

CHIMERIX INC
Form 10-Q
August 06, 2015

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015

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: 001-35867

CHIMERIX, INC.
(Exact Name of Registrant as Specified in Its Charter)
Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

33-0903395
(I.R.S. Employer Identification No.)

2505 Meridian Parkway, Suite 340
Durham, North Carolina
(Address of Principal Executive Offices)

27713
(Zip Code)

(919) 806-1074
(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 No

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of July 30, 2015, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 46,068,592.

CHIMERIX, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CHIMERIX, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$127,776	\$128,462
Short-term investments, available-for-sale	130,555	106,114
Accounts receivable	2,311	106
Prepaid expenses and other current assets	8,651	2,775
Total current assets	269,293	237,457
Long-term investments	150,139	52,973
Property and equipment, net of accumulated depreciation	1,996	1,310
Other long-term assets	80	138
Total assets	\$421,508	\$291,878
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$9,819	\$5,938
Accrued liabilities	10,758	6,833
Loan payable, net	1,484	4,296
Total current liabilities	22,061	17,067
Long-term liabilities	134	175
Total liabilities	22,195	17,242
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized at June 30, 2015 and December 31, 2014; no shares issued and outstanding as of June 30, 2015 and December 31, 2014	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized at June 30, 2015 and December 31, 2014; 45,847,032 and 41,031,770 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	46	41
Additional paid-in capital	666,586	496,602
Accumulated other comprehensive gain, net	1,803	35
Accumulated deficit	(269,122)	(222,042)
Total stockholders' equity	399,313	274,636
Total liabilities and stockholders' equity	\$421,508	\$291,878

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

CHIMERIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Contract revenue	\$2,598	\$919	\$3,833	\$1,699
Collaboration and licensing revenue	1,545	—	1,548	—
Total revenues	4,143	919	5,381	1,699
Operating expenses:				
Research and development	21,762	8,092	39,205	16,384
General and administrative	7,332	4,423	13,455	7,095
Total operating expenses	29,094	12,515	52,660	23,479
Loss from operations	(24,951	) (11,596	) (47,279	) (21,780
Other income (expense):				
Interest income (expense), net	136	(138	) 199	(334
Net loss	(24,815	) (11,734	) (47,080	) (22,114
Other comprehensive loss:				
Unrealized gain (loss) on investments, net	1,144	12	1,769	(20
Comprehensive loss	\$(23,671	) \$(11,722	) \$(45,311	) \$(22,134
Per share information:				
Net loss, basic and diluted	\$(0.59	) \$(0.39	) \$(1.13	) \$(0.78
Weighted-average shares outstanding, basic and diluted	42,079,716	30,111,380	41,614,494	28,446,074

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

CHIMERIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(47,080	) \$(22,114
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	264	95
Amortization of debt costs	49	83
Amortization of premium/discount on investments	783	385
Share-based compensation	5,203	1,415
Amortization of deferred lease obligation	(15) —
Changes in operating assets and liabilities:		
Accounts receivable	(2,205	) (40
Prepaid expenses and other assets	(5,828	) (489
Accounts payable and accrued liabilities	6,972	1,912
Net cash used in operating activities	(41,857	) (18,753
Cash flows from investing activities:		
Purchase of property and equipment	(950	) (226
Purchase of short-term investments	(33,669	) (88,641
Purchase of long-term investments	(147,086) —
Sales of short-term investments	1,003	—
Maturities of short-term investments	60,005	7,240
Net cash used in investing activities	(120,697	) (81,627
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,445	781
Proceeds from employee stock purchase plan stock purchases	461	229
Proceeds from exercise of warrants	1,000	—
Proceeds from public offering, net of offering costs	161,880	111,845
Repayment of debt	(2,850	) (2,850
Payments for deferred financing costs	(68) —
Net cash provided by financing activities	161,868	110,005
Net (decrease) increase in cash and cash equivalents	(686	) 9,625
Cash and cash equivalents:		
Beginning of period	128,462	109,976
End of period	\$127,776	\$119,601
Supplemental disclosure cash flow information:		
Cash paid for interest	\$132	\$370

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

CHIMERIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. The Business and Summary of Significant Accounting Policies

Description of Business

Chimerix, Inc. (the Company) is a biopharmaceutical company dedicated to discovering, developing and commercializing novel, oral antivirals to address unmet medical needs. The Company was founded in 2000 based on the promise of its proprietary lipid conjugate technology to unlock the potential of some of the most potent broad-spectrum antivirals by enhancing their antiviral activity and safety profiles in convenient, orally administered dosing regimens. Based on the Company's proprietary lipid conjugate technology, its lead compound, brincidofovir (BCV or CMX001), is in Phase 3 clinical development; in addition, the Company has an active discovery program focusing on viral targets for which limited or no therapies are currently available or where current therapies have significant liabilities.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiary and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's audited financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of the Company's management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of its financial position, operating results and cash flows for the periods presented have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the full year, for any other interim period or for any future year.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments, including accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short-term nature of such instruments. The carrying amount of borrowings under loans payable approximates its fair value based on the determination that the stated rate on such loans payable is consistent with current interest rates for similar borrowing arrangements available to the Company.

For assets and liabilities recorded at fair value, it is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, fair value measurements cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the calculated current or future fair values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. These levels are:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 — Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and models for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates hierarchy disclosures and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects that changes in classification between levels will be rare.

At June 30, 2015 and December 31, 2014, the Company had cash equivalents, consisting of money market accounts, and short-term and long-term investments consisting of U.S. Treasury securities, whose value is based on using quoted market prices. Accordingly, these securities are classified as Level 1.

At June 30, 2015 and December 31, 2014, the Company had cash equivalents, short-term investments and long-term investments comprised of corporate bonds, commercial paper and brokered certificates of deposit for which quoted prices are not available that are valued using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Accordingly, these securities are classified as Level 2.

The Company's preferred stock investment in ContraVir Pharmaceuticals (NASDAQ: CTRV) (ContraVir) is categorized as Level 3 as there are significant unobservable inputs. The valuation of the investment at June 30, 2015 and December 31, 2014 was calculated on an as if converted to common share basis with a discount for lack of marketability applied due to the 18 month restriction from the date of the investment on selling the converted common shares. An option pricing model was used to determine the discount for lack of marketability of 23% and 25% at June 30, 2015 and December 31, 2014, respectively. The key unobservable inputs used in the option pricing model at June 30, 2015 were (i) exercise price - \$5.08, (ii) dividend yield - 0%, (iii) expected holding period - 0.97 years, (iv) risk-free rate - 0.28%, and (v) volatility - 65%. The key unobservable inputs used in the option pricing model at December 31, 2014 were (i) exercise price - \$2.22, (ii) dividend yield - 0%, (iii) expected holding period - 1.5 years, (iv) risk-free rate - 0.44%, and (v) volatility - 65%. The increase in valuation of the preferred stock for the three and six months ended June 30, 2015 was recorded as an unrealized gain in investment, net of tax in the Consolidated Statements of Operations and Comprehensive Loss.

There was no material re-measurement to fair value of financial assets and liabilities that are not measured at fair value on a recurring basis.

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Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis (in thousands):

Fair Value Measurements June 30, 2015				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	\$117,537	\$117,537	\$—	\$ —
Certificates of deposit	240	—	240	—
Commercial paper	9,999	—	9,999	—
Total cash equivalents	127,776	117,537	10,239	—
Short-term investments				
Certificates of deposit	25,646	—	25,646	—
Corporate bonds	23,409	—	23,409	—
Commercial paper	3,999	—	3,999	—
U.S. Treasury securities	73,310	73,310	—	—
Preferred stock of U.S. corporation	4,191	—	—	4,191
Total short-term investments	130,555	73,310	53,054	4,191
Long-term investments				
Certificates of deposit	18,261	—	18,261	—
U.S. Treasury securities	131,878	131,878	—	—
Total long-term investments	150,139	131,878	18,261	—
Total assets	\$408,470	\$322,725	\$81,554	\$ 4,191

Fair Value Measurements December 31, 2014				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	\$125,606	\$125,606	\$—	\$ —
Certificates of deposit	480	—	480	—
Total cash equivalents	126,086	125,606	480	—
Short-term investments				
Certificates of deposit	16,981	—	16,981	—
Corporate bonds	69,892	—	69,892	—
Commercial paper	11,240	—	11,240	—
U.S. Treasury securities	8,000	8,000	—	—
Total short-term investments	106,114	8,000	98,114	—
Long-term investments				
Certificates of deposit	10,996	—	10,996	—
U.S. Treasury securities	40,197	40,197	—	—
Preferred stock of U.S. corporation	1,781	—	—	1,781

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Total long-term investments	52,973	40,197	10,996	1,781
Total assets	\$285,173	\$173,803	\$109,590	\$ 1,781

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Below is a table that presents a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Fair Value Measurements (Level 3)
Preferred stock of U.S. corporation:	
Fair value at December 31, 2014	\$1,781
Fair value increase recorded in other comprehensive gain	2,410
Fair value at June 30, 2015	\$4,191

Revenue Recognition

The Company's revenues generally consist of (i) contract and grant revenue – revenue generated under federal contracts and other awarded grants, and (ii) collaboration and licensing revenue – revenue related to non-refundable upfront fees, royalties and milestone payments earned under license agreements. Revenues are recognized when the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery of the products and/or services has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

For arrangements that involve the delivery of more than one element, each product, service and/or right to use assets is evaluated to determine whether it qualifies as a separate unit of accounting. This determination is based on whether the deliverable has “stand-alone value” to the customer. The consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling prices of each deliverable. The consideration allocated to each unit of accounting is recognized as the related goods and services are delivered, limited to the consideration that is not contingent upon future deliverables. If the arrangement constitutes a single unit of accounting, the revenue recognition policy must be determined for the entire arrangement and the consideration received is recognized over the period of inception through the date the last deliverable within the single unit of accounting is expected to be delivered. Revisions to the estimated period of recognition are reflected in revenue prospectively.

Non-refundable upfront fees are recorded as deferred revenue and recognized into revenue as license fees from collaborations on a straight-line basis over the estimated period of the Company's substantive performance obligations. If the Company does not have substantive performance obligations, the Company recognizes non-refundable upfront fees into revenue through the date the deliverable is satisfied. Analyzing the arrangement to identify deliverables requires the use of judgment and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation.

Milestone payments are recognized when earned, provided that (i) the milestone event is substantive; (ii) there is no ongoing performance obligation related to the achievement of the milestone earned; and (iii) it would result in additional payments. Milestone payments are considered substantive if all of the following conditions are met: the milestone payment is non-refundable; achievement of the milestone was not reasonably assured at the inception of the arrangement; substantive effort is involved to achieve the milestone; and the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement, and the related risk associated with the achievement of the milestone. Contingent based event payments the Company may receive under a license or collaboration agreement will be recognized when received.

Research and Development Prepaids and Accruals

As part of the process of preparing financial statements, the Company is required to estimate its expenses resulting from its obligation under contracts with vendors and consultants and clinical site agreements in connection with conducting clinical trials. The financial terms of these contracts are subject to negotiations which vary contract to

contract and may result in payment flows that do not match the periods over which materials or services are provided to the Company under such contracts. The Company's objective is to reflect the appropriate clinical trial expenses in its financial statements by matching those expenses with the period in which services and efforts are expended. The Company accounts for these expenses according to the progress of the trial as measured by patient progression and the timing of various aspects of the trial. Depending on amounts paid to the contract research organization and other third-party vendors as compared to actual expenses incurred, there might be a prepaid balance recorded as a prepaid asset. The Company determines accrual estimates through discussion with applicable personnel and outside service providers as to the progress or state of completion of trials, or the services completed. During the course of a clinical trial, the Company adjusts its rate of clinical trial expense recognition if actual results differ from its estimates. The Company makes estimates of its accrued expenses as of each balance sheet date in its financial statements based on facts and circumstances known at that time. Although the Company does not expect its estimates to be materially different from amounts actually incurred, its

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understanding of status and timing of services performed relative to the actual status and timing of services performed may vary and may result in the Company reporting amounts that are too high or too low for any particular period. Through June 30, 2015, there had been no material adjustments to the Company's prior period estimates of accrued expenses for clinical trials. The Company's clinical trial accrual is dependent upon the timely and accurate reporting of contract research organizations and other third-party vendors.

Basic and Diluted Net Loss Per Common Share

Basic net loss per share of common stock is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of warrants and options to purchase common stock and employee stock purchase plan rights. Diluted net loss per common share is computed by dividing net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of warrants and options to purchase common stock outstanding during the period calculated in accordance with the treasury stock method, but are excluded if their effect is anti-dilutive. Because the impact of these items is anti-dilutive during the periods of net loss, there was no difference between basic and diluted net loss per share of common stock for the three and six months ended June 30, 2015 and 2014.

The calculation of weighted-average diluted shares outstanding excludes the dilutive effect of warrants and options to purchase common stock and employee stock purchase plan rights, as the impact of such items are anti-dilutive during periods of net loss. Potential common shares excluded from the calculations were 1.2 million and 2.4 million for the three months ended June 30, 2015 and 2014, respectively, and 1.3 million and 2.5 million for the six months ended June 30, 2015 and 2014, respectively.

