Conatus Pharmaceuticals Inc.
Form 10-Q
November 13, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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: 001-36003

CONATUS PHARMACEUTICALS INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3183915**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
16745 W. Bernardo Dr., Suite 200	
San Diego, CA	**92127**
(Address of Principal Executive Offices)	**(Zip Code)**

(858) 376-2600

(Registrant s Telephone Number, Including Area Code)

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of October 31, 2014, the registrant had 15,689,366 shares of common stock ($0.0001 par value) outstanding.

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CONATUS PHARMACEUTICALS INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Conatus Pharmaceuticals Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 11,325,134	$ 4,158,953
Marketable securities	30,602,384	52,194,034
Prepaid and other current assets	796,194	545,504
Total current assets	42,723,712	56,898,491
Property and equipment, net	241,642	23,068
Other assets	267,532	14,395
Total assets	$ 43,232,886	$ 56,935,954
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,172,738	$ 1,494,435
Accrued compensation	1,261,888	1,322,569
Total current liabilities	4,434,626	2,817,004
Note payable	1,000,000	1,000,000
Deferred rent	23,403	
Stockholders equity:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.0001 par value; 200,000,000 shares authorized; 15,683,866 shares issued and 15,526,323 shares outstanding, excluding 157,543 shares subject to repurchase, at September 30, 2014; 15,619,879 shares issued and 15,386,542 shares outstanding, excluding 233,337 shares subject to repurchase, at December 31, 2013	1,553	1,539
Additional paid-in capital	129,194,086	127,536,408
Accumulated other comprehensive (loss) income	(6,748)	11,497
Accumulated deficit	(91,414,034)	(74,430,494)
Total stockholders equity	37,774,857	53,118,950

Total liabilities and stockholders equity	$ 43,232,886	$ 56,935,954

See accompanying notes to condensed consolidated financial statements.

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Conatus Pharmaceuticals Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating expenses:				
Research and development	$ 4,397,402	$ 1,885,567	$ 11,515,068	$ 3,970,441
General and administrative	2,018,835	1,107,668	5,451,770	2,526,894
Total operating expenses	6,416,237	2,993,235	16,966,838	6,497,335
Other income (expense):				
Interest income	11,989	7,788	48,105	7,920
Interest expense	(17,500)	(203,917)	(52,500)	(417,661)
Other (expense) income	(15,412)	7,911	(12,307)	(7,040)
Other financing expense		(139,328)		(3,576,750)
Total other expense	(20,923)	(327,546)	(16,702)	(3,993,531)
Net loss	(6,437,160)	(3,320,781)	(16,983,540)	(10,490,866)
Other comprehensive (loss) income:				
Net unrealized (losses) gains on marketable securities	(8,896)	11,732	(18,245)	11,181
Comprehensive loss	$ (6,446,056)	$ (3,309,049)	$ (17,001,785)	$ (10,479,685)
Reconciliation of net loss to net loss applicable to common stockholders:				
Net loss	$ (6,437,160)	$ (3,320,781)	$ (16,983,540)	$ (10,490,866)
Gain on extinguishment of convertible preferred stock				11,491,043
Deemed distribution from promissory note issuance				(474,561)
Net income applicable to participating securities				(525,616)
Net loss applicable to common stockholders	$ (6,437,160)	$ (3,320,781)	$ (16,983,540)	$
Net loss per share applicable to common stockholders, basic and diluted	$ (0.42)	$ (0.28)	$ (1.10)	$
Weighted average shares outstanding used in computing net loss per share applicable to common stockholders, basic	15,508,477	11,664,328	15,455,056	4,660,027

and diluted

See accompanying notes to condensed consolidated financial statements.

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Conatus Pharmaceuticals Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2014	**2013**
Operating activities		
Net loss	$ (16,983,540)	$ (10,490,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	21,407	7,799
Share-based compensation expense	1,565,895	101,379
Noncash other financing expense		3,618,093
Amortization of premium on investments	458,850	42,936
Changes in operating assets and liabilities:		
Prepaid and other current assets	(250,690)	(537,428)
Other assets	(62,981)	
Accounts payable and accrued expenses	1,636,245	(312,806)
Accrued compensation	(43,769)	17,634
Deferred rent	23,403	
Net cash used in operating activities	(13,635,180)	(7,553,259)
Investing activities		
Maturities of marketable securities	46,654,000	3,725,000
Purchase of marketable securities	(25,539,445)	(24,223,839)
Capital expenditures	(197,923)	
Net cash provided by (used in) investing activities	20,916,632	(20,498,839)
Financing activities		
Issuance of promissory notes and warrants		1,001,552
Distribution to wholly owned subsidiary in connection with spin-off of Idun		(500,000)
Deferred public offering costs	(190,156)	
Issuance of common stock related to initial public offering, net of offering costs		58,608,454
Issuance of common stock for exercise of stock options	74,885	41,392
Net cash (used in) provided by financing activities	(115,271)	59,151,398
Net increase in cash and cash equivalents	7,166,181	31,099,300
Cash and cash equivalents at beginning of period	4,158,953	4,036,091
Cash and cash equivalents at end of period	$ 11,325,134	$ 35,135,391
Supplemental disclosure of cash flow information:		

Cash paid for interest	$ 52,500	$ 71,083
Supplemental schedule of noncash investing and financing activities:		
Issuance of warrants in conjunction with debt	$	$ 625,792

See accompanying notes to condensed consolidated financial statements.

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Conatus Pharmaceuticals Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Basis of Presentation

Conatus Pharmaceuticals Inc. (the Company) was incorporated in the state of Delaware on July 13, 2005. The Company is a biotechnology company focused on the development and commercialization of novel medicines to treat liver disease.

As of September 30, 2014, the Company has devoted substantially all of its efforts to product development and has not realized revenues from its planned principal operations.

The Company has a limited operating history, and the sales and income potential of the Company s business and market are unproven. The Company has experienced net losses since its inception and, as of September 30, 2014, had an accumulated deficit of $91.4 million. The Company expects to continue to incur net losses for at least the next several years. Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support the Company s cost structure. If the Company is unable to generate revenues adequate to support its cost structure, the Company may need to raise additional equity or debt financing.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) related to a quarterly report on Form 10-Q. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. The unaudited interim condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented. All such adjustments are of a normal and recurring nature. The operating results presented in these unaudited interim condensed consolidated financial statements are not necessarily indicative of the results that may be expected for any future periods. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2013 included in the Company s annual report on Form 10-K filed with the SEC on March 28, 2014.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of condensed consolidated 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 at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risk on its cash. Additionally, the Company established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

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Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts.

Marketable Securities

The Company classifies its investments as available-for-sale and records such assets at estimated fair value in the condensed consolidated balance sheets, with unrealized gains and losses, if any, reported as a component of other comprehensive income (loss) within the condensed consolidated statements of operations and comprehensive loss and as a separate component of stockholders equity. The Company invests its excess cash balances primarily in corporate debt securities and money market funds with strong credit ratings. Realized gains and losses are calculated on the specific identification method and recorded as interest income. There were no realized gains and losses for the periods ended September 30, 2014 and 2013.

