino-Lok® which commenced during the quarter ended March 31, 2018. Research and development costs for Mino-Lok® increased by \$1,130,811 to \$5,572,115 for the nine months ended June 30, 2019 as compared to \$4,441,304 for the nine months ended June 30, 2018. Research and development costs for our Hydro-Lido product candidate increased by \$498,196 to \$882,122 for the nine months ended June 30, 2019 as compared to \$383,926 for the nine months ended June 30, 2018. We also incurred \$125,000 in research and development expense related to the Mino-Wrap license agreement during the nine months ended June 30, 2019. We expect that research and development expenses will continue to increase as we focus on our Phase 3 trial for Mino-Lok® and commence our research and development efforts related to Mino-Wrap. We are actively seeking to raise additional capital in order to fund our research and development efforts.

General and Administrative Expenses

For the nine months ended June 30, 2019, general and administrative expenses were \$4,782,972 as compared to \$4,673,405 during the nine months ended June 30, 2018. General and administrative expenses increased by \$109,567 in comparison with the prior period. The increase was primarily due to an increase in compensation costs of \$414,683 being offset by the \$357,400 in settlement costs for the termination of the right of first refusal agreement with the underwriter of our 2017 Public Offering incurred in the prior period. General and administrative expenses consist primarily of compensation costs, consulting fees incurred for financing activities and corporate development services, and investor relations expenses.

Stock-based Compensation Expense

For the nine months ended June 30, 2019, stock-based compensation expense was \$578,946 as compared to \$629,085 for the nine months ended June 30, 2018, representing a decrease of \$50,139 as certain options have been fully expensed. Stock-based compensation expense includes options granted to directors, employees and consultants.

Other Income (Expense)

During the nine months ended June 30, 2018, the Company recorded a \$450,000 gain on the extinguishment of a liability. The Company reversed an accrual for certain research and development expenses that was recorded in a prior year that will not be paid.

Interest income for the nine months ended June 30, 2019 was \$41,159 as we invested some of the proceeds from our recent offerings. There was no interest income for the nine months ended June 30, 2018.

Interest expense on notes payable – related parties and credit cards for the nine months ended June 30, 2019 was \$12,246 compared to \$11,990 for the nine months ended June 30, 2018.

Net Loss

For the nine months ended June 30, 2019, we incurred a net loss of \$11,912,242 compared to a net loss for the nine months ended June 30, 2018 of \$9,689,710. The \$2,222,532 increase in the net loss was primarily due to the increase of \$1,754,007 in research and development expenses and the decrease in other income.

LIQUIDITY AND CAPITAL RESOURCES

Going Concern Uncertainty and Working Capital

Citius has incurred operating losses since inception and incurred a net loss of \$11,912,242 for the nine months ended June 30, 2019. At June 30, 2019, Citius had an accumulated deficit of \$52,170,080. Citius' net cash used in operations during the nine months ended June 30, 2019 was \$9,530,469.

Our September 30, 2018 consolidated financial statements contains an emphasis of a matter regarding substantial doubt about our ability to continue as a going concern and that the consolidated financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we do not continue as a going concern.

As of June 30, 2019, Citius had \$519,532 in working capital. Our limited working capital is attributable to the operating losses incurred by the Company since inception offset by our capital raising activities. At June 30, 2019, Citius had cash and cash equivalents of \$4,510,751 available to fund its operations. The Company's primary sources of cash flow since inception have been from financing activities. During the nine months ended June 30, 2019, the Company received net proceeds of \$4,857,217 from financing activities. Our primary uses of operating cash were for product development and commercialization activities, employee compensation, consulting fees, legal and accounting fees, insurance and investor relations expenses.

On April 3, 2019, the Company closed a registered direct offering with several institutional and accredited investors for the sale of 3,430,421 shares of common stock at \$1.545 per share for gross proceeds of \$5.3 million. Simultaneously, the Company also privately sold and issued 3,430,421 immediately exercisable two-year unregistered warrants to the investors. The warrants have an exercise price of \$1.42 per share.

Based on our cash and cash equivalents at June 30, 2019, we expect that we will have sufficient funds to continue our operations through September 2019. We plan to raise additional capital in the future to support our operations. There is no assurance, however, that we will be successful in raising the needed capital or that the proceeds will be received in an amount or in a timely manner to support our operations.

Inflation

Our management believes that inflation has not had a material effect on our results of operations.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of revenues and expenses recorded during the reporting periods. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

Our critical accounting policies and use of estimates are discussed in, and should be read in conjunction with, the annual consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018 as filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Our Chief Executive Officer (who is our principal executive officer) and Chief Financial Officer (who is our principal financial officer and principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of June 30, 2019. In designing and evaluating disclosure controls and procedures, we recognize that any disclosure controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objective. As of June 30, 2019, based on the evaluation of these disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes In Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 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

None.

Item 1A. Risk Factors

There has been no change in the Company's risk factors since the Company's Form 10-K filed with the SEC on December 11, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a).*
31.2	Certification of the Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a).*
32.1	Certification of the Principal Executive and Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*
EX-101.INS	XBRL INSTANCE DOCUMENT*
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT*
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE*
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE*
EX-101.LAB	XBRL TAXONOMY EXTENSION LABELS LINKBASE*
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE*

* Filed herewith.

SIGNATURES

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

CITIUS PHARMACEUTICALS, INC.

Date: August 14, 2019

By: /s/ Myron Holubiak
Myron Holubiak
Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2019

By: /s/ Jaime Bartushak
Jaime Bartushak
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Myron Holubiak, certify that:

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

Date: August 14, 2019

By: /s/ Myron Holubiak
Myron Holubiak
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Jaime Bartushak, certify that:

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

Date: August 14, 2019

By: /s/ Jaime Bartushak
Jaime Bartushak
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AND THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Citius Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Myron Holubiak, Chief Executive Officer of the Company, and Jaime Bartushak, Chief Financial Officer of the Company certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 14, 2019

By: /s/ Myron Holubiak
Myron Holubiak
Chief Executive Officer,
(Principal Executive Officer)

Date: August 14, 2019

By: /s/ Jaime Bartushak
Jaime Bartushak
Chief Financial Officer
(Principal Financial and Accounting Officer)