Impact of Recently Issued Accounting Standards

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12, "Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company does not expect the adoption of ASU 2014-12 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The ASU establishes a principles-based approach for accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance. The ASU provides that an entity should apply a five-step approach for recognizing revenue, including (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Also, the entity must provide various disclosures concerning the nature, amount and timing of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Earlier adoption is not permitted. The Company is currently analyzing the impact of this new accounting guidance.

In April 2015, the FASB issued ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs be presented in the balance sheet as a direct

deduction from the carrying amount of the associated debt liability, and amortization of those costs should be reported as interest expense. This ASU is effective for financial statements issued for annual and interim periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis for each period presented in the balance sheet. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, "Technical Corrections and Improvements." The amendments in ASU 2015-10 will clarify and correct some of the difference that arose between original guidance from FASB, EITF and other sources, and the translation into the new Codification. ASU 2015-10 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company does not expect the adoption of ASU 2015-10 to have a material impact on its consolidated financial statements.

Note 2. Investments

The following table summarizes the Company's short-term and long-term investments (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$23,415	\$ —	\$ (6)	\$ 23,409
Certificates of deposit	43,884	29	(6)	43,907
U.S. Treasury securities	205,173	38	(23)	205,188
Commercial paper	3,999	—	—	3,999
Preferred stock of U.S. corporation	1,545	2,646	—	4,191
Total investments	\$278,016	\$ 2,713	\$ (35)	\$ 280,694

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$69,947	\$ —	\$ (56)	\$ 69,891
Certificates of deposit	28,039	1	(62)	27,978
U.S. Treasury securities	48,279	—	(82)	48,197
Commercial paper	11,242	—	(2)	11,240
Preferred stock of U.S. corporation	1,545	236	—	1,781
Total investments	\$159,052	\$ 237	\$ (202)	\$ 159,087

The Company periodically reviews available-for-sale securities for other-than-temporary declines in fair value below the cost basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and the Company's intent to sell, or whether it will more likely than not be required to sell, the security before recovery of its amortized cost basis. Any such declines in value judged to be other-than temporary on available-for-sale securities are reported in interest income or expense, net. There were no such declines in value for the three and six months ended June 30, 2015 and 2014, respectively.

The following table summarizes the scheduled maturity for the Company's debt investments at June 30, 2015 (in thousands):

Maturing in one year or less	\$126,364
Maturing after one year through two years	150,139
Total debt investments	276,503
Preferred stock of U.S. corporation	4,191
Total investments	\$280,694

Note 3. Loan Payable

On January 27, 2012, the Company entered into a Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB) and MidCap Financial SBIC, LP (MidCap) allowing for borrowings up to \$15.0 million, split between a first tranche of \$3.0 million borrowed at the time of the agreement, and a second tranche of up to \$12.0 million. The

borrowings under the LSA are collateralized by a security interest in all of the Company's assets, excluding its intellectual property.

The first tranche, which was paid in full as of June 30, 2015, had an interest-only period of twelve months followed by a principal and interest amortization period of 30 months with interest being charged at 8.25% per year. The second tranche, which had an

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outstanding principal balance of \$1.5 million as of June 30, 2015, has an interest-only period of 6 months followed by a principal and interest amortization period of 32 months with interest being charged at 8.25%. There are certain fees in accordance with the LSA which are being recorded as discounts or short-term liabilities depending on the nature of the fees and are being accreted through interest expense over the life of the loans.

Note 4. Commitments and Contingencies

Leases

The Company leases its facilities and certain office equipment under long-term non-cancelable operating leases that expire at various dates through 2021. Rent expense under non-cancelable operating leases and other month-to-month equipment rental agreements, including common area maintenance fees, totaled approximately \$0.2 million and \$0.2 million for the three months ended June 30, 2015 and 2014, respectively, and \$0.3 million and \$0.3 million for the six months ended June 30, 2015 and 2014, respectively.

Significance of Revenue Source

The Company is the recipient of federal research contract funds from the Biomedical Advanced Research and Development Authority (BARDA), the primary source of the Company's contract revenue. Periodic audits are required under the Company's BARDA agreement and certain costs may be questioned as appropriate under the BARDA agreement. Management believes that such amounts in the current year, if any, are not significant. Accordingly, no provision for refundable amounts under the BARDA agreement has been made as of June 30, 2015 and December 31, 2014.

Note 5. Equity Transactions and Share-based Compensation

Common Stock

On June 16, 2015, the Company completed an underwritten public offering of 4,341,250 shares of common stock, including 566,250 shares sold pursuant to the full exercise of an option granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by the Company at a price to the public of \$39.75 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by the Company, were approximately \$161.9 million.

Stock Options

In connection with the Company's IPO, the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The 2013 Plan provides for the grant of incentive stock options (ISOs), nonstatutory stock options (NSOs), stock appreciation rights, restricted stock awards, restricted stock unit (RSU) awards, performance-based stock awards, and other forms of equity compensation (collectively, stock awards), all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and its affiliates. Additionally, the 2013 Plan provides for the grant of performance cash awards. The number of shares of common stock reserved for future issuance automatically increases on January 1 of each calendar year by 4% of the total number of shares of capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by the Company's board of directors. On January 1, 2015, the common stock reserved for issuance under the 2013 Plan was automatically increased by 1,641,271 shares. As of June 30, 2015, there was a total of 1,785,375 shares reserved for future issuance under the 2013 Plan.

Employee Stock Purchase Plan

In February 2013, the Company's board of directors adopted the 2013 Employee Stock Purchase Plan (ESPP), which was subsequently ratified by stockholders and became effective in April 2013. Initially, the ESPP authorized the issuance of 704,225 shares of common stock pursuant to purchase rights granted to the Company's employees or to employees of any of its designated affiliates. The number of shares of common stock reserved for issuance automatically increases on January 1 of each calendar year, from January 1, 2014 through January 1, 2023 by the lesser of (a) 1% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, (b) 422,535 shares, or (c) a number determined by the Company's board of directors that is less than (a) and (b). On January 1, 2015, the common stock reserved for issuance under the ESPP was automatically increased by an additional 410,317 shares bringing the total number of shares of common stock that may be purchased under the ESPP to 1,329,277.

The Company has reserved a total of 1,381,191 shares of common stock to be purchased under the ESPP, of which 1,329,277 shares remained available for purchase as of June 30, 2015. Eligible employees may authorize up to 15% of their salary to purchase

common stock at the lower of 85% of the beginning price or 85% of the ending price during each six-month purchase interval. The ESPP also provides for an automatic reset feature to start participants on a new twenty-four month participation period in the event that the common stock market value on a purchase date is less than the common stock value on the first day of the twenty-four month offering period. The Company did not issue any shares of common stock pursuant to the ESPP for the three months ended June 30, 2015 and 2014. The Company issued 25,639 and 14,184 shares of common stock pursuant to the ESPP for the six months ended June 30, 2015 and 2014, respectively. Compensation expense for shares purchased under the ESPP related to the purchase discount and the “look-back” option were determined using a Black-Scholes option pricing model.

For awards with only service conditions and graded-vesting features, the Company recognizes compensation expense on a straight-line basis over the requisite service period. For the three and six months ended June 30, 2015 and 2014, there was no non-employee share-based compensation expense. Employee-related compensation expense recognized related to stock options, RSUs and the ESPP is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Research and development expense	\$ 1,202	\$(471)	\$ 2,226	\$(96)
General and administrative expense	1,599	1,115	2,977	1,511
Total share-based compensation expense	\$2,801	\$644	\$5,203	\$1,415

Note 6. Income Taxes

The Company estimates an annual effective tax rate of 0% for the year ending December 31, 2015 as the Company incurred losses for the six month period ended June 30, 2015 and is forecasting additional losses through the fourth quarter, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2015. Therefore, no federal or state income taxes are expected and none have been recorded at this time. Income taxes have been accounted for using the liability method in accordance with FASB Accounting Standards Codification 740.

Due to the Company's history of losses since inception, there is not enough evidence at this time to support that the Company will generate future income of a sufficient amount and nature to utilize the benefits of its net deferred tax assets. Accordingly, the deferred tax assets have been reduced by a full valuation allowance, since the Company does not currently believe that realization of its deferred tax assets is more likely than not.

As of June 30, 2015, the Company had no unrecognized tax benefits that would reduce the Company's effective tax rate if recognized.

Note 7. Significant Agreements

The Regents of the University of California

In May 2002, the Company entered into a license agreement with The Regents of the University of California (UC) under which the Company obtained an exclusive, worldwide license to UC's patent rights in certain inventions (the UC Patent Rights) related to lipid-conjugated antiviral compounds and their use, including certain patents relating to brincidofovir.

Under the license agreement, the Company is permitted to research, develop, manufacture and commercialize products utilizing the UC Patent Rights for all human and veterinary uses, and to sublicense such rights. UC retained the right, on behalf of itself and other non-profit institutions, to use the UC Patent Rights for educational and research purposes and to publish information about the UC Patent Rights.

In consideration for the rights granted under the license agreement, the Company has issued UC an aggregate of 64,788 shares of common stock. As additional consideration, the Company is required to pay certain cash milestone payments in connection with the development and commercialization of compounds that are covered by the UC Patent Rights, plus certain annual fees to maintain such patents until the Company commercializes a product utilizing UC Patent Rights. In connection with the development and commercialization of brincidofovir, the Company could be required to pay UC up to an aggregate of \$3.4 million in milestone payments, assuming the achievement of all applicable milestone events under the license agreement. In addition, upon commercialization of any product utilizing the UC Patent Rights (which would include the commercialization of brincidofovir), the Company will be required to pay low single digit royalties on net sales of such product.

In the event the Company sublicenses a UC Patent Right (including UC Patent Rights relating to brincidofovir) the Company is obligated to pay to UC a fee, which amount will vary depending upon the amount of any payments the Company receives and the clinical development stage of the compound being sublicensed, but which could be up to approximately 50% of the sublicense fee in certain circumstances. With respect to brincidofovir, the fee payable to UC will not exceed 5% of the sublicense fee. In addition, the Company will also be required to pay to UC a low single digit sublicense royalty on net sales of products that use the sublicensed UC Patent Rights, but in no event will the Company be required to pay more than 50% of the royalties it receives in connection with the relevant sublicense. Any such royalty payment will be reduced by other payments the Company is required to make to third parties until a minimum royalty has been reached.

The Company did not recognize expenses under this agreement for the three and six months ended June 30, 2015 and 2014.

Biomedical Advanced Research and Development Authority (BARDA)

In February 2011, the Company entered into a contract with BARDA for the development of brincidofovir as a medical countermeasure in the event of a smallpox release. The contract has been amended several times. On August 28, 2014, the second option segment of the contract to provide approximately \$17.0 million through November 30, 2015 was executed. On July 14, 2015, the contract was amended to extend the period of performance for the second option segment through June 30, 2016.

Under the contract, BARDA will reimburse the Company, plus pay a fixed fee, for the research and development of brincidofovir as a treatment for smallpox infections. The contract consists of an initial performance period, referred to as the base performance segment, plus up to four extension periods, referred to as option segments, each of which may be exercised at BARDA's sole discretion. Under the contract as currently in effect, the Company may cumulatively receive up to \$75.8 million in expense reimbursement and \$5.3 million in fees if all remaining option segments are exercised. As of June 30, 2015, we had recognized revenue in aggregate of \$40.6 million with respect to the base performance segment and the first two extension periods.

For the three months ended June 30, 2015 and 2014, the Company recognized revenue under this contract of \$2.6 million and \$0.9 million, respectively, and for the six months ended June 30, 2015 and 2014, the Company recognized revenue under this contract of, \$3.8 million and \$1.7 million, respectively.

ContraVir Pharmaceuticals

On December 17, 2014, the Company entered into a license agreement with ContraVir Pharmaceuticals (NASDAQ: CTRV) for the development and commercialization of CMX157, our clinical stage nucleotide analog, for certain antiviral indications. Under the terms of the agreement, ContraVir has sole responsibility with respect to the control of the development and commercialization of CMX157.

In exchange for the license to CMX157 rights, the Company received an upfront payment consisting of 120,000 shares of ContraVir Series B Convertible Preferred Stock with a stated value of \$1.2 million. In addition, the Company is eligible to receive up to approximately \$20.0 million in clinical, regulatory and initial commercial milestones in the United States and Europe, as well as royalties and additional milestones based on commercial sales in those territories. Either party may terminate the license agreement upon the occurrence of a material breach by the other party (subject to standard cure periods), or upon certain events involving the bankruptcy or insolvency of the other party. ContraVir may also terminate the license agreement without cause on a country-by-country basis upon 60 days' prior written notice.

The upfront payment of 120,000 shares of ContraVir Series B Convertible Preferred Stock was valued at \$1.5 million at the time of the agreement. During the fourth quarter of 2014, the Company recorded this amount as a long-term investment and deferred revenue, which was included in accrued liabilities in the Consolidated Balance Sheets. Upon the completion of the transfer of the investigational new drug (IND) and technical know-how related to CMX157, the Company recognized the upfront payment as revenue during the three months ended June 30, 2015. As of June 30, 2015 and December 31, 2014, the fair value of the investment was \$4.2 million and \$1.8 million, respectively.