At each balance sheet date, the Company assesses available-for-sale securities in an unrealized loss position to determine whether the unrealized loss is other-than-temporary. The Company considers factors including: the significance of the decline in value compared to the cost basis, underlying factors contributing to a decline in the prices of securities in a single asset class, the length of time the market value of the security has been less than its cost basis, the security s relative performance versus its peers, sector or asset class, expected market volatility and the market and economy in general. When the Company determines that a decline in the fair value below its cost basis is other-than-temporary, the Company recognizes an impairment loss in the period in which the other-than-temporary decline occurred. There have been no other-than-temporary declines in the value of marketable securities, as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis.

Fair Value of Financial Instruments

The carrying amounts of prepaid and other current assets, accounts payable and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items.

Property and Equipment

Property and equipment, which consists of furniture and fixtures, computers and office equipment and leasehold improvements, are stated at cost and depreciated over the estimated useful lives of the assets (three to five years) using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term.

Long-Lived Assets

The Company regularly reviews the carrying value and estimated lives of all of its long-lived assets, including property and equipment, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. The determinants used for this evaluation include management s estimate of the asset s ability to generate positive income from operations and positive cash flow in future periods, as well as the strategic significance of the assets to the Company s business objective. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset s fair value. The Company has not recognized any impairment losses through September 30, 2014.

Research and Development Expenses

All research and development costs are expensed as incurred.

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Income Taxes

The Company s policy related to accounting for uncertainty in income taxes prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of December 31, 2013, there are no unrecognized tax benefits included in the condensed consolidated balance sheet that would, if recognized, affect the Company s effective tax rate, and the Company has noted no material changes through September 30, 2014. The Company has not recognized interest and penalties in the condensed consolidated balance sheets or condensed consolidated statements of operations and comprehensive loss. The Company is subject to U.S. and California taxation. As of December 31, 2013, the Company s tax years beginning 2005 to date are subject to examination by taxing authorities.

Convertible Preferred Stock Warrant Liability

The Company had issued freestanding warrants exercisable to purchase shares of its Series A and Series B convertible preferred stock. These warrants were classified as a liability in the accompanying condensed consolidated balance sheets prior to the completion of the Company s initial public offering (IPO) of its common stock in July 2013, as the terms for redemption of the underlying security were outside the Company s control. The Series A convertible preferred stock warrants were recorded at fair value using the Black-Scholes option pricing model. The Series B convertible preferred stock warrants were recorded at fair value using a Monte Carlo model. The fair value of all warrants, except as noted below, was remeasured at each financial reporting date with any changes in fair value being recognized in other financing income (expense), a component of other income (expense), in the accompanying condensed consolidated statements of operations and comprehensive loss. The Company ceased the remeasurement of the fair value upon exercise of the Series A warrants and the Series B warrants becoming exercisable for shares of common stock, immediately prior to the completion of the Company s IPO in July 2013.

Comprehensive Loss

The Company is required to report all components of comprehensive loss, including net loss, in the condensed consolidated financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources, including unrealized gains and losses on investments. Comprehensive gains (losses) have been reflected in the condensed consolidated statements of operations and comprehensive loss for all periods presented.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company s potentially dilutive securities, which include warrants, outstanding stock options under the Company s stock option plans and common stock subject to repurchase by the Company, have been excluded from the computation of diluted net loss per share in the periods in which they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company s net loss position.

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The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator:				
Net loss attributable to common stockholders	$ (6,437,160)	$ (3,320,781)	$ (16,983,540)	$
Denominator for basic and diluted net loss per share:				
Weighted average common shares outstanding, basic and diluted	15,508,477	11,664,328	15,455,056	4,660,027
Net loss per share applicable to common stockholders, basic and diluted	$ (0.42)	$ (0.28)	$ (1.10)	$

The following table sets forth the outstanding potentially dilutive securities that have been excluded in the calculation of diluted net loss per share because to do so would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Warrants to purchase common stock	149,704	149,704	149,704	149,704
Common stock options	1,663,752	730,590	1,663,752	730,590
Common stock subject to repurchase	157,543	284,810	157,543	284,810
Total	1,970,999	1,165,104	1,970,999	1,165,104

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation.* This guidance removes the definition of a development stage entity from FASB s accounting standards codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, the guidance eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The guidance becomes effective in the first annual period beginning after December 15, 2014, with an option for early adoption. The Company elected to early adopt this standard during the quarter ended June 30, 2014.

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3. Fair Value Measurements

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Includes financial instruments for which quoted market prices for identical instruments are available in active markets.

Level 2: Includes financial instruments for which there are inputs other than quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transaction (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Includes financial instruments for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including management s own assumptions.

Below is a summary of assets and liabilities measured at fair value as of September 30, 2014 and December 31, 2013.

		Fair Value Measurements Using		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$ 9,850,742	$ 9,850,742	$	$
Municipal bonds	70,000		70,000	
Corporate debt securities	31,532,251		31,532,251	
Total assets	$ 41,452,993	$ 9,850,742	$ 31,602,251	$

		Fair Value Measurements Using		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
Assets				
Money market funds	$ 2,832,559	$ 2,832,559	$	$
Municipal bonds	255,000		255,000	
Corporate debt securities	51,438,492		51,438,492	
Debt securities in government sponsored entities	1,500,885		1,500,885	
Total assets	$ 56,026,936	$ 2,832,559	$ 53,194,377	$

The Company s marketable securities, consisting principally of debt securities, are classified as available-for-sale, are stated at fair value, and consist of Level 2 financial instruments in the fair value hierarchy. The Company determines the fair value of its debt security holdings based on pricing from a service provider. The service provider values the securities based on using market prices from a variety of industry-standard independent data providers.

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Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

The fair value of the convertible preferred stock warrant liability was determined based on Level 3 inputs and utilized the Black-Scholes option pricing model for the Series A convertible preferred stock warrants. The Series B convertible preferred stock warrants utilized a Monte Carlo model. The warrant liabilities were marked to market before converting to equity at the IPO. The following table presents activity for the convertible preferred stock warrant liability measured at fair value using significant unobservable Level 3 inputs during the year ended December 31, 2013 and the nine months ended September 30, 2014.

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)
Balance at December 31, 2012	$ 160,345
Issuance of preferred stock warrants	625,679
Changes in fair value reflected as other financing expense	3,457,184
Conversion to equity at IPO	(4,243,208)
Balance at December 31, 2013	
Balance at September 30, 2014	$

The fair value of the convertible promissory notes was determined based on Level 3 inputs and valued the notes utilizing an estimated cost of debt from publicly available information on issuances of high yield fixed income securities issued by comparable companies. The Company concluded that a 15% discount rate was appropriate, resulting in an initial fair value for the notes of approximately $970,000. The discount was accreted to interest expense through the Company s IPO and was accreted completely at the IPO as the notes plus accrued interest converted to common stock at the IPO. The following table presents activity for the convertible promissory notes measured at fair value using significant unobservable Level 3 inputs during the year ended December 31, 2013 and the nine months ended September 30, 2014.