Note 8. Subsequent Events

The Company has evaluated subsequent events through the issuance date of these financial statements to ensure that this filing includes appropriate disclosure of events both recognized in the financial statements as of June 30, 2015, and events which occurred subsequently but were not recognized in the financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2014 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (SEC) on March 6, 2015, and amended on March 27, 2015. Past operating results are not necessarily indicative of results that may occur in future periods.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item IA, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

OVERVIEW

Chimerix is a biopharmaceutical company dedicated to discovering, developing and commercializing novel, oral antivirals in areas of high unmet medical need. We were founded in 2000 based on the promise of our proprietary lipid conjugate technology to unlock the potential of some of the most broad-spectrum antivirals by enhancing their antiviral activity and safety profiles in convenient, orally administered drug regimens. Based on our proprietary lipid conjugate technology, our lead compound, brincidofovir (BCV or CMX001), is in Phase 3 clinical development. In addition, we have an active discovery program focusing on viral targets for which limited or no therapies are currently available.

Recent Developments

Completion of Targeted Enrollment for Brincidofovir Phase 3 SUPPRESS and AdVise Trials

In June 2015, we completed enrollment of the targeted 450 subjects in SUPPRESS, a Phase 3 trial evaluating brincidofovir for the prevention of clinically significant cytomegalovirus (CMV) infection in hematopoietic cell transplant (HCT) recipients. We anticipate reporting topline data from SUPPRESS in early 2016.

The primary endpoint of SUPPRESS is prevention of clinically significant CMV infection through the first 24 weeks post-transplant. Subjects were randomized to receive brincidofovir or placebo orally twice-weekly for the first 14 weeks following their HCT, and are followed for 10 weeks after treatment. If the primary endpoint for SUPPRESS is

achieved, brincidofovir could be the first antiviral approved for the prevention of CMV infection in stem cell transplant recipients. Secondary endpoints in SUPPRESS could provide important additional data on the potential for brincidofovir to prevent clinically significant infections with other DNA viruses that often coexist in immunocompromised patients such as adenovirus, Epstein-Barr virus (EBV) and BK virus, and the potential impact of brincidofovir on overall and transplant-related mortality in the critical first months following the transplant.

In August 2015, we announced completion of enrollment of our Phase 3 AdVise Study, which is evaluating brincidofovir for the treatment of adenovirus (AdV) infections in pediatric and adult patients. The AdVise trial enrolled over 200 patients with serious adenovirus infections, including over 100 patients in the key population of HCT recipients with disseminated AdV disease, a life-threatening infection that has reported mortality of up to 80%. HCT recipients with localized or asymptomatic AdV infection were also enrolled in AdVise, as were patients with other reasons for immune suppression that had confirmed serious adenovirus infections, a group that included solid organ transplant recipients and patients receiving chemotherapy. All patients enrolled in AdVise receive brincidofovir orally twice-weekly for 12 weeks, and are followed for a minimum of

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12 weeks after treatment, with a primary endpoint of overall survival. We are also conducting Study 305 to obtain clinical outcomes data in patients considered matched controls from the same medical centers as AdVise participants.

Brincidofovir Demonstrated a Statistically Significant Survival Benefit in a Pivotal Study in an Animal Model of Smallpox Infection

In July 2015, we reported results from the pivotal smallpox study that was conducted under the FDA's Animal Efficacy Rule, which allows for testing of investigational drugs in animal models to support effectiveness in diseases which are not ethical or feasible to study in humans. In this well-characterized model of smallpox, animals were administered a lethal inoculum of rabbitpox virus, and monitored for clinical signs of disease. At the time of first clinical sign of disease, animals were randomized to receive placebo, immediate brincidofovir, or brincidofovir after a delay of 24, 48, or 72 hours. The study met its primary endpoint of survival benefit. Animals treated with brincidofovir upon the first clinical sign of disease, and animals that receive brincidofovir 24 or 48 hours after the first clinical sign of disease, demonstrated a statistically significant ($p < 0.05$) reduction in mortality compared to animals that received placebo. Final results from this study are expected in the fourth quarter of 2015 and will be submitted to an upcoming medical conference and to the FDA for a discussion regarding further development requirements.

The brincidofovir doses used in this animal study were scaled to equivalent doses used in the Phase 3 clinical trials of brincidofovir for CMV and adenovirus in humans, the SUPPRESS and AdVise trials, respectively. Additional data may be required prior to a new drug application (NDA) submission for smallpox.

Notice of Intent for other than Full and Open Competition for the Procurement of Brincidofovir for the CDC/Strategic National Stockpile

In April 2015, the Department of Health and Human Services, Office of the Assistant Secretary for Preparedness and Response, Biomedical Advanced Research and Development Authority (BARDA) posted a notice of intent to use other than full and open competition (Notice of Intent) to award a sole source contract to us for procurement of brincidofovir for the treatment of smallpox.

BARDA anticipates announcing the award of this contract by the end of September 2015. The estimated period of performance for the 60-month base period is September 2015 through August 2020 for initial deliveries of brincidofovir to the U.S. Centers for Disease Control and Prevention for the Strategic National Stockpile (SNS). Options may be exercised at BARDA's discretion to achieve the potential delivery of a maximum of 1.7 million treatment courses.

The delivery schedule of the smallpox antiviral treatment courses to the SNS for the treatment of smallpox will be established during contract negotiations. The first delivery of smallpox antiviral to the SNS fulfilling requirements established by the U.S. Food and Drug Administration (FDA) to support potential use of the product during a declared emergency is expected to occur in 2017. The remaining product deliveries will be structured during the remaining 60 month base period. BARDA has proposed the award of a hybrid contract consisting of a firm-fixed price component for the purchase of smallpox antiviral and a cost-plus fixed fee component to support final development efforts of the smallpox antiviral.

The Notice of Intent estimates that the total dollar value for the 60-month base period contract is approximately \$100 million. If all options are exercised by BARDA, the total dollar value is estimated to be approximately \$435 million.

We have received a request for proposal (RFP) from BARDA for the procurement of brincidofovir as a medical countermeasure for the treatment of smallpox and plan to submit a proposal to BARDA by the end of August 2015.

Public Offering of Common Stock

In June 2015, the company completed a common stock offering with net proceeds of approximately \$162 million. These proceeds are expected to be used primarily to fund the company's Phase 3 trials of brincidofovir in kidney transplant recipients, expansion of commercial manufacturing, pre-launch commercial activities, additional research and development programs, and general corporate purposes.

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FINANCIAL OVERVIEW

Revenues

To date, we have not generated any revenue from product sales. All of our revenue to date has been derived from government grants and contracts and the receipt of up-front proceeds under collaboration and license agreements.

In February 2011, we entered into a contract with BARDA, a U.S. governmental agency that supports the advanced research and development, manufacturing, acquisition, and stockpiling of medical countermeasures. The contract originally consisted of an initial performance period, referred to as the base performance segment, which ended on May 31, 2013, plus up to four extension periods, referred to as option segments. Subsequent option segments to the contract are not subject to automatic renewal and are not exercisable at our discretion. The contract is a cost plus fixed fee development contract. Under the contract as currently in effect, we may cumulatively receive up to \$75.8 million in expense reimbursement and \$5.3 million in fees if all remaining option segments are exercised. As of June 30, 2015, we had recognized revenue in aggregate of \$40.6 million with respect to the base performance segment and the first two extension periods.

During the second quarter of 2015, we were performing under the first two option segments of the BARDA contract during which we may receive expense and fee reimbursement up to \$5.3 million under the first option segment and up to \$17.0 million under the second option segment. The first option segment ended on April 30, 2015 and the second option segment is scheduled to end on June 30, 2016. Under the BARDA contract, we recognized revenue of \$2.6 million and \$0.9 million for the three months ended June 30, 2015 and 2014, respectively, and we recognized revenue of \$3.8 million and \$1.7 million for the six months ended June 30, 2015 and 2014, respectively.

In December 2014, we entered into a collaboration and licensing agreement with ContraVir Pharmaceuticals (NASDAQ: CTRV) for the development and commercialization of CMX157 for certain antiviral indications. In exchange for the license to CMX157 rights, we received an upfront payment consisting of 120,000 shares of ContraVir Series B Convertible Preferred Stock with a stated value of \$1.2 million. In addition, we are eligible to receive clinical, regulatory and initial commercial milestones in the United States and Europe, as well as royalties and additional milestones based on commercial sales in those territories. We recognized the upfront license fee payment from ContraVir as deferred revenue for the year ended December 31, 2014, as our performance obligations were not completed as of December 31, 2014. During the second quarter of 2015, the performance obligations were completed and we recognized \$1.5 million of collaboration and licensing revenue.

In the future, we may generate revenue from a combination of product sales, license fees, milestone payments and royalties from the sales of products developed under licenses of our intellectual property. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, milestone and other payments, and the amount and timing of payments that we receive upon the sale of our products, to the extent any are successfully commercialized. If we fail to complete the development of our product candidates in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected.

Research and Development Expenses

Since our inception, we have focused our resources on our research and development activities, including conducting preclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings for our product candidates. We recognize research and development expenses as they are incurred. Costs for certain development activities are recognized based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors. We cannot determine with certainty the duration and completion

costs of the current or future clinical studies of our product candidates. Our research and development expenses consist primarily of:

- Fees paid to consultants and contract research organizations (CROs), including in connection with our preclinical and clinical trials, and other related clinical trial fees, such as for investigator grants, patient screening, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis;

- Salaries and related overhead expenses, which include stock option and employee stock purchase program compensation and benefits, for personnel in research and development functions;

- Payments to third-party manufacturers, which produce, test and package our drug substance and drug product (including continued testing of process validation and stability);

- Costs related to legal and compliance with regulatory requirements; and

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License fees for and milestone payments related to licensed products and technologies.

We plan to increase our research and development expenses for the foreseeable future as we continue development of brincidofovir for the prevention of CMV infection in HCT recipients, for the treatment of AdV infections, for the prevention of CMV in kidney transplant recipients and for other indications, and to advance the development of our other product candidates, subject to the availability of additional funding.

The table below summarizes our research and development expenses for the periods indicated (in thousands). Our direct research and development expenses consist primarily of external costs, such as fees paid to investigators, consultants, central laboratories and CROs, in connection with our clinical trials, preclinical development, and payments to third-party manufacturers of drug substance and drug product. We typically use our employee and infrastructure resources across multiple research and development programs.

	Three Months Ended		Six Months Ended June	
	June 30,	June 30,	30,	30,
	2015	2014	2015	2014
Direct research and development expenses	\$14,819	\$5,714	\$26,883	\$10,732
Research and development personnel costs	5,636	1,777	10,172	4,443
Indirect research and development expenses	1,307	600	2,151	1,208
Total research and development expenses	\$21,762	\$8,091	\$39,205	\$16,384

The successful development of our clinical and preclinical product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of any of our clinical or preclinical product candidates or the period, if any, in which material net cash inflows from these product candidates may commence. This is due to the numerous risks and uncertainties associated with the development of our product candidates, including:

- the uncertainty of the scope, rate of progress and expense of our ongoing, as well as any additional or planned, clinical trials and other research and development activities;
- the potential benefits of our product candidates over other therapies;
- the ability to market, commercialize and achieve market acceptance for any of our product candidates that we are developing or may develop in the future;
- the results of ongoing or future clinical trials;
- the timing and receipt of any regulatory approvals; and
- the filing, prosecuting, defending and enforcing of patent claims and other intellectual property rights, and the expense of doing so.

A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate in the United States or in Europe, if we decide to conduct additional clinical trials for strategic reasons, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time with respect to the development of that product candidate.

Brincidofovir

The majority of our research and development resources are currently focused on our Phase 3 trial of brincidofovir for prevention of CMV in HCT recipients (SUPPRESS), our Phase 3 trial of brincidofovir as a treatment for AdV (AdVise), our Phase 3 trials of brincidofovir for prevention of CMV in kidney transplant recipients (SUSTAIN and SURPASS), other planned clinical and preclinical studies and other work needed to provide sufficient data supporting the safety, tolerability and efficacy of brincidofovir for approval in the United States and equivalent health authority approval outside the United States. We have incurred and expect to continue to incur significant expense in connection with these efforts, including expenses related to:

- manufacturing to produce, test and package our drug substance and drug product for brincidofovir;
- initiation, enrollment, and conduct of SUPPRESS;
- initiation, enrollment, and conduct of AdVise; and

initiation, enrollment and conduct of SUSTAIN and SURPASS.

In addition, pursuant to our contract with BARDA, we are evaluating brincidofovir for the treatment of smallpox. During the base performance segment of the contract, we incurred significant expense in connection with the development of orthopox virus animal models, the demonstration of efficacy and pharmacokinetics of brincidofovir in animal models, the conduct of an open label clinical safety study for subjects with DNA viral infections, and the manufacture and process validation of bulk drug substance and brincidofovir 100 mg tablets. During the first option segment of the contract, we performed additional animal testing of brincidofovir. We are currently performing under the second option segment of the contract with BARDA and have performed additional animal testing of brincidofovir. Further animal studies of brincidofovir may be required in order to provide sufficient data supporting the efficacy of brincidofovir for approval in the U.S. and equivalent health authorities outside the U.S. for the treatment of smallpox.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for employees in executive, finance, marketing, investor relations, information technology, legal, human resources and administrative support functions, including share-based compensation expenses and benefits. Other significant general and administrative expenses include the pre-launch activities for brincidofovir, accounting and legal services, cost of various consultants, director and officer liability insurance, occupancy costs and information systems.

We expect that our general and administrative expenses will continue to increase due to the potential commercialization of our product candidates. We believe that these increases will likely include increased costs for director and officer liability insurance, costs related to the hiring of additional personnel and increased fees for outside consultants, lawyers and accountants.

Interest Income (Expense), Net

Interest income consists of interest earned on our cash, cash equivalents, short-term investments and long-term investments. Interest expense consists primarily of interest accrued or paid on amounts outstanding under our Loan and Security Agreement (LSA) with Silicon Valley Bank (SVB) and MidCap Financial SBIC, LP (MidCap).

Share-based Compensation

The Financial Accounting Standards Board authoritative guidance requires that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. Total share-based compensation expense of \$2.8 million and \$0.6 million was recognized in the three months ended June 30, 2015 and 2014, respectively, and \$5.2 million and \$1.4 million was recognized in the six months ended June 30, 2015 and 2014, respectively. The share-based compensation expense recognized included expense from stock options, restricted stock units (RSUs) and our 2013 employee stock purchase plan (ESPP).

We estimate the fair value of our share-based awards to employees and directors using the Black-Scholes pricing model. This estimate is affected by our stock price as well as assumptions including the expected volatility, expected term, risk-free interest rate, expected dividend yield, expected rate of forfeiture and the fair value of the underlying common stock on the date of grant.

For performance-based stock options and performance-based RSUs, we begin to recognize the expense when it is deemed probable that the performance-based goal will be met. We evaluate the probability of achieving

performance-based goals on a quarterly basis.

Equity instruments issued to non-employees are periodically revalued as the equity instruments vest and are recognized as expense over the related service period.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited consolidated condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. 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 apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31,

2014 filed with the SEC on March 6, 2015, as amended. There have been no material changes during the second quarter of 2015 to our critical accounting policies, significant judgments and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as amended.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2015 and 2014

The following table summarizes our results of operations for the three months ended June 30, 2015 and 2014, together with the changes in those items (in thousands, except percentages):

	Three Months Ended June 30,		Dollar Change Increase/(Decrease)	% Change	
	2015	2014			
Revenues:					
Contract revenue	\$2,598	\$919	\$1,679	182.7	%
Collaboration and licensing revenue	1,545	—	1,545	—	
Total revenues	4,143	919	3,224	350.8	%
Operating expenses:					
Research and development	21,762	8,092	13,670	168.9	%
General and administrative	7,332	4,423	2,909	65.8	%
Total operating expenses	29,094	12,515	16,579	132.5	%
Loss from operations	(24,951)	(11,596)	(13,355)	115.2	%
Other income (expense):					
Interest income (expense), net	136	(138)	274	(198.6)	%
Net loss	\$(24,815)	\$(11,734)	\$(13,081)	111.5	%

Contract Revenue

For the three months ended June 30, 2015, total contract revenue increased to \$2.6 million compared to \$0.9 million for the three months ended June 30, 2014. The increase of \$1.7 million, or 182.7%, is related to an increase in reimbursable expenses related to our contract with BARDA.

Collaboration and Licensing Revenue

For the three months ended June 30, 2015, total collaboration and licensing revenue was \$1.5 million. In December 2014, we entered into a collaboration and licensing agreement with ContraVir Pharmaceuticals. We recognized the upfront license fee payment as deferred revenue in 2014. During the second quarter of 2015, we completed our performance obligations related to this agreement and recognized \$1.5 million of collaboration and licensing revenue.

Research and Development Expenses

For the three months ended June 30, 2015, our research and development expenses increased to \$21.8 million compared to \$8.1 million for the three months ended June 30, 2014. The increase of \$13.7 million, or 168.9%, is primarily related to the following:

- an increase in clinical trial expenses of \$5.4 million related to our ongoing Phase 3 SUPPRESS and AdVise studies, as well as the start-up costs of our Phase 3 SUSTAIN and SURPASS studies;

an increase in compensation and other employee related costs of \$3.9 million, consisting of \$1.7 million of share-based compensation, and \$2.2 million of compensation and benefits expense related to the addition of new employees as we continue to grow our clinical, regulatory and manufacturing departments; and an increase of \$2.6 million in drug manufacturing costs for raw materials as we began primary and secondary brincidofovir manufacturing campaigns.

General and Administrative Expenses

For the three months ended June 30, 2015, our general and administrative costs increased to \$7.3 million compared to \$4.4 million for the three months ended June 30, 2014. The increase of \$2.9 million, or 65.8%, is primarily related to the following:

an increase in costs of \$1.8 million as we expand our commercialization preparations to launch brincidofovir; and a net increase in compensation and other employee related costs of \$0.7 million, consisting of an increase of \$1.5 million of share-based compensation, and \$0.8 million of compensation and benefit expense related to the addition of new employees to support the commercialization and overall growth of the company, partially offset by a \$1.6 million reduction due to a one-time severance charge that occurred in 2014.

Interest Income (Expense), Net

For the three months ended June 30, 2015, our interest income (expense), net, increased to income of \$136,000 compared to an expense of \$138,000 for the three months ended June 30, 2014. The increase of \$274,000, or 198.6%, is attributable to interest earned on our cash and investments and a decrease in interest expense associated with the smaller outstanding loan balance in the second quarter of 2015 compared to the second quarter of 2014 as we continue to pay down the outstanding principal balance.

Comparison of the Six Months Ended June 30, 2015 and 2014

The following table summarizes our results of operations for the six months ended June 30, 2015 and 2014, together with the changes in those items (in thousands except percentages):

	Six Months Ended June 30,		Dollar Change	% Change	
	2015	2014	Increase/(Decrease)		
Revenues:					
Contract revenue	\$3,833	\$1,699	\$2,134	125.6	%
Collaboration and licensing revenue	1,548	—	1,548	—	
Total revenues	5,381	1,699	3,682	216.7	%
Operating expenses:					
Research and development	39,205	16,384	22,821	139.3	%
General and administrative	13,455	7,095	6,360	89.6	%
Total operating expenses	52,660	23,479	29,181	124.3	%
Loss from operations	(47,279)	(21,780)	(25,499)	117.1	%
Other income (expense):					
Interest income (expense), net	199	(334)	533	(159.6)	%
Net loss	\$(47,080)	\$(22,114)	\$(24,966)	112.9	%

Contract Revenue

For the six months ended June 30, 2015, total contract revenue increased to \$3.8 million compared to \$1.7 million for the six months ended June 30, 2014. The increase of \$2.1 million, or 125.6%, is related to an increase in reimbursable expenses related to our contract with BARDA.

Collaboration and Licensing Revenue

For the six months ended June 30, 2015, total collaboration and licensing revenue was \$1.5 million. In December 2014, we entered into a collaboration and licensing agreement with ContraVir Pharmaceuticals. We recognized the upfront license fee payment as deferred revenue in 2014. During the second quarter of 2015, we completed our performance obligations related to this agreement and recognized \$1.5 million of collaboration and licensing revenue.

Research and Development Expenses

For the six months ended June 30, 2015, our research and development expenses increased to \$39.2 million compared to \$16.4 million for the six months ended June 30, 2014. The increase of \$22.8 million, or 139.3%, is primarily related to the following:

- an increase in clinical trial expenses of \$10.1 million related to our ongoing Phase 3 SUPPRESS and AdVise studies, as well as the start-up costs of our Phase 3 SUSTAIN and SURPASS studies;
- an increase in compensation and other employee related costs of \$5.7 million, consisting of \$3.4 million of compensation and benefit expense and \$2.3 million of share-based compensation as we continue to grow our clinical, regulatory and manufacturing departments; and
- an increase of \$4.0 million in drug manufacturing costs for raw materials as we began primary and secondary brincidofovir manufacturing campaigns.

General and Administrative Expenses

For the six months ended June 30, 2015, our general and administrative costs increased to \$13.5 million compared to \$7.1 million for the six months ended June 30, 2014. The increase of \$6.4 million, or 89.6%, is primarily related to the following:

- an increase in costs of \$3.0 million as we expand our commercialization preparations to launch brincidofovir; and
- a net increase in compensation and other employee related costs of \$2.2 million, consisting of an increase of \$2.5 million of share-based compensation and \$1.3 million of compensation and benefits related to the addition of new employees to support the commercialization and overall growth of the company, partially offset by a \$1.6 million reduction due to a one-time severance charge that occurred in 2014.

Interest Income (Expense), Net

For the six months ended June 30, 2015, our interest income (expense), net, increased to income of \$0.2 million compared to an expense of \$0.3 million for the six months ended June 30, 2014. The increase of \$0.5 million, or 159.6%, is attributable to interest earned on our cash and investments and a decrease in interest expense associated with the smaller outstanding loan balance in the six months ended June 30, 2015 compared to the six months ended June 30, 2014 as we continue to pay down the outstanding principal balance.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses since our inception in 2000 and anticipate that we will continue to incur losses for at least the next several years. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may obtain through one or more of equity offerings, debt financings, government or other third-party funding, strategic alliances and licensing or collaboration arrangements.

On May 27, 2014, we completed an underwritten public offering of 8,395,000 shares of common stock, including 1,095,000 shares sold pursuant to the full exercise of an option previously granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of \$14.22 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately \$111.8 million. The securities described above were offered by us pursuant to a shelf registration statement declared effective by the SEC on May 16, 2014. The shelf registration statement allows us to issue shares of our common stock and preferred stock, various series of debt securities and

warrants to purchase any of such securities, up to a total aggregate offering price of \$200.0 million from time to time in one or more offerings. As of June 30, 2015, we had sold approximately \$119.4 million of our common stock under this shelf registration statement.

On November 5, 2014, we completed an underwritten public offering of 4,197,500 shares of common stock, including 547,500 shares sold pursuant to the full exercise of an option previously granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of \$29.00 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately \$114.0 million. The securities described above were offered by us pursuant to an automatic shelf registration statement which immediately became effective by rule of the SEC on October 29, 2014. For so long as we continue to satisfy the requirements to be deemed a well-known seasoned issuer, this shelf registration statement allows us to issue shares of our common stock up to a total aggregate offering price of \$150.0 million from time to time in one or more offerings. As of June 30, 2015, we had sold approximately \$121.7 million of our common stock under this shelf registration statement.

On June 16, 2015, we completed an underwritten public offering of 4,341,250 shares of common stock, including 566,250 shares sold pursuant to the full exercise of an option granted to the underwriters to purchase additional shares of common stock. All of the shares were offered by us at a price to the public of \$39.75 per share. The net proceeds from this offering, after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately \$161.9 million. The securities described above were offered by us pursuant to a shelf registration statement (including a prospectus) filed with the SEC on June 9, 2015, which became effective by rule of the SEC. For so long as we continue to satisfy the requirements to be deemed a well-known seasoned issuer, this shelf registration statement allows us to issue shares of our common stock up to a total aggregate offering price of \$250.0 million from time to time in one or more offerings. As of June 30, 2015, we had sold approximately \$172.6 million of our common stock under this shelf registration statement.

We cannot assure you that adequate funding will be available on terms acceptable to us, if at all. Any additional equity financings will be dilutive to our stockholders and any additional debt may involve operating covenants that may restrict our business. If adequate funds are not available through these means, we may be required to curtail significantly one or more of our research or development programs, our pre-launch expenses, and any launch and other commercialization expenses for any of our products that may receive marketing approval. We cannot assure you that we will successfully develop or commercialize our products under development or that our products, if successfully developed, will generate revenues sufficient to enable us to earn a profit.

As of June 30, 2015, we had capital available to fund operations of approximately \$404.3 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation. We believe that our existing capital available to fund operations will enable us to fund our current operating expenses and capital requirements into 2017. Such operating and capital requirements do not contemplate incremental expenses associated with a full scale commercial launch of brincidofovir. However, changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate.

During 2012, we entered into a loan and security agreement with SVB and MidCap allowing for borrowing up to \$15.0 million. In January 2012, we borrowed \$3.0 million under this agreement which had an interest only period for twelve months, followed by a thirty month principal and interest period at a rate of 8.25%. In September 2012, we borrowed an additional \$12.0 million under this agreement which had an interest only period of six months, followed with a thirty-two month principal interest period at a rate of 8.25%. As of June 30, 2015, the principal balance of the loan was \$1.5 million.

Cash Flows

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

	Six Months Ended June 30,	
	2015	2014
Net cash (used in) provided by:		
Operating activities	\$(41,857)	\$(18,753)
Investing activities	(120,697)	(81,627)
Financing activities	161,868	110,005
Net (decrease) increase in cash and cash equivalents	\$(686)	\$9,625

Operating Activities

Net cash used in operating activities of \$41.9 million for the six months ended June 30, 2015 was primarily the result of our \$47.1 million net loss, partially offset by the add-back of non-cash expenses of \$5.2 million for share-based compensation and \$0.8 million of accretion on investments. The change in operating assets and liabilities includes an increase of \$7.0 million in accounts payable and accrued liabilities, partially offset by an increase in prepaid expenses and other current assets of \$5.8 million primarily related to activities of our Phase 3 clinical trials and an increase in accounts receivable of \$2.2 million related to work on the BARDA contract. Net cash used in operating activities of \$18.8 million during the six months ended June 30, 2014 was primarily the result of our \$22.1 million net loss, partially offset by the add-back of non-cash expenses of \$1.4 million for share-based compensation and \$0.4 million of accretion on investments. The change in operating assets and liabilities includes an increase of \$1.9 million in accounts payable and accrued liabilities partially offset by an increase in prepaid expenses and other current assets of \$0.5 million primarily related to activities of our Phase 3 clinical trials.