	Fair Value Measurements at Reporting Date Using Significant

	Unobservable Inputs (Level 3)
Balance at December 31, 2012	$
Issuance of convertible promissory notes	970,000
Accretion of debt discount to interest expense	31,439
Conversion to equity at IPO	(1,001,439)
Balance at December 31, 2013	
Balance at September 30, 2014	$

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4. Marketable Securities

The Company invests its excess cash in money market funds and debt instruments of financial institutions, corporations, government sponsored entities and municipalities. The following tables summarize the Company s marketable securities:

As of September 30, 2014	Maturity (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Corporate debt securities	1 or less	$ 30,539,132	$	$ (6,748)	$ 30,532,384
Municipal bonds	1 or less	70,000			70,000
Total		$ 30,609,132	$	$ (6,748)	$ 30,602,384

As of December 31, 2013	Maturity (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Corporate debt securities	1 or less	$ 47,172,466	$ 11,148	$	$ 47,183,614
Corporate debt securities	1 - 2	3,254,329	206		3,254,535
Debt securities in government sponsored entities	1 - 2	1,500,742	143		1,500,885
Municipal bonds	1 or less	255,000			255,000
Total		$ 52,182,537	$ 11,497	$	$ 52,194,034

5. Property and Equipment

Property and equipment consist of the following:

	Useful Life in Years	September 30, 2014	December 31, 2013
Furniture and fixtures	4	$ 239,788	$ 115,417
Computer equipment and office equipment	4	153,065	96,569
Leasehold improvements	5	62,758	3,645
		455,611	215,631
Less accumulated depreciation and amortization		(213,969)	(192,563)
		$ 241,642	$ 23,068

6. Note Payable

In July 2010, the Company entered into a $1.0 million promissory note payable to Pfizer Inc. The note bears interest at 7% per annum, which is paid quarterly, and matures on July 29, 2020. The note payable prohibits the Company from paying cash dividends and is subject to acceleration upon specified events of default as defined in the agreement including the failure to notify Pfizer of certain material adverse events. In July 2013, the note payable to Pfizer was amended to become convertible into shares of the Company s common stock following the completion of the IPO, at the option of the holder, at a price per share equal to the fair market value of the common stock on the date of conversion.

In May 2013, the Company entered into a note and warrant purchase agreement with certain existing investors pursuant to which it sold, in a private placement, an aggregate of $1.0 million of convertible promissory notes (the 2013 Notes), and issued warrants exercisable to purchase 1,124,026 shares of Series B Preferred Stock (the 2013 Warrants). The 2013 Notes accrued interest at a rate of 6% per annum and were due and payable on the earlier of (1) any date after November 30, 2013 upon which holders of 75% of the outstanding principal amount of all such 2013 Notes demand repayment, or (2) the occurrence of a change of control of the Company, subject in each case to their earlier conversion in the event the Company completed a qualified initial public offering or private placement of debt and/or equity. The 2013 Notes did not provide for any potential adjustments to the stated conversion rates

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other than in the event of stock splits, stock dividends and recapitalizations. The conversion of the 2013 Notes in the event of a qualified initial public offering or private placement of equity was deemed to be the predominant settlement mechanism. As this predominant settlement mechanism provided for the settlement of a fixed monetary amount in a variable number of equity instruments, the Company concluded that it was appropriate to recognize the 2013 Notes at fair value. The Company valued the 2013 Notes utilizing an estimated cost of debt from publicly available information on issuances of high yield fixed income securities issued by comparable companies. The Company concluded that a 15% discount rate was appropriate, resulting in an initial fair value for the 2013 Notes of approximately $970,000. Upon completion of the IPO, the 2013 Notes plus accrued interest automatically converted into 91,948 shares of common stock.

The 2013 Warrants were exercisable for an aggregate of 1,124,026 shares of Series B Preferred Stock at an exercise price of $0.90 per share. Upon completion of the IPO, the 2013 Warrants became exercisable for an aggregate of 136,236 shares of common stock at an exercise price of $7.43 per share. The 2013 Warrants will expire on May 30, 2018. The 2013 Warrants were initially accounted for as liabilities with changes in fair value recognized within the condensed consolidated statements of operations and comprehensive loss. The Company determined that the initial value of the 2013 Warrants was $506,000. The 2013 Warrants were valued utilizing a Monte Carlo simulation of various weighted scenarios. Following the IPO, the 2013 Warrants were reclassified into equity at their fair value at the time of the completion of the IPO.

The valuation at the issuance of the 2013 Notes and 2013 Warrants resulted in a deemed distribution in the amount of $474,561 accounted for as a reduction in net income attributable to common stockholders.

In July 2013, the Company entered into a loan and security agreement, (the Credit Facility) with Oxford Finance LLC and Silicon Valley Bank (the Lenders). The Credit Facility provided funding for an aggregate principal amount of up to $15.0 million. The first term loan of the Credit Facility was funded in July 2013 in the amount of $1.0 million. On September 25, 2013, the Company prepaid the outstanding advances under the Credit Facility. Accordingly, the Credit Facility was terminated on September 25, 2013. In connection with the funding of the first term loan under the Credit Facility, the Company issued warrants to the Lenders to purchase up to an aggregate of 111,112 shares of Series B convertible preferred stock at an exercise price of $0.90 per share (Lender Warrants). The Lender Warrants will expire on July 3, 2023. The Lender Warrants were initially accounted for as liabilities with the changes in fair value recognized within the condensed consolidated statements of operations and comprehensive loss.

The Lender Warrants were initially valued at $119,679, and such amount was recognized as additional expense. Upon completion of the IPO, the Lender Warrants became exercisable for an aggregate of 13,468 shares of common stock at an exercise price of $7.43 per share. Following the IPO, the Lender Warrants were reclassified into equity at their fair value at the time of the completion of the IPO.

7. Stockholders Equity

Common Stock

In July 2013, the Company implemented a 1-for-8.25 reverse stock split of its outstanding common stock. The accompanying condensed consolidated financial statements give effect to the reverse split for all periods presented.

In July 2013, the Company completed the IPO of 6,000,000 shares of common stock at an offering price of $11.00 per share. The Company received net proceeds of approximately $58.6 million, after deducting underwriting discounts and commissions and offering-related transaction costs.

On August 14, 2014, the Company entered into an At Market Issuance Sales Agreement (the Sales Agreement) with MLV & Co. LLC (MLV), pursuant to which the Company may sell from time to time, at its option, up to an aggregate of $50.0 million of shares of its common stock through MLV, as sales agent. Sales of the Company s common stock made pursuant to the Sales Agreement, if any, will be made on The NASDAQ Global Market (Nasdaq) by means of ordinary brokers transactions at market prices. Additionally, under the terms of the Sales Agreement, the Company may also sell shares of its common stock through MLV, on Nasdaq or otherwise, at

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negotiated prices or at prices related to the prevailing market price. Under the terms of the Sales Agreement, MLV may not engage in any proprietary trading or trading as principal for MLV s own account. MLV has agreed to use commercially reasonable efforts consistent with its normal trading and sales practices to sell the Company s common stock from time to time, based upon the Company s instructions (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company cannot provide any assurances that it will issue any shares pursuant to the Sales Agreement. The Company has agreed to pay a commission rate equal to up to 3% of the gross sales price per share sold. The Company has also agreed to provide MLV with customary indemnification and contribution rights. The Company has incurred legal and accounting costs of approximately $0.2 million, as of September 30, 2014, in connection with the commencement of the Sales Agreement, which are recorded in other assets on the balance sheet until such time as the Company issues shares pursuant to the Sales Agreement. As of September 30, 2014, no shares were issued pursuant to the Sales Agreement.

Convertible Preferred Stock

On May 30, 2013, 15,576,789 shares of the Company s convertible preferred stock were converted into 1,557,678 shares of common stock (188,808 shares on a post-reverse split basis) as a result of one preferred stock investor not purchasing a pro rata share of the 2013 Notes. As a result of this transaction, a gain on the extinguishment of preferred stock was recognized as income applicable to common stockholders and an addition to additional paid-in capital in the amount of $11,491,043, which represented the difference between the carrying value of the 15,576,789 shares of convertible preferred stock and the fair value of the 188,808 shares of common stock.