Investing Activities

Net cash used in investing activities of \$120.7 million for the six months ended June 30, 2015 primarily relates to the purchase of \$33.7 million in short-term and \$147.1 million in long-term investments, partially offset by the maturities of \$60.0 million in short-term investments. Net cash used in investing activities of \$81.6 million during the six months ended June 30, 2014 was primarily the result of the purchase of \$88.6 million in short-term investments, partially offset by the maturities of \$7.2 million in short-term investments.

Financing Activities

Net cash provided by financing activities of \$161.9 million for the six months ended June 30, 2015 was primarily the result of approximately \$161.9 million in net proceeds from the completion of a public offering and \$2.9 million from the exercise of warrants, stock options and stock purchases through our ESPP, partially offset by \$2.9 million in debt repayment. Net cash provided by financing activities of \$110.0 million for the six months ended June 30, 2014 was primarily the result of approximately \$111.8 million in net proceeds from the completion of a public offering and \$1.0 million in proceeds from the exercise of stock options and stock purchases through our ESPP, partially offset by \$2.9 million in debt repayment.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations and Commitments” as contained in our Annual Report on Form 10-K for the year ended December 31, 2014 filed by us with the SEC on March 6, 2015, as amended.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the duration of our investment portfolio and the low risk profile of our investments, an immediate 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our investment portfolio.

We do not believe that our cash, cash equivalents and available-for-sale investments have significant risk of default or illiquidity. While we believe our cash and cash equivalents and certificates of deposit do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our consolidated results of operations for the three and six months ending June 30, 2015 or 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act) as of June 30, 2015, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) occurred during the three months ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS.

An investment in shares of our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information contained elsewhere in this report, before deciding whether to purchase, hold or sell shares of our common stock. The occurrence of any of the following risks could harm our business, financial condition, results of operations and/or growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. You should consider all of the risk factors described when evaluating our business. We have marked with an asterisk (*) those risk factors that reflect changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 6, 2015, as amended.

Risks Related To Our Financial Condition and Need For Additional Capital

We have incurred significant losses since our inception. We anticipate that we will continue to incur significant losses for the foreseeable future, and we may never achieve or maintain profitability.*

We are a biopharmaceutical company focused primarily on developing our lead product candidate, brincidofovir. We have incurred significant net losses in each year since our inception, including net losses of \$47.1 million and \$22.1 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, we had an accumulated deficit of approximately \$269.1 million.

To date, we have financed our operations primarily through the sale of equity securities and, to a lesser extent, through government funding, licensing fees and debt. We have devoted most of our financial resources to research and development, including our preclinical development activities and clinical trials. We have not completed development of any product candidates. We expect to continue to incur losses and negative cash flows for the foreseeable future. The size of our losses will depend, in part, on the rate of future expenditures and our ability to generate revenues. In particular, we expect to incur substantial and increased expenses as we:

- continue the development of our lead product candidate, brincidofovir, for the prevention of cytomegalovirus (CMV) infection in hematopoietic cell transplant (HCT) recipients and solid organ transplant recipients;
- continue the development of brincidofovir for the treatment of adenovirus (AdV) infection;
- seek to obtain regulatory approvals for brincidofovir;
- prepare for the potential commercialization of brincidofovir;
- scale-up manufacturing capabilities to commercialize brincidofovir for any indications for which we receive regulatory approval;
- begin outsourcing of the commercial manufacturing of brincidofovir for any indications for which we receive regulatory approval;
- establish an infrastructure for the sales, marketing and distribution of brincidofovir for any indications for which we receive regulatory approval;
- expand our research and development activities and advance our clinical programs;
- maintain, expand and protect our intellectual property portfolio;

• continue our research and development efforts and seek to discover additional product candidates; and
• add operational, financial and management information systems and personnel, including personnel to support our product development and commercialization efforts and operations as a public company.

To become and remain profitable, we must succeed in developing and eventually commercializing products with significant market potential. This will require us to be successful in a range of challenging activities, including discovering product candidates, completing preclinical testing and clinical trials of our product candidates, obtaining regulatory approval for these product candidates, and manufacturing, marketing and selling those products for which we may obtain regulatory approval. We are only in the preliminary stages of some of these activities.

To date, we have not completed Phase 3 clinical trials or obtained regulatory approval for any of our product candidates, and none of our product candidates have been commercialized. We may never succeed in developing or commercializing any of our product

candidates. If our product candidates are not successfully developed or commercialized, or if revenues from any products that do receive regulatory approvals are insufficient, we will not achieve profitability and our business may fail. Even if we successfully obtain regulatory approval to market our product candidates in the United States, our revenues are also dependent upon the size of markets outside of the United States, as well as our ability to obtain market approval and achieve commercial success outside of the United States.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the value of our company and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations. A decline in the value of our company could cause you to lose all or part of your investment.

Our ability to generate future revenues from product sales is uncertain and depends upon our ability to successfully develop, obtain regulatory approval for, and commercialize our product candidates.

Our ability to generate revenue and achieve profitability depends on our ability, alone or with collaborators, to successfully complete the development, obtain the necessary regulatory approvals and commercialize our product candidates. We do not anticipate generating revenues from sales of our product candidates for the foreseeable future. Our ability to generate future revenues from product sales depends heavily on our success in:

- obtaining favorable results for and advancing the development of brincidofovir, initially for the prevention of CMV in HCT recipients, including successfully completing Phase 3 clinical development;
- obtaining United States and foreign regulatory approval for brincidofovir, initially for the prevention of CMV infection in HCT recipients;
- obtaining U. S. and foreign regulatory approvals for brincidofovir for the treatment of AdV infection;
- launching and commercializing brincidofovir, including establishing a sales force and collaborating with third parties;
- achieving broad market acceptance of brincidofovir in the medical community and with third-party payers;
- obtaining traditional approval in the U. S. for brincidofovir for CMV prevention; and
- generating a pipeline of product candidates which progress to clinical development.

Conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data required to obtain regulatory approval and achieve product sales. Our anticipated development costs would likely increase if we do not obtain favorable results or if development of our product candidates is delayed. In particular, we would likely incur higher costs than we currently anticipate if development of our product candidates is delayed because we are required by the U.S. Food and Drug Administration (FDA) or foreign regulatory authorities to perform studies or trials in addition to those that we currently anticipate, or we decide to conduct additional studies or trials for strategic reasons. For example, SUSTAIN is intended to fulfill our regulatory need for a second confirmatory study should the SUPPRESS data support accelerated approval for the prevention of clinically significant CMV infection, while SURPASS is designed primarily to evaluate brincidofovir in a significantly more common setting of kidney transplant patients than that provided by the patient population for SUSTAIN. Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of any increase in our anticipated development costs.

In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for a number of years, if at all. Even if one or more of our product candidates is approved for commercial sale, we anticipate incurring significant costs in connection with commercialization. As a result, we cannot assure you that we will be able to generate revenues from sales of any approved product candidates, or that we will achieve or maintain profitability even if we do generate sales.

If we fail to obtain additional financing, we could be forced to delay, reduce or eliminate our product development programs, seek corporate partners for the development of our product development programs or relinquish or license on unfavorable terms, our rights to technologies or product candidates.*

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a time-consuming, expensive and uncertain process that takes years to complete. We expect our research and development expenses to increase in connection with our ongoing activities, particularly as we advance our clinical programs for brincidofovir.

We believe that our existing capital available to fund operations will enable us to fund our current operating expenses and capital requirements into 2017. Such operating and capital requirements do not contemplate incremental expenses associated with a full scale commercial launch of brincidofovir. However, changing circumstances beyond our control may cause us to consume capital more rapidly than we currently anticipate. For example, our clinical trials may encounter technical, enrollment or other difficulties

that could increase our development costs more than we expected, or because the FDA or foreign regulatory authorities requires us to perform studies or trials in addition to those that we currently anticipate. We may need to raise additional funds if we choose to initiate clinical trials for our product candidates other than brincidofovir. In any event, we will require additional capital to commercialize our lead product candidate, brincidofovir.

We have existing shelf registration statements which are effective under which we can sell an aggregate of up to \$186.3 million of securities, and for so long as we continue to satisfy the requirements to be deemed a well-known seasoned issuer, we are permitted to file additional registration statements, which will be automatically effective, and allow us to sell additional securities from time-to-time.

Securing additional financing may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates, including brincidofovir. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to:

- significantly delay, scale back or discontinue the development or commercialization of our product candidates, including brincidofovir;
- seek corporate partners for brincidofovir or any of our other product candidates 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 technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we will be prevented from pursuing development and commercialization efforts, which will have a material adverse effect on our business, operating results and prospects and on our ability to develop our product candidates.

Risks Related To Clinical Development and Regulatory Approval

We depend on the success of our lead product candidate, brincidofovir, which is still under clinical development, and may not obtain regulatory approval or be successfully commercialized.

We have not marketed, distributed or sold any products. The success of our business depends upon our ability to develop and commercialize our lead product candidate, brincidofovir, which has completed a Phase 2 clinical trial for the prevention of CMV infection in adult HCT recipients and a Phase 2 trial in preemptive treatment of adenovirus infection in adult and pediatric HCT recipients.

In August 2013, we initiated a Phase 3 trial, known as SUPPRESS, for the prevention of CMV infection in allogeneic HCT recipients. On June 8, 2015, we announced the successful enrollment of the targeted 450 patients in SUPPRESS. We intend to use this trial as a basis to submit a new drug application (NDA) to the FDA under the accelerated approval pathway seeking regulatory approval to market brincidofovir in the United States and to file equivalent applications outside the United States. In the first quarter of 2014, we initiated a second Phase 3 clinical trial of brincidofovir, known as Advise, for the treatment of Adv infection in immunocompromised patients. On August 3, 2015, we announced the successful enrollment of the targeted 200 patients in Advise.

We recently announced the design of two Phase 3 clinical trials that we plan to conduct for the prevention of CMV disease in kidney transplant recipients. Improvements in immunosuppressive regimens have decreased the rates of organ rejection over the past decade. However, there have not been concomitant advances in antiviral therapy to prevent infection caused by the DNA viruses including CMV and BK virus. The long term survival of kidney

transplants has therefore plateaued, with less than half of transplanted kidneys still functioning a decade after surgery. SUSTAIN is a Phase 3 study in kidney transplant recipients at high risk of CMV disease. It is a blinded, non-inferiority study of brincidofovir versus valganciclovir in kidney transplant recipients who are CMV seronegative (R-) but who receive a kidney from a CMV seropositive (D+) donor. The primary endpoint is CMV disease, with secondary endpoints related to renal function at one year, a measurement closely correlated with long-term renal graft survival. The trial is expected to enroll approximately 750 patients, and, if positive, could serve as a confirmatory study that would support traditional approval in the U.S. for the CMV prevention indication. Because the population for SUSTAIN makes up less than 20% of patients who are receiving a kidney transplant, it is important to also study brincidofovir in the most common setting of kidney transplantation, namely in patients who are CMV seropositive (R+) when they receive their new kidney. These patients are at increased risk of CMV reactivation due to the significant immunosuppression they receive to avoid organ rejection. CMV seropositive organ recipients comprise over half the transplant recipients; patients in this population will be enrolled in the

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parallel SURPASS trial. SURPASS has a similar design to SUSTAIN, and is a blinded, non-inferiority study of brincidofovir versus valganciclovir in kidney transplant recipients who are CMV seropositive (R+). The primary endpoint is CMV disease, with secondary endpoints related to renal function at six months. The trial is expected to enroll approximately 520 patients. Both SUSTAIN and SURPASS will provide an opportunity to evaluate brincidofovir's potential activity against BK virus, a polyomavirus that is a leading cause of kidney injury in these patient populations.

SUSTAIN is intended to fulfill our regulatory need for a second confirmatory study for the prevention of CMV infection should the SUPPRESS data support an accelerated approval in the United States, while SURPASS is designed primarily to evaluate brincidofovir in a significantly more common setting of kidney transplant patients than that provided by the patient population for SUSTAIN. We have not conducted a large, dose-ranging study in this patient population. There is no guarantee that our Phase 3 clinical trials will be completed or, if completed, will be successful, or if successful, will result in an approval. The success of brincidofovir will depend on several factors, including the following:

- successful completion of nonclinical studies and successful enrollment and completion of clinical trials;
- receipt of marketing approvals from the FDA and corresponding regulatory authorities outside the United States for our product candidates;
- establishing commercial manufacturing capabilities;
- launching commercial sales of the product, whether alone or in collaboration with others;
- acceptance of the product by patients, the medical community and third-party payers;
- effectively competing with other therapies;
- a continued acceptable safety profile of the product following approval; and
- obtaining, maintaining, enforcing and defending intellectual property rights and claims.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize brincidofovir, which would materially harm our business.

We have never obtained regulatory approval for a drug and we may be unable to obtain, or may be delayed in obtaining, regulatory approval for brincidofovir.

We have never obtained regulatory approval for a drug. It is possible that the FDA and/or foreign health authorities may refuse to accept our NDA (or corresponding application) for substantive review or may conclude after review of our data that our application is insufficient to obtain regulatory approval of brincidofovir.

As an example, the control for the AdVise trial is a historic control, which means that the clinical outcomes as recorded for similar patients at the same institutions that are participating in enrollment for AdVise will be used as the comparison for the patients who are enrolling in our pivotal trial for the treatment of adenovirus infection. Each subject enrolled in AdVise will have two matched controls for clinical outcomes including mortality. Trials which employ historic controls have specific risks which are unique and are in addition to risks of trials which randomize some patients to placebo or to an active comparator drug. Regulatory review of these trials may incur additional risks.

If the FDA and/or foreign health authorities do not accept or approve our application, we may be required to conduct additional clinical, nonclinical or manufacturing validation studies and submit those data before reconsideration of our application occurs. Depending on the extent of these or any other required studies, approval of any NDA or application that we submit may be delayed by several years, or may require us to expend more resources than we have available. It is also possible that additional studies, if performed and completed, may not be considered sufficient by the FDA and/or foreign health authorities to approve our NDA/application.

Any delay in obtaining, or an inability to obtain, regulatory approvals would prevent us from commercializing brincidofovir, generating revenues and achieving and sustaining profitability. If any of these outcomes occur, we may be forced to abandon our development efforts for brincidofovir, which would have a material adverse effect on our business and could potentially cause us to cease operations.

We depend on the successful completion of clinical trials for our product candidates, including brincidofovir. The positive clinical results obtained for our product candidates in prior clinical studies may not be repeated in future clinical studies.

Before obtaining regulatory approval for the sale of our product candidates, including brincidofovir, we must conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more of our clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the

success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval for their products.

We have completed a Phase 2 clinical study of brincidofovir for the prevention of CMV infection in HCT recipients and a Phase 2 study of brincidofovir as preemptive therapy for AdV infection in HCT recipients. However, we have never completed a pivotal Phase 3 clinical trial. The positive results we have seen to date in our Phase 2 clinical trial of brincidofovir for the prevention of CMV in HCT recipients and the encouraging data from our Phase 2 trial of brincidofovir as preemptive therapy for asymptomatic AdV infection do not ensure that later clinical trials, such as our ongoing Phase 3 SUPPRESS and AdVise trials, and any additional Phase 3 clinical trials, such as SUSTAIN and SURPASS, will demonstrate similar results. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy characteristics despite having progressed satisfactorily through preclinical studies and initial clinical testing. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience than us, have suffered significant setbacks in Phase 3 clinical development, even after seeing promising results in earlier clinical trials.

We may experience a number of unforeseen events during, or as a result of, clinical trials for our product candidates, including brincidofovir, that could adversely affect the completion of our clinical trials, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;
- we might be required to change one of our clinical research organizations (CROs) during ongoing clinical programs;
- the number of subjects required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be insufficient or slower than we anticipate or subjects may drop out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- we might have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the subjects are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;
- the cost of clinical trials of our product candidates may be greater than we anticipate;
- agency or judicial enforcement actions which impact our clinical trials;
- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate; and
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators to suspend or terminate the trials.

Negative or inconclusive results of our Phase 3 SUPPRESS and AdVise trials of brincidofovir, or any other clinical trial we conduct, could cause the FDA and/or foreign health authorities to require that we repeat or conduct additional clinical studies. Despite the results reported in earlier clinical trials for brincidofovir, we do not know whether SUPPRESS, AdVise, or any other clinical trials we may conduct will demonstrate adequate efficacy and safety to result in regulatory approval to market our product candidates, including brincidofovir. If later stage clinical trials do not produce favorable results, our ability to obtain regulatory approval for our product candidates, including brincidofovir, may be adversely impacted.

We are developing brincidofovir to treat patients who are extremely ill, and patient deaths that occur in our clinical trials could negatively impact our business even if they are not shown to be related to brincidofovir.

We are developing our lead product candidate, brincidofovir, for the prevention of CMV infection in HCT recipients through the Phase 3 SUPPRESS trial, and for the treatment of adenovirus infection through the AdVise trial. Many of these patients receive an HCT as a potential cure or remission for many cancers and genetic disorders. Patients enrolled in AdVise are often extremely sick and have a high likelihood of experiencing adverse outcomes as a result of their infection. To prepare for a hematopoietic cell transplant, patients receive a pre-transplant conditioning regimen, which involves high-dose chemotherapy and may also include radiation therapy. The conditioning regimen suppresses the patient's immune system in order to prevent it from attacking the new bone marrow.

We are also planning to initiate two Phase 3 studies, SUSTAIN and SURPASS, of brincidofovir for the prevention of CMV infection in kidney transplant recipients.

In the setting of a kidney or other transplant immunosuppressive therapies are administered to decrease the risk of organ rejection and are generally tapered after the first few months; the risk of severe viral infection is highest in the first few months. Generally, patients remain at high risk during the first 100 to 200 days following their transplant and are at increased risk of infections during that period, which can be serious and even life-threatening due to their weakened immune systems.

As a result, it is likely that we will observe severe adverse outcomes during our clinical trials for brincidofovir, including patient death. If a significant number of study subject deaths were to occur, regardless of whether such deaths are attributable to brincidofovir, our ability to obtain regulatory approval and/or achieve commercial acceptance for brincidofovir may be adversely impacted and our business could be materially harmed.

Delays in clinical trials are common and have many causes, and any delay could result in increased costs to us and jeopardize or delay our ability to obtain regulatory approval and commence product sales.*

Clinical testing is expensive, difficult to design and implement, can take many years to complete, and is uncertain as to outcome. We may experience delays in clinical trials at any stage of development and testing of our product candidates. Our planned clinical trials may not begin on time, have an effective design, enroll a sufficient number of subjects, or be completed on schedule, if at all.

Events which may result in a delay or unsuccessful completion of clinical trials, including our Phase 3 clinical trials for brincidofovir, include:

- inability to raise funding necessary to initiate or continue a trial;
- delays in obtaining regulatory approval to commence a trial;
 - delays in reaching agreement with the FDA and foreign health authorities on final trial design;
- imposition of a clinical hold following an inspection of our clinical trial operations or trial sites by the FDA or other regulatory authorities;
- delays caused by disagreements with existing CROs and/or clinical trial sites;
- delays in reaching agreement on acceptable terms with prospective CROs and clinical trial sites;
- delays in obtaining required institutional review board approval at each site;
- delays in recruiting suitable patients to participate in a trial;
- delays in having subjects complete participation in a trial or return for post-treatment follow-up;
- delays caused by subjects dropping out of a trial due to side effects or otherwise;
- clinical sites dropping out of a trial to the detriment of enrollment;
- agency or judicial enforcement actions against us;
- time required to add new clinical sites; and
- delays by our contract manufacturers to produce and deliver sufficient supply of clinical trial materials.

For example, due to the specialized indication and patient populations being studied in our Phase 3 clinical trials of brincidofovir, the number of study sites available to us is relatively limited, and therefore enrollment of suitable patients to participate in the trial may take longer than is typical for studies involving other indications. This may result in a delay or unsuccessful completion of our clinical trials, including our Phase 3 clinical trials of brincidofovir for CMV prevention in solid organ transplant recipients.

If initiation or completion of any of our clinical trials for our product candidates, including our current or future Phase 3 clinical trials of brincidofovir, are delayed for any of the above reasons, our development costs may increase, our approval process could be delayed, any periods during which we may have the exclusive right to commercialize our product candidates may be reduced and our competitors may have more time to bring products to market before we do. Any of these events could impair our ability to generate revenues from product sales and impair our ability to generate regulatory and commercialization milestones and royalties, all of which could have a material adverse effect on our business.

Our product candidates may cause adverse effects or have other properties that could delay or prevent their regulatory approval or limit the scope of any approved label or market acceptance.

Adverse events (AEs) caused by our product candidates could cause us, other reviewing entities, clinical study sites or regulatory authorities to interrupt, delay or halt clinical studies and could result in the denial of regulatory approval. For example, subjects enrolled in our Phase 2 clinical trials for brincidofovir have reported gastrointestinal AEs and liver-related safety laboratory value changes. In addition, brincidofovir is related to the approved drug cidofovir (CDV), a compound which has been shown to result

in significant renal toxicity and impairment following use. There is also a risk that our other product candidates may induce AEs, many of which may be unknown at this time. If an unacceptable frequency and/or severity of AEs are reported in our clinical trials for our product candidates, our ability to obtain regulatory approval for product candidates, including brincidofovir, may be negatively impacted.

If any of our approved products cause serious or unexpected side effects prior to or after receiving market approval, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product or impose restrictions on its distribution in a form of a modified risk evaluation and mitigation strategy (REMS);
- regulatory authorities may require the addition of labeling statements, such as warnings or contraindications;
- we may be required to change the way the product is administered or to conduct additional clinical studies;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product candidate and could substantially increase the costs of commercializing our product candidates.

After the completion of our clinical trials, we cannot predict whether or when we will obtain regulatory approval to commercialize brincidofovir and we cannot, therefore, predict the timing of any future revenue from brincidofovir.

We cannot commercialize our product candidates, including brincidofovir, until the appropriate regulatory authorities have reviewed and approved the product candidate. The regulatory agencies may not complete their review processes in a timely manner, or we may not be able to obtain regulatory approval for brincidofovir. Additional delays in the United States may result if brincidofovir is brought before an FDA advisory committee, which could recommend restrictions on approval or recommend non-approval of the product candidate. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action, or changes in regulatory agency policy during the period of product development, clinical studies and the review process. As a result, we cannot predict when, if at all, we will receive any future revenue from commercialization of any of our product candidates, including brincidofovir.

Even if we obtain regulatory approval for brincidofovir and our other product candidates, we will still face extensive regulatory requirements and our products may face future development and regulatory difficulties.

Even if we obtain regulatory approval, the granting authority may still impose significant restrictions on the indicated uses or marketing of our product candidates, including brincidofovir, or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance. For example, the labeling ultimately approved for our product candidates, including brincidofovir, will likely include restrictions on use due to the specific patient population and manner of use in which the drug was evaluated and the safety and efficacy data obtained in those evaluations. In addition, the label for brincidofovir may be required to include a boxed warning, or “black box,” regarding brincidofovir being carcinogenic, teratogenic and impairing fertility in animal studies, as well as a contraindication in patients who have had a demonstrated clinically significant hypersensitivity reaction to brincidofovir or CDV or any component of the formulation. The brincidofovir labeling may also include warnings or black boxes pertaining to gastrointestinal AEs or liver-related safety laboratory value changes.

Brincidofovir and our other product candidates will also be subject to additional ongoing regulatory requirements governing the labeling, packaging, storage, distribution, safety surveillance, advertising, promotion, record-keeping and reporting of safety and other post-market information. In the United States, the holder of an approved NDA is obligated to monitor and report AEs and any failure of a product to meet the specifications in the NDA. The holder of

an approved NDA must also submit new or supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process. Advertising and promotional materials must comply with FDA rules and are subject to FDA review, in addition to other potentially applicable federal and state laws. Furthermore, promotional materials must be approved by the FDA prior to use for any drug receiving accelerated approval, the pathway that we are pursuing for an initial marketing approval of brincidofovir in the United States for prevention of CMV in HCT recipients.

In addition, manufacturers of drug products and their facilities are subject to payment of user fees and continual review and periodic inspections by regulatory authorities for compliance with current good manufacturing practices (cGMP), and adherence to commitments made in the application. If we, or a regulatory agency, discover previously unknown problems with a product, such as quality issues or AEs of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions relative to that product or the manufacturing facility, including requiring recall or withdrawal of the product from the market or suspension of manufacturing.

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If we fail to comply with applicable regulatory requirements following approval of our product candidate, a regulatory agency may:

- issue an untitled or warning letter asserting that we are in violation of the law;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve a pending application or supplements to an application submitted by us;
- recall and/or seize product; or
- refuse to allow us to enter into supply contracts, including government contracts.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response and could generate negative publicity. The occurrence of any event or penalty described above may inhibit our ability to commercialize brincidofovir and our other product candidates and inhibit our ability to generate revenues.

Even if we obtain FDA approval for brincidofovir or any of our other products in the United States, we may never obtain approval for or commercialize brincidofovir or any of our other products outside of the United States, which would limit our ability to realize their full market potential.

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements on a country-by-country basis regarding safety and efficacy. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions. In addition, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not guarantee regulatory approval in any other country. Approval processes vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approval could result in difficulties and costs for us and require additional preclinical studies or clinical trials which could be costly and time consuming. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of our products in those countries. We do not have any product candidates approved for sale in any jurisdiction, including international markets, and we do not have experience in obtaining regulatory approval in any markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, or if regulatory approvals in international markets are delayed, our target market will be reduced and our ability to realize the full market potential of our products will be unrealized.