In July 2013, all outstanding shares of convertible preferred stock converted to shares of common stock in connection with the IPO.

Warrants

The Company issued warrants to purchase a total of 2,333,320 shares of Series A Preferred Stock in conjunction with a convertible bridge financing in 2010 and issued the 2013 Warrants and Lender Warrants in conjunction with a convertible bridge financing and the Credit Facility funding in 2013. The Company initially accounted for the warrants as liabilities because they were exercisable for shares of preferred stock that were classified outside of permanent equity. The convertible preferred stock warrant liability was required to be recorded at fair value at the grant date of the warrants and the carrying value adjusted at each reporting date. The Company revalued the warrants at July 30, 2013 (date of IPO closing) and recorded the change in the value of the warrants of approximately $3.5 million as other financing expense. The Series A warrants converted to 280,675 shares of common stock as a result of the net exercise of such warrants at the IPO. Upon the completion of the IPO, the 2013 Warrants and the Lender Warrants became exercisable for an aggregate of 149,704 shares of common stock at an exercise price of $7.43 per share. Following the IPO, the 2013 Warrants and Lender Warrants were reclassified into equity at their fair value at the time of the completion of the IPO.

Stock Options

The following table summarizes the Company s stock option activity under all stock option plans for the nine months ended September 30, 2014:

	Total Options	**Weighted-Average**

		Exercise Price
Balance at December 31, 2013	790,590	$ 4.01
Granted	982,250	8.95
Exercised	(69,088)	1.09
Cancelled	(40,000)	10.61
Balance at September 30, 2014	1,663,752	$ 6.89

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The Company recorded stock-based compensation of $692,391 and $75,463 for the three months ended September 30, 2014 and 2013, respectively, and $1,565,895 and $101,379 for the nine months ended September 30, 2014 and 2013, respectively.

Common Stock Reserved for Future Issuance

The following shares of common stock are reserved for future issuance at September 30, 2014:

Common stock warrants	149,704
Stock options issued and outstanding	1,663,752
Authorized for future option grants	611,109
Authorized for the Employee Stock Purchase Plan	300,000
	2,724,565

8. Commitments

The Company previously leased certain office space under a noncancelable operating lease with terms through June 30, 2014. In February 2014, the Company entered into a noncancelable operating lease for certain office space starting in July 2014 through December 2019. Future minimum payments under this noncancelable operating lease total approximately $1.5 million at September 30, 2014.

Rent expense was $82,936 and $45,003 for the three months ended September 30, 2014 and 2013, respectively, and $172,702 and $122,032 for the nine months ended September 30, 2014 and 2013, respectively.

In July 2010, the Company entered into a stock purchase agreement with Pfizer, pursuant to which the Company acquired all of the outstanding stock of Idun Pharmaceuticals, Inc. (Idun). Under the agreement, the Company may be required to make payments to Pfizer totaling $18.0 million upon the achievement of specified regulatory milestones.

9. Spin-off of Idun Pharmaceuticals, Inc.

In January 2013, the Company spun off its subsidiary Idun to the Company s stockholders. Prior to the spin-off, rights relating to emricasan were distributed to the Company by Idun pursuant to a distribution agreement. The spin-off was conducted as a dividend of all of the outstanding capital stock of Idun to the Company s stockholders. As a result, the Company no longer holds any capital stock of Idun.

In connection with the spin-off, the Company contributed $0.5 million to Idun to provide for Idun s initial working capital requirements. The assets remaining in Idun at the time of the spin-off consisted of cash, intellectual property rights and license and collaboration agreements unrelated to emricasan. Other than the cash of $0.5 million, none of the assets held by Idun had any historical carrying value at the time of the spin-off. As a result, the Company recognized a reduction in equity as a result of the spin-off of $0.5 million, representing the carrying value of Idun in the Company s condensed consolidated financial statements at the time of the spin-off.

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

The following discussion and analysis and the interim financial statements included in this quarterly report on Form 10-Q should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2013 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 filed with the Securities and Exchange Commission, or SEC, on March 28, 2014.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this quarterly report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. 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.

In some cases, you can identify forward-looking statements by terms such as may, will, should, expect, plan, anticipate, could, intend, target, project, contemplates, believes, estimates, predicts, potential or negative of these terms or other similar expressions. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward- looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, Risk Factors. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Overview

We are a biotechnology company focused on the development and commercialization of novel medicines to treat liver disease. We are developing our lead compound, emricasan, for the treatment of patients with chronic liver disease and acute exacerbations of chronic liver disease. Emricasan is a first-in-class, orally active pan-caspase protease inhibitor designed to reduce the activity of all ten human caspases, which are enzymes that mediate inflammation and apoptosis. We believe that by reducing the activity of these enzymes, emricasan has the potential to interrupt the progression of liver disease and potentially provide treatment options in multiple areas of liver disease. We have observed compelling preclinical and clinical trial results that suggest emricasan may have clinical utility in slowing progression of liver diseases regardless of the original cause of the disease. To date, emricasan has been studied in over 550 subjects in twelve clinical trials. In a randomized Phase 2b clinical trial in patients with liver disease, emricasan demonstrated a statistically significant, consistent, rapid and sustained reduction in elevated levels of key biomarkers of inflammation and apoptosis implicated in the severity and progression of liver disease.

We have designed a comprehensive clinical program to demonstrate the therapeutic benefit of emricasan across the spectrum of liver diseases. We are developing emricasan for the treatment of patients with chronic liver disease and acute exacerbations of chronic liver disease, including: acute-on-chronic liver failure, or ACLF; liver cirrhosis, or LC; liver cirrhosis with portal hypertension, or PH; post-orthotopic liver transplant, or POLT, recipients with reestablished liver fibrosis post-transplant as a result of recurrent hepatitis C virus, or HCV, infection who have successfully achieved a sustained viral response, or SVR, following HCV antiviral therapy, or POLT-HCV-SVR; and nonalcoholic fatty liver disease, or NAFLD, including patients with inflammatory and/or fibrotic nonalcoholic steatohepatitis, or NASH.

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In November 2014, we presented a late-breaking poster entitled Rapid and statistically significant reduction of markers of apoptosis and overall cell death in subjects with mild, moderate and severe hepatic impairment treated with a single dose of the pan-caspase inhibitor, emricasan at The Liver Meeting, the annual meeting of the American Association for the Study of Liver Diseases. The poster disclosed key secondary endpoint pharmacodynamic, or PD, biomarker results from our recently completed Phase 1 hepatic impairment clinical trial. The clinical trial was conducted in 12 subjects with mild, eight subjects with moderate, and eight subjects with severe hepatic impairment, as defined using Child-Pugh Scores, and eight healthy matched control subjects. All subjects received a single 50 mg oral dose of emricasan, and serial blood samples were collected over a 48-hour period. Levels of three key biomarkers of apoptosis, overall cell death, and caspase enzymatic activity cCK18, full-length cytokeratin 18, or flCK18, and caspase 3/7, respectively were elevated at study baseline and demonstrated rapid and statistically significant reductions after a single 50 mg oral dose of emricasan. Levels of these three key biomarkers demonstrated significant reductions from the elevated levels at baseline in 100% of the hepatic impaired subjects compared with 0% of the matched control subjects, whose baseline levels were not elevated. In all three impaired groups, peak reductions of caspase 3/7 occurred approximately four hours after dosing, and peak reductions in cCK18 and flCK18 levels occurred eight to 12 hours after dosing. All three biomarkers trended toward pre-dose levels within 24 to 48 hours after dosing of emricasan.