Our relationships with investigators, health care professionals, consultants, third-party payers, and customers are subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, physicians and others play a primary role in the recommendation and prescribing of any products for which we obtain marketing approval. Our current business operations and future arrangements with investigators, healthcare professionals, consultants, third-party payers and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations. These laws may constrain the business or financial arrangements and relationships through which we research, market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations, include, but are not limited to, the following:

- the federal healthcare anti-kickback statute which prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying remuneration (including any kickback, bribe or rebate), directly

or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid;

the federal civil and criminal false claims laws and civil monetary penalties, including civil whistleblower or qui tam actions, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, to the federal government, claims for payment or approval that are false or fraudulent or from knowingly making a false statement to improperly avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) which, among other things, imposes criminal liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payer (e.g., public or private) and knowingly or willfully falsifying, concealing or covering up by any trick or device

a material fact or making any materially false statement in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters;

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act (HITECH) and its implementing regulations, and as amended again by the final HIPAA omnibus rule, Modifications to the HIPAA Privacy, Security, Enforcement, and Breach Notification Rules Under HITECH and the Genetic Information Nondiscrimination Act; Other Modifications to HIPAA, published in January 2013, which imposes certain obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information without appropriate authorization by entities subject to the rule, such as health plans, clearinghouses and healthcare providers;

the federal Food, Drug and Cosmetic Act (FDCA) which prohibits, among other things, the adulteration or misbranding of drugs and devices;

the federal transparency law, enacted as part of the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 (collectively, the Health Care Reform Law), and its implementing regulations, which requires manufacturers of drugs, devices, biologicals and medical supplies to report to the U.S. Department of Health and Human Services information related to payments and other transfers of value made to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and

analogous state laws and regulations, including: state anti-kickback and false claims laws, which may apply to our business practices, including but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by state governmental and non-governmental third-party payers, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government; and state laws and regulations that require manufacturers to file reports relating to pricing and marketing information, which requires tracking gifts and other remuneration and items of value provided to healthcare professionals and entities.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these or any other health regulatory laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses or divert our management's attention from the operation of our business. If any of the physicians or other providers or entities with whom we expect to do business are found to be not in compliance with applicable laws, they also may be subject to criminal, civil or administrative sanctions, including, but not limited to, exclusions from government funded healthcare programs, which could also materially affect our business.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize our product candidates and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell any products for which we obtain marketing approval.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Modernization Act) changed the way Medicare covers and pays for pharmaceutical products. The legislation expanded Medicare coverage for drug purchases by the elderly and introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. In addition, this legislation provided authority for limiting the number of drugs that will be covered in any therapeutic class. Cost reduction initiatives and other provisions of this legislation could decrease the coverage and price that we receive for any approved products. While the Medicare Modernization Act applies only to drug benefits for Medicare beneficiaries, private payers often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates. Therefore, any reduction in reimbursement that results from the Medicare Modernization Act may result in a similar reduction in payments from private payers.

More recently, in March 2010, the Health Care Reform Law was enacted to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for health care and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms.

The Health Care Reform Law revises the definition of “average manufacturer price” for reporting purposes, which could increase the amount of Medicaid drug rebates to states. Further, the new law imposes a significant annual fee on companies that manufacture or import branded prescription drug products. New provisions affecting compliance have also been enacted, which may affect our business practices with health care practitioners. We will not know the full effects of the Health Care Reform Law until applicable federal and state agencies issue regulations or guidance under the new law.

Although it is too early to determine the effect of the Health Care Reform Law, the new law appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We are not sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be.

Risks Related to Our Reliance on Third Parties

We rely on third-party manufacturers to produce our preclinical and clinical drug supplies, and we intend to rely on third parties to produce commercial supplies of any approved product candidates.

We do not own or operate, and we do not expect to own or operate, facilities for product manufacturing, storage and distribution, or testing. In the past, we have relied on third-party manufacturers for supply of our preclinical and clinical drug supplies. We expect that in the future we will continue to rely on such manufacturers for drug supply that will be used in clinical trials of our product candidates, including brincidofovir, and for commercialization of any of our product candidates that receive regulatory approval.

Our reliance on third-party manufacturers entails risks, including:

- inability to meet our product specifications and quality requirements consistently;
- delay or inability to procure or expand sufficient manufacturing capacity;
- manufacturing and product quality issues related to scale-up of manufacturing;
- costs and validation of new equipment and facilities required for scale-up;
- failure to comply with cGMP and similar foreign standards;
- inability to negotiate manufacturing agreements with third parties under commercially reasonable terms;
- termination or nonrenewal of manufacturing agreements with third parties in a manner or at a time that is costly or damaging to us;
- reliance on a limited number of sources, and in some cases, single sources for product components, such that if we are unable to secure a sufficient supply of these product components, we will be unable to manufacture and sell our product candidates in a timely fashion, in sufficient quantities or under acceptable terms;
- lack of qualified backup suppliers for those components that are currently purchased from a sole or single source supplier;
- operations of our third-party manufacturers or suppliers could be disrupted by conditions unrelated to our business or operations, including the bankruptcy of the manufacturer or supplier;
- carrier disruptions or increased costs that are beyond our control; and
- failure to deliver our products under specified storage conditions and in a timely manner.

Any of these events could lead to clinical study delays, failure to obtain regulatory approval or impact our ability to successfully commercialize our products. Some of these events could be the basis for FDA action, including

injunction, recall, seizure, or total or partial suspension of production.

We rely on limited sources of supply for the drug component for our lead product candidate, brincidofovir, and any disruption in the chain of supply may cause delay in developing and commercializing brincidofovir.*

Manufacturing of drug components is subject to certain FDA and comparable foreign qualifications with respect to manufacturing standards. We are currently transferring the drug substance manufacturing process to our selected contractor that will produce the commercial supply of drug substance and have selected a commercial tablet and suspension manufacturer to optimize tablet and suspension formulation production to meet forecasted commercial demand. There can be no assurance that such transfer will be successful. It is our expectation that only one supplier of drug substance and one supplier of drug product will be qualified as vendors with the FDA. If supply from an approved vendor is interrupted, there could be a significant disruption in commercial

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supply of brincidofovir. An alternative vendor would need to be qualified through an NDA supplement which could result in further delay. The FDA or other regulatory agencies outside of the United States may also require additional studies if a new drug substance or drug product supplier is relied upon for commercial production.

These factors could cause the delay of clinical trials, regulatory submissions, required approvals or commercialization of brincidofovir, and cause us to incur additional costs. Furthermore, if our suppliers fail to deliver the required commercial quantities of active pharmaceutical ingredient on a timely basis and at commercially reasonable prices, and we are unable to secure one or more replacement suppliers capable of production at a substantially equivalent cost, our clinical trials for brincidofovir may be delayed, which could inhibit our ability to generate revenues.

Manufacturing issues may arise that could increase product and regulatory approval costs or delay commercialization of brincidofovir.

We have validated processes for drug substance and drug product production for brincidofovir at scales that are well in excess of our anticipated commercial scale. We are currently revalidating our drug substance and drug product processes using our current commercial processes at our intended commercial scale with our intended commercial manufacturers.

The validation processes, along with ongoing stability studies and analyses we are conducting, may reveal difficulties in our processes which could require resolution in order to proceed with our planned clinical trials and obtain regulatory approval for the commercial marketing of brincidofovir. In the future, we may identify significant impurities, which could result in increased scrutiny by the regulatory agencies, delays in clinical program and regulatory approval for brincidofovir, increases in our operating expenses, or failure to obtain or maintain approval for brincidofovir.

We depend on the continuation of our current collaboration with ContraVir Pharmaceuticals, who is currently responsible for developing and commercializing CMX157.

In December 2014, we entered into a licensing arrangement with ContraVir, whereby ContraVir is responsible for the future development and commercialization of CMX157. Under this arrangement, ContraVir is responsible for conducting preclinical studies and clinical trials, obtaining required regulatory approvals for CMX157, and manufacturing and commercializing CMX157. Our right to receive milestone and royalty payments under the licensing agreement depends on the achievement of certain development, regulatory and commercial milestones by ContraVir.

The development and commercialization of CMX157 and our ability to receive potential milestones and royalty payments under the license agreement with ContraVir, would be adversely affected if ContraVir:

- does not devote sufficient time and resources to the development and commercialization of CMX157;
- develops, either alone or with others, products that compete with CMX157;
- fails to gain the requisite regulatory approvals for CMX157;
- does not successfully commercialize CMX157;
- does not conduct its activities in a timely manner;
- terminates its license with us;
- does not effectively pursue and enforce intellectual property rights relating to CMX157; or
- merges with a third-party that wants to terminate the collaboration.

We have limited or no control over the occurrence of any of the foregoing. Furthermore, disagreements with ContraVir could lead to litigation or arbitration, which could be time-consuming and expensive. If any of these issues

arise, it may delay the development and commercialization milestones and royalties based on further development and sales of CMX157.

We rely on third parties to conduct, supervise and monitor our clinical studies and related data, and if those third parties perform in an unsatisfactory manner, it may harm our business.

We rely on CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials. While we have agreements governing their activities, we have limited influence over their actual performance. We have relied and plan to continue to rely upon CROs to monitor and manage data for our ongoing clinical programs for brincidofovir and our other product candidates, as well as the execution of nonclinical studies. We control only certain aspects of our CROs' activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards and our reliance on CROs does not relieve us of our regulatory responsibilities.

We and our CROs are required to comply with the FDA's guidance, which follows the International Conference on Harmonization Good Clinical Practice (ICH GCP), which are regulations and guidelines enforced by the FDA for all of our product candidates in clinical development. The FDA enforces the ICH GCP through periodic inspections of trial sponsors, principal investigators and clinical trial sites. If we or our CROs fail to comply with the ICH GCP, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. For example, upon inspection, the FDA may determine that our Phase 3 clinical trial for brincidofovir, SUPPRESS, does not comply with the ICH GCP. In addition, our Phase 3 clinical trials for brincidofovir will require a sufficiently large number of test subjects to evaluate the safety and effectiveness of brincidofovir. Accordingly, if our CROs fail to comply with these regulations or fail to recruit a sufficient number of subjects, we may be required to repeat these Phase 3 clinical trials, which would delay the regulatory approval process.

Our CROs are not our employees, and we cannot control whether or not they devote sufficient time and resources to our ongoing clinical and nonclinical programs. These CROs may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical studies, or other drug development activities which could harm our competitive position. We face the risk of potential unauthorized disclosure or misappropriation of our intellectual property by CROs, which may reduce our trade secret protection and allow our potential competitors to access and exploit our proprietary technology.

If our CROs do not successfully carry out their contractual duties or obligations, fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for any other reasons, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for, or successfully commercialize brincidofovir or our other product candidates. Disagreements with our CROs over contractual issues, including performance, compliance or compensation could lead to termination of CRO agreements and/or delays in our clinical program and risks to the accuracy and usability of clinical data. As a result, our financial results and the commercial prospects for brincidofovir and any other product candidates that we develop would be harmed, our costs could increase, and our ability to generate revenues could be delayed.

Risks Related to Commercialization of Our Product Candidates

The commercial success of brincidofovir and our other product candidates will depend upon the acceptance of these products by the medical community, including physicians, patients, pharmacists and health care payers.

If any of our product candidates, including brincidofovir, receive marketing approval, they may nonetheless not gain sufficient market acceptance by physicians, patients, healthcare payers and others in the medical community. If these products do not achieve an adequate level of market acceptance, we may not generate significant product revenues and we may not become profitable. The degree of market acceptance of any of our product candidates, including brincidofovir, will depend on a number of factors, including:

- demonstration of clinical safety and efficacy in our clinical trials;
- relative convenience, ease of administration and acceptance by physicians, patients, pharmacists and health care payers;
- prevalence and severity of any AEs;
- limitations or warnings contained in the FDA-approved label for the relevant product candidate;
- availability of alternative treatments;
- pricing and cost-effectiveness;
- effectiveness of our or any future collaborators' sales and marketing strategies;
- ability to obtain hospital formulary approval;

- ability to ensure availability for product through appropriate channels;
- ability to maintain adequate inventory; and
- ability to obtain and maintain sufficient third-party coverage or reimbursement, which may vary from country to country.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate any revenue.

We currently do not have an organization for the sales and distribution of pharmaceutical products. The cost of establishing and maintaining such an organization may exceed the cost-effectiveness of doing so. In order to market any products that may be approved, including brincidofovir, we must establish our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. We may enter into strategic partnerships with third parties to

commercialize our product candidates outside of the United States, including for brincidofovir. We intend to build our own sales force and to commercialize brincidofovir in the United States, but we will also consider the option to enter into strategic partnerships for our product candidates in the United States and elsewhere.

Our strategy for brincidofovir is to establish a specialty sales force and/or collaborate with third parties to promote the product to healthcare professionals and third-party payers in the United States and elsewhere. We may elect to launch with a contract sales organization and utilize accompanying commercial support services provided by a contract sales organization. Our future collaboration partners, if any, may not dedicate sufficient resources to the commercialization of our product candidates or may otherwise fail in their commercialization due to factors beyond our control. If we are unable to establish effective collaborations to enable the sale of our product candidates to healthcare professionals and in geographical regions, including the United States, that are not covered by our own marketing and sales force, or if our potential future collaboration partners do not successfully commercialize our product candidates, our ability to generate revenues from product sales, including sales of brincidofovir, will be adversely affected.