We initiated three clinical trials of emricasan in patients with impaired organ function to support dose selection and prioritization for advancement in our overall clinical development program: a Phase 2b clinical trial initiated in September 2013 in ACLF patients who may have simultaneous impairment of both liver and kidney function; a Phase 1 clinical trial initiated in January 2014 in patients with severe renal impairment; and the previously described Phase 1 hepatic impairment clinical trial initiated in April 2014. Preliminary pharmacokinetic, or PK, results from the renal impairment and hepatic impairment clinical trials were used to support the design of two recently initiated clinical trials in patients with liver cirrhosis.

In our Phase 2b ACLF clinical trial, enrollment has been concluded and dosing has been completed. Aggregate top-line PK/PD data from the ACLF clinical trial, with 21 subjects, the renal impairment clinical trial, with 16 subjects, and the hepatic impairment clinical trial, with 36 subjects, are expected to be available to us by year-end 2014 and to be reported publicly shortly thereafter. Aggregate final data from these three clinical trials, encompassing a total of 73 subjects across five distinct organ impairment patient populations, are expected to be sufficient to determine the optimal dosing of emricasan. These data will also help determine the future direction for the clinical development of emricasan, in potential future studies over a broad range of patient populations, including critically ill patients with varying degrees of liver and kidney function.

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Target Therapeutic Area	Description of Patient Population	Development Plans
Acute-on-Chronic Liver Failure	ACLF occurs in patients who have compensated or decompensated cirrhosis but are in relatively stable condition until an acute event sets off a rapid worsening of liver function.	In September 2013, we initiated a Phase 2b clinical trial in ACLF. We expect to have top-line PK/PD data from the ACLF clinical trial by the end of 2014.
Liver Cirrhosis	In LC patients, healthy liver tissue is replaced with scar tissue resulting in abnormal structure and function of the liver.	In September 2014, we initiated a Phase 2 clinical trial in LC patients. Top-line data from the first phase of this clinical trial are expected to be available in the second half of 2015.
Portal Hypertension	PH patients have an increase in the pressure within the portal vein which is caused by a blockage in the blood flow through the liver.	In September 2014, we initiated an exploratory, open label Phase 2 clinical trial in PH patients. Top-line data from this clinical trial are expected to be available in the third quarter of 2015.
Post Liver Transplant Clearance of Hepatitis C Virus Infection with Sustained Viral Response	In patients with POLT-HCV-SVR, liver fibrosis may persist for many years.	In May 2014, we initiated a placebo-controlled (open to sponsor) Phase 2b clinical trial tracking biomarkers and histology in POLT patients who respond to antiviral therapy but still have underlying liver fibrosis. We expect to have initial data from the sponsor-open clinical trial in the first half of 2015
Non-alcoholic Steatohepatitis	NASH patients suffer from inflammation due to fat buildup in the liver.	In March 2014, we initiated a Phase 2 clinical trial in the United States for NAFLD, including NASH. Our goal is to accumulate sufficient and relevant clinical data to allow rapid advancement of emricasan once appropriate regulatory pathways are defined. We expect to have top-line data from this clinical trial in the first quarter of 2015.

Since our inception, our primary activities have been organizational activities, including recruiting personnel, conducting research and development, including clinical trials, and raising capital. We have funded our operations since inception primarily through sales of equity securities and convertible promissory notes.

We have no products approved for sale. We have not generated any revenues to date, and we have incurred significant operating losses since our inception. We have never been profitable and have incurred consolidated net losses of approximately $15.6 million and $8.7 million in the years ended December 31, 2013 and 2012, respectively, and $6.4 million and $17.0 million for the three and nine months ended September 30, 2014, respectively. As of September 30,

2014, we had an accumulated deficit of $91.4 million.

We expect to continue to incur significant operating losses and negative cash flows from operating activities for the foreseeable future as we continue the clinical development of emricasan and seek regulatory approval for and, if approved, pursue commercialization of emricasan. As of September 30, 2014, we had cash, cash equivalents and marketable securities of approximately $41.9 million. To fund further operations, we will need to raise additional capital. In August 2014, we entered into an At Market Issuance Sales Agreement, or the Sales Agreement, with MLV & Co. LLC, or MLV, pursuant to which we may sell from time to time, at our option, up to an aggregate of $50.0 million of shares of our common stock in at-the-market offerings. We may also obtain additional financing in the future through the issuance of our common stock in public offerings, through other equity or debt

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financings or through collaborations or partnerships with other companies. Although it is difficult to predict future liquidity requirements, we believe that our existing cash, cash equivalents and marketable securities, including funds raised in our initial public offering, or IPO, will be sufficient to fund our operations for at least the next 12 months. We will need to raise additional funds to complete additional clinical trials of emricasan, to fund regulatory filings for emricasan in the United States and the European Union and for potential commercialization of emricasan.

Successful transition to profitability is dependent upon achieving a level of revenues adequate to support our cost structure. We cannot assure you that we will ever be profitable or generate positive cash flow from operating activities and, unless and until we do, we will need to raise substantial additional capital through equity or debt financings or through collaborations or partnerships with other companies. We may not be able to raise additional capital on terms acceptable to us, or at all, and any failure to raise capital as and when needed could have a material adverse effect on our results of operations, financial condition and our ability to execute on our business plan.

JOBS Act

In April 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an emerging growth company. As an emerging growth company, we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable. In addition, we are in the process of evaluating the benefits of relying on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an emerging growth company we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor s attestation report on our system of internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor s report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer s compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our IPO or until we no longer meet the requirements of being an emerging growth company, whichever is earlier.

Financial Overview

Revenues

We currently have no products approved for sale, and we have not generated any revenues to date. We have not submitted any drug candidate for regulatory approval. In the future, we may generate revenues from a combination of milestone payments, reimbursements and royalties in connection with any future collaboration we may enter into with respect to emricasan, as well as product sales from emricasan. However, we do not expect to receive revenues unless and until we receive approval for emricasan or potentially enter into collaboration agreements for emricasan. If we fail to achieve clinical success in the development of emricasan in a timely manner and/or obtain regulatory approval for this drug candidate, our ability to generate future revenues would be materially adversely affected.

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Research and Development Expenses

The majority of our operating expenses to date have been incurred in research and development activities. Since acquiring emricasan in 2010, we have incurred approximately $27.4 million in the development of emricasan through September 30, 2014. Our business model is currently focused on the development of emricasan in various liver diseases and is dependent upon our continuing to conduct research and a significant amount of clinical development. Our research and development expenses consist primarily of:

- expenses incurred under agreements with contract research organizations, or CROs, investigative sites and consultants that conduct our clinical trials and our preclinical studies;
- employee-related expenses, which include salaries and benefits;
- the cost of finalizing our chemistry, manufacturing and controls, or CMC, capabilities and providing clinical trial materials; and
- costs associated with other research activities and regulatory approvals.

Research and development costs are expensed as incurred.

At this time, due to the inherently unpredictable nature of preclinical and clinical development, we are unable to estimate with any certainty the costs we will incur in the continued development of emricasan. Clinical development timelines, the probability of success and development costs can differ materially from expectations.

We are currently focused on advancing emricasan in multiple indications, and our future research and development expenses will depend on its clinical success. In addition, we cannot forecast with any degree of certainty whether emricasan will be the subject of future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

Research and development expenditures will continue to be significant and will increase as we continue clinical development of emricasan over at least the next several years. We expect to incur significant development costs as we conduct our planned Phase 2 and Phase 3 clinical trials of emricasan, subject to receiving input from regulatory authorities.

The costs of clinical trials may vary significantly over the life of a project owing to factors that include but are not limited to the following:

- per patient trial costs;
- the number of patients that participate in the clinical trials;

the number of sites included in the clinical trials;

the countries in which the clinical trials are conducted;

the length of time required to enroll eligible patients;

the number of doses that patients receive;

the drop-out or discontinuation rates of patients;

potential additional safety monitoring or other studies requested by regulatory agencies;

the duration of patient follow-up; and

the efficacy and safety profile of the drug candidate.

We do not expect emricasan to be commercially available, if at all, for at least the next several years.

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General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, business development and administrative functions. Other general and administrative expenses include costs related to being a public company, as well as insurance, facilities, travel, patent filing and maintenance, legal and consulting expenses.

If emricasan receives regulatory approval, we expect to incur increased expenses associated with building a sales and marketing team. Some expenses may be incurred prior to receiving regulatory approval of emricasan. We do not expect to receive any such regulatory approval for at least the next several years.

Interest Income

Interest income consists primarily of interest income earned on our cash, cash equivalents and marketable securities.

Interest Expense

Interest expense consists of coupon interest on our $1.0 million promissory note payable to Pfizer Inc., interest accrued on the convertible promissory notes payable to certain existing investors issued in May 2013, which automatically converted into common stock in connection with the completion of our IPO, and interest accrued pursuant to the loan and security agreement, or the Credit Facility, with Oxford Finance LLC, as collateral agent and a lender, and certain other lenders party thereto from time to time, including Silicon Valley Bank, through our prepayment of the outstanding advances under the Credit Facility in September 2013.

Other Income (Expense)

Other income (expense) includes non-operating transactions such as those caused by currency fluctuations in the conversion of account balances held in foreign currencies to U.S. dollars.

Other Financing Expense

Other financing expense consists of the revaluation of our convertible preferred stock warrants issued in conjunction with our 2010 and 2013 bridge note financings, as well as the write off of the debt discount associated with our 2013 bridge note financing.

Critical Accounting Policies and Significant Judgments and Estimates

Our management s discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

There were no significant changes during the nine months ended September 30, 2014 to the critical accounting policies described in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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Results of Operations

Comparison of the Three Months Ended September 30, 2014 and 2013

Research and Development Expenses

Research and development expenses were $4.4 million in the three months ended September 30, 2014, as compared to $1.9 million for the same period in 2013. The increase of $2.5 million was primarily due to an increase in external costs for clinical trials and manufacturing related to emricasan, as well as higher personnel costs and stock option compensation expense.

General and Administrative Expenses

General and administrative expenses were $2.0 million in the three months ended September 30, 2014, as compared to $1.1 million for the same period in 2013. The increase of $0.9 million was primarily due to higher personnel costs and stock option compensation expense.

Changes in components of Other Income (Expense) were as follows:

Interest Income

Interest income was $12,000 for the three months ended September 30, 2014, as compared to $8,000 for the same period in 2013. Interest income consisted of interest earned on our cash and investment balances. Prior to our IPO in July 2013, our interest income was not significant due to nominal cash and investment balances.

Interest Expense

Interest expense was $18,000 for the three months ended September 30, 2014, as compared to $204,000 for the same period in 2013. The decrease was due to interest and expenses associated with the aggregate of $1.0 million of convertible promissory notes we issued in May 2013, which were converted into shares of our common stock at the IPO, and the Credit Facility funded in July 2013, which was terminated in September 2013.

Other (Expense) Income

Other expense was $15,000 for the three months ended September 30, 2014, as compared to other income of $8,000 for the same period in 2013 caused by currency fluctuations in the conversion of account balances held in foreign currencies to U.S. dollars.

Other Financing Expense

Other financing expense was $0 for the three months ended September 30, 2014, as compared to $139,000 for the same period in 2013. Other financing expense for the three months ended September 30, 2013 represents the write off of the debt discount associated with our 2013 bridge note financing and the revaluation of our convertible preferred stock warrants issued in conjunction with our 2010 and 2013 bridge note financings.

Comparison of the Nine Months Ended September 30, 2014 and 2013

Research and Development Expenses

Research and development expenses were $11.5 million in the nine months ended September 30, 2014, as compared to $4.0 million for the same period in 2013. The increase of $7.5 million was primarily due to an increase in external costs for clinical trials and manufacturing related to emricasan, as well as higher personnel costs and stock option compensation expense.

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General and Administrative Expenses

General and administrative expenses were $5.5 million in the nine months ended September 30, 2014, as compared to $2.5 million for the same period in 2013. The increase of $3.0 million was primarily due to higher personnel costs, stock option compensation expense and costs associated with being a public company, including increased insurance, investor relations, board of directors, public reporting and accounting expenses.

Changes in components of Other Income (Expense) were as follows:

Interest Income

Interest income was $48,000 for the nine months ended September 30, 2014, as compared to $8,000 for the same period in 2013. Interest income consisted of interest earned on our cash and investment balances. Prior to our IPO in July 2013, our interest income was not significant due to nominal cash and investment balances.

Interest Expense

Interest expense was $53,000 for the nine months ended September 30, 2014, as compared to $418,000 for the same period in 2013. The decrease was due to interest and expenses associated with the aggregate of $1.0 million of convertible promissory notes we issued in May 2013, which were converted into shares of our common stock at the IPO, and the Credit Facility funded in July 2013, which was terminated in September 2013.

Other Expense

Other expense was $12,000 for the nine months ended September 30, 2014, as compared to $7,000 for the same period in 2013 caused by currency fluctuations in the conversion of account balances held in foreign currencies to U.S. dollars.

Other Financing Expense

Other financing expense was $0 for the nine months ended September 30, 2014, as compared to $3.6 million for the same period in 2013. Other financing expense for the nine months ended September 30, 2013 represents the revaluation of our convertible preferred stock warrants issued in conjunction with our 2010 and 2013 bridge note financings and the write off of the debt discount associated with our 2013 bridge note financing.

Liquidity and Capital Resources

We have incurred losses since inception and negative cash flows from operating activities and, as of September 30, 2014, we had an accumulated deficit of $91.4 million. We anticipate that we will continue to incur net losses for the foreseeable future as we continue the development and potential commercialization of emricasan and incur additional costs associated with being a public company.

Prior to our IPO in July 2013, we funded our operations primarily through private placements of equity and convertible debt securities. In July 2013, we completed our IPO of 6,000,000 shares of common stock at an offering price of $11.00 per share. We received net proceeds of approximately $58.6 million, after deducting underwriting discounts and commissions and offering-related transaction costs. At September 30, 2014, we had cash, cash equivalents and marketable securities of approximately $41.9 million. We believe our existing cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next 12 months. To fund further

operations, we will need to raise additional capital. We plan to continue to fund losses from operations and capital funding needs through future equity and debt financing, as well as potential additional collaborations. The sale of additional equity or convertible debt could result in additional dilution to our stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations. No assurances can be provided that financing will be available in the amounts we need or on terms acceptable to us, if at all. If we are not able to secure adequate additional funding, we may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. Any of these actions could materially harm our business, results of operations and future prospects.

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In May 2013, we issued $1.0 million in aggregate principal amount of convertible promissory notes, which automatically converted into 91,948 shares of our common stock in connection with the completion of our IPO.

In July 2013, we entered into the Credit Facility. The Credit Facility provided funding for an aggregate principal amount of up to $15.0 million. The first term loan of the Credit Facility was funded in July 2013 in the aggregate principal amount of $1.0 million. On September 25, 2013, we prepaid the outstanding advances under the Credit Facility. Pursuant to the terms of the Credit Facility, we prepaid the outstanding principal balance of $1.0 million plus accrued and unpaid interest, a prepayment fee of $30,000, a final payment of $50,000 and the collateral agent s legal fees incurred with respect to the prepayment. Accordingly, the Credit Facility was terminated on September 25, 2013.

In August 2014, we entered into the Sales Agreement with MLV, pursuant to which we may sell from time to time, at our option, up to an aggregate of $50.0 million of shares of our common stock through MLV, as sales agent. Sales of our common stock made pursuant to the Sales Agreement, if any, will be made on The NASDAQ Global Market, or Nasdaq, under our Registration Statement on Form S-3 filed on August 14, 2014 by means of ordinary brokers transactions at market prices. Additionally, under the terms of the Sales Agreement, we may also sell shares of our common stock through MLV, on Nasdaq or otherwise, at negotiated prices or at prices related to the prevailing market price. Under the terms of the Sales Agreement, MLV may not engage in any proprietary trading or trading as principal for MLV s own account. MLV will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell our common stock from time to time, based upon our instructions (including any price, time or size limits or other customary parameters or conditions we may impose). We cannot provide any assurances that we will issue any shares pursuant to the Sales Agreement. We will pay a commission rate equal to up to 3% of the gross sales price per share sold. We have also agreed to provide MLV with customary indemnification and contribution rights. The Sales Agreement may be terminated by us or MLV at any time upon ten days notice to the other party, or by MLV at any time in certain circumstances, including the occurrence of an event that would be reasonably likely to have a material adverse effect on our assets, business, operations, earnings, properties, condition (financial or otherwise), prospects, stockholders equity or results of operations. As of October 31, 2014, no shares were issued pursuant to the Sales Agreement.

The following table sets forth a summary of the net cash flow activity for each of the periods set forth below:

	Nine Months Ended September 30,	
	2014	**2013**
Net cash used in operating activities	$ (13,635,180)	$ (7,553,259)
Net cash provided by (used in) investing activities	20,916,632	(20,498,839)
Net cash (used in) provided by financing activities	(115,271)	59,151,398
Net increase in cash and cash equivalents	$ 7,166,181	$ 31,099,300

Net cash used in operating activities was $13.6 million and $7.6 million for the nine months ended September 30, 2014 and 2013, respectively. The primary use of cash was to fund our operations related to the development of emricasan.

Net cash provided by investing activities was $20.9 million for the nine months ended September 30, 2014, which consisted primarily of proceeds from maturities of marketable securities, partially offset by cash used to purchase marketable securities. For the nine months ended September 30, 2013, net cash used in investing activities was $20.5

million, which consisted of cash used to purchase marketable securities, partially offset by proceeds from maturities of marketable securities.

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Net cash used in financing activities was $0.1 million for the nine months ended September 30, 2014, which consisted of deferred public offering costs related to the Company s Registration Statement on Form S-3 filed in August 2014, partially offset by proceeds from the exercise of stock options. For the nine months ended September 30, 2013, financing activities provided net cash of $59.2 million mainly due to net proceeds from the IPO in July 2013 and issuance of convertible promissory notes in May 2013, partially offset by a distribution to our wholly owned subsidiary, Idun, in connection with our spin-off of such subsidiary.

Contractual Obligations and Commitments

In February 2014, we entered into a lease agreement with The Point Office Partners, LLC. Under the terms of the lease agreement, we will lease approximately 9,954 rentable square feet of office space located at 16745 West Bernardo Drive, San Diego, California from July 2014 through December 2019 with a renewal option for an additional five years. The monthly base rent will increase 3% annually from approximately $23,890 in 2014 to $27,695 in 2019.

As of September 30, 2014, there have been no other material changes outside the ordinary course of our business to the contractual obligations we reported in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commitments in our annual report on Form 10-K for the year ended December 31, 2013.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as defined by applicable regulations of the SEC) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2014, there have been no material changes in our market risk from that described in Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our annual report on Form 10-K for the year ended December 31, 2013.

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, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Inherent Limitations of Internal Controls

Our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no

matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential

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future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 28, 2014, other than the risk factors below.

Risks Related to Our Business and Industry

We may not be able to obtain orphan drug exclusivity for emricasan for any indication.

In the United States, under the Orphan Drug Act, the FDA may grant orphan designation to a drug or biological product intended to treat a rare disease or condition. Such diseases and conditions are those that affect fewer than 200,000 individuals in the United States, or if they affect more than 200,000 individuals in the United States, there is no reasonable expectation that the cost of developing and making a drug product available in the United States for these types of diseases or conditions will be recovered from sales of the product. Orphan product designation must be requested before submitting a new drug application, or NDA. If the FDA grants orphan product designation, the identity of the therapeutic agent and its potential orphan use are disclosed publicly by that agency. Orphan product designation does not convey any advantage in or shorten the duration of the regulatory review and approval process, but it can lead to financial incentives, such as opportunities for grant funding toward clinical trial costs, tax advantages and user-fee waivers.

If a product that has orphan designation subsequently receives the first FDA approval for the disease or condition for which it has such designation, the product is entitled to orphan drug marketing exclusivity for a period of seven years. Orphan drug marketing exclusivity generally prevents the FDA from approving another application, including a full NDA, to market the same drug or biological product for the same indication for seven years, except in limited circumstances, including if the FDA concludes that the later drug is safer, more effective or makes a major contribution to patient care. For purposes of small molecule drugs, the FDA defines same drug as a drug that contains the same active chemical entity and is intended for the same use as the drug in question. A designated orphan drug may not receive orphan drug marketing exclusivity if it is approved for a use that is broader than the indication for which it received orphan designation. Orphan drug marketing exclusivity rights in the United States may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition.

The criteria for designating an orphan medicinal product in the European Union, or the EU, are similar in principle to those in the United States. Under Article 3 of Regulation (EC) 141/2000, a medicinal product may be designated as orphan if (1) it is intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition; (2) either (a) such condition affects no more than five in 10,000 persons in the EU when the application is made, or (b) the product, without the benefits derived from orphan status, would not generate sufficient return in the EU to justify investment; and (3) there exists no satisfactory method of diagnosis, prevention or treatment of such condition authorized for marketing in the EU, or if such a method exists, the product will be of significant benefit to

those affected by the condition, as defined in Regulation (EC) 847/2000. Orphan medicinal products are eligible for financial incentives such as reduction of fees or fee waivers and are, upon grant of a marketing authorization, entitled to ten years of market exclusivity for the approved therapeutic indication. The application for orphan designation must be submitted before the application for marketing authorization. The applicant will receive a fee reduction for the marketing authorization application if the orphan designation has been granted, but not if the designation is still pending at the time the marketing authorization is submitted. Orphan designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process.

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The ten-year market exclusivity in the EU may be reduced to six years if, at the end of the fifth year, it is established that the product no longer meets the criteria for orphan designation, for example, if the product is sufficiently profitable not to justify maintenance of market exclusivity. Additionally, marketing authorization may be granted to a similar product for the same indication at any time if:

- the second applicant can establish that its product, although similar, is safer, more effective or otherwise clinically superior;
- the applicant consents to a second orphan medicinal product application; or
- the applicant cannot supply enough orphan medicinal product.

We originally applied for orphan drug designation for emricasan for the treatment of fibrosis in hepatitis C virus, or HCV, post-orthotopic liver transplant, or POLT, patients in the United States and the EU. The FDA granted an orphan drug designation for emricasan for the treatment of POLT patients with reestablished fibrosis to delay the progression to cirrhosis and end-stage liver disease. In the EU, we withdrew the application based on feedback from the applicable regulatory body that emricasan may have efficacy in fibrosis outside of the HCV-POLT patient population. We cannot assure you that we will be able to obtain orphan drug exclusivity for emricasan in any jurisdiction for the target indications in a timely manner or at all, or that a competitor will not obtain orphan drug exclusivity that could block the regulatory approval of emricasan for several years. If we are unable to obtain orphan drug designation in the United States or the EU, we will not receive market exclusivity which might affect our ability to generate sufficient revenues. If a competitor is able to obtain orphan exclusivity that would block emricasan s regulatory approval, our ability to generate revenues would be significantly reduced which would harm our business prospects, financial condition and results of operations.

Risks Related to Our Financial Position and Capital Requirements

If we fail to obtain additional financing, we may be unable to complete the development and commercialization of emricasan.

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts to continue the clinical development of emricasan, including our ongoing Phase 2 clinical trials and our planned Phase 3 clinical trials. If approved, we will require significant additional amounts in order to launch and commercialize emricasan, including building our own commercial capabilities to sell, market and distribute emricasan in the United States and the EU.

In July 2013, we received net proceeds of approximately $58.6 million from our initial public offering, or IPO, after deducting underwriting discounts and commissions and offering-related transaction costs. We believe that our existing cash, cash equivalents and marketable securities will be sufficient to fund our operations for at least the next 12 months. However, changing circumstances may cause us to consume capital significantly faster than we currently anticipate, and we may need to spend more money than currently expected because of circumstances beyond our control. We will require additional capital for the further development and commercialization of emricasan and may need to raise additional funds sooner if we choose to expand more rapidly than we presently anticipate.

We may seek to obtain additional financing in the future through the issuance of our common stock in public offerings, through other equity or debt financings or through collaborations or partnerships with other companies. For example, in August 2014, we entered into an At Market Issuance Sales Agreement, or the Sales Agreement, with MLV & Co. LLC, or MLV, pursuant to which we may sell from time to time, at our option, up to an aggregate of $50.0 million of shares of our common stock through MLV, as sales agent. Sales of our common stock made pursuant to the Sales Agreement, if any, will be made on The NASDAQ Global Market, or Nasdaq, under our Registration Statement on Form S-3 filed on August 14, 2014 by means of ordinary brokers transactions at market prices. Additionally, under the terms of the Sales Agreement, we may also sell shares of our common stock through MLV, on Nasdaq or otherwise, at negotiated prices or at prices related to the prevailing market price. MLV will use

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its commercially reasonable efforts consistent with its normal trading and sales practices to sell our common stock from time to time, based upon our instructions (including any price, time or size limits or other customary parameters or conditions we may impose). We cannot provide any assurances that we will issue any shares pursuant to the Sales Agreement. In addition, the Sales Agreement may be terminated by us or MLV at any time upon ten days notice to the other party, or by MLV at any time in certain circumstances, including the occurrence of an event that would be reasonably likely to have a material adverse effect on our assets, business, operations, earnings, properties, condition (financial or otherwise), prospects, stockholders equity or results of operations. As of October 31, 2014, no shares were issued pursuant to the Sales Agreement.

We cannot be certain that additional funding will be available on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of emricasan or other research and development initiatives. We also could be required to seek collaborators for emricasan at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms our rights to emricasan in markets where we otherwise would seek to pursue development or commercialization ourselves.

Any of the above events could significantly harm our business, prospects, financial condition and results of operations and cause the price of our common stock to decline.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On July 24, 2013, our registration statement on Form S-1 (File No. 333-189305), which registered an aggregate amount of up to $69.0 million of our common stock, was declared effective by the Securities and Exchange Commission for our initial public offering, or IPO. On July 25, 2013, we filed a Registration Statement pursuant to Rule 462(b) (File No. 333-190115), which registered an additional aggregate amount of up to $6.9 million of our common stock. At the closing of our IPO on July 30, 2013, we sold 6,000,000 shares of common stock at an IPO price of $11.00 per share and received gross proceeds of $66.0 million, which resulted in net proceeds to us of approximately $58.6 million, after underwriting discounts and commissions of approximately $4.6 million and offering-related transaction costs of approximately $2.8 million. None of the expenses associated with our IPO were paid to directors, officers, persons owning ten percent or more of any class of equity securities, or to their associates, or to our affiliates. Stifel, Nicolaus & Company, Incorporated and Piper Jaffray & Co. acted as joint book-running managers, and JMP Securities LLC and SunTrust Robinson Humphrey, Inc. acted as co-managers for our IPO. On August 23, 2013, the underwriters 30-day over-allotment option to purchase an additional 900,000 shares of common stock in our IPO expired without being exercised and the IPO terminated.

We intend to use the net offering proceeds to fund the clinical development of emricasan and for working capital and general corporate purposes. Pending use of the net proceeds, we plan to invest the net proceeds from our IPO in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. Through September 30, 2014, the net proceeds have been applied as follows: $10.5 million towards the clinical development of emricasan and $14.2 million towards working capital and general corporate purposes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this quarterly report on Form 10-Q and is incorporated herein by reference.

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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.

CONATUS PHARMACEUTICALS INC.

Date: November 13, 2014

/s/ Steven J. Mento, Ph.D.
Steven J. Mento, Ph.D.
President and Chief Executive Officer
(principal executive officer)

Date: November 13, 2014

/s/ Charles J. Cashion
Charles J. Cashion
Senior Vice President, Finance,
Chief Financial Officer and Secretary
(principal financial and accounting officer)

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EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation
3.2(1)	Amended and Restated Bylaws
4.1(2)	Specimen Common Stock Certificate
4.2(3)	First Amended and Restated Investor Rights Agreement, dated February 9, 2011
4.3(3)	Form of Warrant issued to investors in the Registrant s 2013 bridge financing
4.4(2)	Form of Warrant issued to lenders under the Loan and Security Agreement, dated as of July 3, 2013, by and among the Registrant, Oxford Finance LLC, Silicon Valley Bank and the other lenders party thereto
10.1(4)	At Market Issuance Sales Agreement, dated as of August 14, 2014, between the Registrant and MLV & Co. LLC
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer 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

(1) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the SEC on August 1, 2013.
(2) Incorporated by reference to Amendment No. 2 to the Registrant s Registration Statement on Form S-1 (Registration No. 333-189305), filed with the SEC on July 8, 2013.
(3) Incorporated by reference to the Registrant s Registration Statement on Form S-1 (Registration No. 333- 189305), filed with the SEC on June 14, 2013.
(4) Incorporated by reference to the Registrant s Registration Statement on Form S-3 (Registration No. 333- 198142), filed with the SEC on August 14, 2014.
* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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