Establishing an internal sales force involves many challenges, including:

- recruiting and retaining talented people;
- training employees that we recruit;
- establishing compliance standards;
- setting the appropriate system of incentives;
- managing additional headcount;
- ensuring that appropriate support functions are in place to support sales force organizational needs; and
- integrating a new business unit into an existing corporate architecture.

If we are unable to establish our own sales force or negotiate a strategic partnership for the commercialization of brincidofovir in any markets, we may be forced to delay the potential commercialization of brincidofovir in those markets, reduce the scope of our sales or marketing activities for brincidofovir in those markets or undertake the commercialization activities for brincidofovir in those markets at our own expense. If we elect to increase our expenditures to fund commercialization activities ourselves, we will need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring brincidofovir to market or generate product revenue. Limited or lack of funding will impede our ability to achieve successful commercialization.

If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate sufficient product revenue and may not become profitable. We will be competing with many companies that currently have extensive and well-funded marketing and sales operations. Without an internal team or the support of a third party to perform marketing and sales functions, we may be unable to compete successfully against these more established companies.

In addition, there are risks involved with both establishing our own sales and marketing capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales, marketing and market access personnel.

If we obtain approval to commercialize any products outside of the United States, a variety of risks associated with international operations could materially adversely affect our business.

If our product candidates are approved for commercialization, we may enter into agreements with third parties to market those product candidates outside the United States, including for brincidofovir. We expect that we will be subject to additional risks related to entering into international business relationships, including:

- different regulatory requirements for drug approvals in foreign countries;
- reduced protection for intellectual property rights;
- unexpected changes in tariffs, trade barriers and regulatory and labor requirements;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;

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- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods and fires.

We have limited experience in these areas. In addition, there are complex regulatory, tax, labor and other legal requirements imposed by both the European Union and many of the individual countries in Europe with which we will need to comply. Many U.S.-based biopharmaceutical companies have found the process of marketing their own products outside the United States to be very challenging.

We face significant competition from other biotechnology and pharmaceutical companies and our operating results will suffer if we fail to compete effectively.

The biotechnology and pharmaceutical industries are intensely competitive. We have competitors both in the United States and internationally, including major multinational pharmaceutical companies, biotechnology companies and universities and other research institutions.

Currently the only approved antiviral treatment for CMV infections in HCT patients is Cytovene® (ganciclovir), although other antivirals, such as Valcyte® (valganciclovir), Foscavir® (foscarnet), Zovirax® (acyclovir) and Vistide® (cidofovir) are used. Ganciclovir, foscarnet, cidofovir, and valganciclovir are currently generically available. We are aware of several companies that are working specifically to develop drugs that would compete against brincidofovir for the prevention or treatment of CMV, including Merck & Co., Inc.'s development of letermovir, Shire Plc's development of maribavir, and Vical Incorporated's and Astellas Pharma US, Inc.'s development of ASP0113 (TransVax), and the additional availability of patient-specific T-cell therapies targeting antigens for CMV and other dsDNA viruses. Many of our competitors have substantially greater financial, technical, commercial and other resources, such as larger research and development staff, stronger intellectual property portfolios and experienced marketing and manufacturing organizations. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors.

Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors may succeed in developing, acquiring or licensing, on an exclusive basis, drug products that are more effective or less costly than brincidofovir or any other drug candidate that we are currently developing or that we may develop.

We will face competition from other drugs currently approved or that will be approved in the future for the same indications. Therefore, our ability to compete successfully will depend largely on our ability to:

- discover and develop medicines that are superior to other products in the market;
- demonstrate through our clinical trials that our product candidates, including brincidofovir, are differentiated from existing and future therapies;
- evaluate new potential indications across the lifecycle of brincidofovir;
- attract qualified scientific, product development and commercial personnel;
- obtain and successfully defend and enforce patent and/or other proprietary protection for our medicines and technologies;
- obtain required regulatory approvals;
- .

successfully collaborate with pharmaceutical companies in the discovery, development and commercialization of new medicines; and

- negotiate competitive pricing and reimbursement with third-party payers.

The availability of our competitors' products could limit the demand, and the price we are able to charge, for brincidofovir and any other product candidate we develop. We will not achieve our business plan if the acceptance of brincidofovir is inhibited by price competition or reimbursement issues or the reluctance of physicians to switch from existing drug products to brincidofovir, or if physicians switch to other new drug products or choose to reserve brincidofovir for use in limited circumstances. The inability to compete with existing or subsequently introduced drug products would have a material adverse impact on our business, financial condition and prospects.

Established pharmaceutical companies may invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make our product candidates, including brincidofovir, less competitive. In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to overcome price competition and to be commercially successful. Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA approval or discovering, developing and commercializing medicines before we do, which would have a material adverse impact on our business.

New technologies or procedures could be developed that would change or restrict the number of patients undergoing hematopoietic cell or solid organ transplants. A reduction in the number of transplants could negatively impact our commercial business by decreasing sales of our products and limiting peak sales potential.

Hospital formulary approval and reimbursement may not be available for brincidofovir and our other product candidates, which could make it difficult for us to sell our products profitably.

Obtaining hospital formulary approval can be an expensive and time consuming process. We cannot be certain if and when we will obtain formulary approval to allow us to sell our product candidates, including brincidofovir, into our target markets. Failure to obtain timely formulary approval will limit our commercial success.

Furthermore, market acceptance and sales of brincidofovir, or any other product candidates that we develop, will depend in part on the extent to which reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and third-party payers, such as private health insurers, hospitals and health maintenance organizations, decide which drugs they will pay for and establish reimbursement levels. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. Government authorities and these third-party payers have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Obtaining reimbursement for our products may be particularly difficult because of the higher prices often associated with products administered under the supervision of a physician. We cannot be sure that reimbursement will be available for brincidofovir, or any other product candidates.

Also, reimbursement amounts may reduce the demand for, or the price of, our products. If reimbursement is not available, or is available only to limited levels, we may not be able to successfully commercialize brincidofovir, or any other product candidates that we develop.

There have been a number of legislative and regulatory proposals to change the healthcare system in the United States and in some foreign jurisdictions that could affect our ability to sell any future products profitably. These legislative and regulatory changes may negatively impact the reimbursement for any future products, following approval. The availability of generic treatments may also substantially reduce the likelihood of reimbursement for any future products, including brincidofovir. The application of user fees to generic drug products will likely expedite the approval of additional generic drug treatments. We expect to experience pricing pressures in connection with the sale of brincidofovir and any other product candidate that we develop, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative changes. In addition, there may be significant delays in obtaining reimbursement for approved products, and coverage may be more limited than the purposes for which the product is approved by the FDA or regulatory authorities in other countries. Moreover, eligibility for reimbursement does not imply that any product will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim payments for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Payment rates may vary according to the use of the product and the clinical setting in which it is used, may be based on payments allowed for lower cost products that are already reimbursed, and may be incorporated into existing payments for other services.

Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private payers and by any future relaxation of laws that presently restrict imports of products from countries where they may be sold at lower prices than in the United States. Third-party payers often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies.

Our inability to promptly obtain coverage and profitable payment rates from both government funded and private payers for any of our product candidates, including brincidofovir, could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

The success of our business depends primarily upon our ability to identify, develop and commercialize product candidates. Because we have limited financial and managerial resources, we focus on research programs and product candidates for specific indications.

As a result, we may forego or delay pursuit of opportunities with other product candidates or other indications that later prove to have greater commercial potential.

Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons, including:

- our research methodology or that of our collaboration partners may be unsuccessful in identifying potential product candidates;
- our potential product candidates may be shown to have harmful side effects or may have other characteristics that may make the products unmarketable or unlikely to receive marketing approval; and
- our collaboration partners may change their development profiles for potential product candidates or abandon a therapeutic area.

If any of these events occur, we may be forced to abandon our development efforts for a program or programs, which would have a material adverse effect on our business and could potentially cause us to cease operations. Research programs to identify new product candidates require substantial technical, financial and human resources. We may focus our research efforts and resources on potential programs or product candidates that ultimately prove to be unsuccessful.

If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been advantageous for us to retain sole development and commercialization rights.

Risks Related to Our Intellectual Property

If we are unable to obtain or protect intellectual property rights related to our products and product candidates, we may not be able to compete effectively in our market.

We rely upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to our products and product candidates. The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The patent applications that we own or in-license may fail to result in issued patents with claims that cover the products in the United States or in other countries. If this were to occur, early generic competition could be expected against brincidofovir and any other product candidates in development. There is no assurance that all of the potentially relevant prior art relating to our patents and patent applications has been found, which can invalidate a patent or prevent a patent from issuing based on a pending patent application. Even if patents do successfully issue, third parties may challenge their validity, enforceability, scope or ownership, which may result in such patents, or our rights to such patents, being narrowed or invalidated.

Furthermore, even if they are unchallenged, our patents and patent applications may not adequately protect our intellectual property or prevent others from designing around our claims. If the patent applications we hold or license with respect to brincidofovir fail to issue or if their breadth or strength of protection is threatened, it could dissuade companies from collaborating with us to develop, and threaten our ability to commercialize, our products. We cannot offer any assurances about which, if any, patents will issue or whether any issued patents will be found not invalid and not unenforceable, will go unthreatened by third parties or will adequately protect our products and product candidates. Further, if we encounter delays in regulatory approvals, the period of time during which we could market brincidofovir under patent protection could be reduced. Since patent applications in the United States and most other countries are confidential for a period of time after filing, and some remain so until issued, we cannot be certain that we or our licensors were the first to file any patent application related to brincidofovir or our other product candidates.

Furthermore, if third parties have filed such patent applications, an interference proceeding in the United States can be provoked by a third party or instituted by us to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. An unfavorable outcome could require us to cease using the related technology or to attempt to license it from the prevailing party, which may not be possible. In addition to the protection afforded by patents, we rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and other elements of our drug discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. Although we expect all of our employees to assign their inventions to us, and all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology to enter into confidentiality agreements, we cannot provide any assurances that all such agreements have been duly executed, that such agreements provide adequate protection and will not be breached, that our trade secrets and other confidential proprietary information will not otherwise be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. If we are unable to prevent material disclosure of the non-patented intellectual property related to our technologies to third parties, and there is no guarantee that we will have any such enforceable

trade secret protection, we may not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, results of operations and financial condition.

Further, the laws of some foreign countries do not protect patents and other proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property abroad. We may also fail to pursue or obtain patents and other intellectual property protection relating to our products and product candidates in all foreign countries.

Finally, certain of our activities and our licensors' activities have been funded, and may in the future be funded, by the U.S. federal government. When new technologies are developed with U.S. federal government funding, the government obtains certain rights in any resulting patents, including a nonexclusive license authorizing the government to use the invention for non-commercial purposes. These rights may permit the government to disclose our confidential information to third parties and to exercise "march-in" rights to use or allow third parties to use our patented technology. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the U.S. government-funded technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give preference to U.S. industry. In addition, U.S. government-funded inventions must be reported to the government, U.S. government funding must be disclosed in any resulting patent applications, and our rights in such inventions may be subject to certain requirements to manufacture products in the United States.

Third-party claims of intellectual property infringement may prevent or delay our development and commercialization efforts or otherwise affect our business.

Our commercial success depends in part on our avoiding infringement and other violations of the patents and proprietary rights of third parties. There is a substantial amount of litigation, both within and outside the United States, involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries, including patent infringement lawsuits, interferences, oppositions and inter party reexamination proceedings before the United States Patent and Trademark Office (U.S. PTO) and its foreign counterparts. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we and our collaborators are developing product candidates. As the biotechnology and pharmaceutical industries expand and more patents are issued, and as we gain greater visibility and market exposure as a public company, the risk increases that our product candidates or other business activities may be subject to claims of infringement of the patent and other proprietary rights of third parties. Third parties may assert that we are employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of brincidofovir and/or our other product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may infringe. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of any of our product candidates, any molecules formed during the manufacturing process or any final product itself, the holders of any such patents may be able to block our ability to commercialize such product candidate unless we obtained a license under the applicable patents, or until such patents expire.

Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of our formulations, processes for manufacture or methods of use, including combination therapy, the holders of any such patent may be able to block our ability to develop and commercialize the applicable product candidate unless we obtained a license or until such patent expires. In either case, such a license may not be available on commercially reasonable terms or at all. In addition, we may be subject to claims that we are infringing other intellectual property rights, such as trademarks or copyrights, or misappropriating the trade secrets of others, and to the extent that our employees,

consultants or contractors use intellectual property or proprietary information owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful infringement or other intellectual property claim against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, obtain one or more licenses from third parties, pay royalties or redesign our affected products, which may be impossible or require substantial time and monetary expenditure. We cannot predict whether any such license would be available at all or whether it would be available on commercially reasonable terms. Furthermore, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research or allow commercialization of our product candidates, and we have done so from time to time. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize one or more of our product candidates, which could harm our business significantly. We cannot provide any assurances that third-party patents do not exist

which might be enforced against our products or product candidates, resulting in either an injunction prohibiting our sales, or, with respect to our sales, an obligation on our part to pay royalties and/or other forms of compensation to third parties.

We license certain key intellectual property from third parties, and the loss of our license rights could have a materially adverse effect on our business.

We are a party to a number of technology licenses that are important to our business and expect to enter into additional licenses in the future. For example, we rely on an exclusive license to certain patents, proprietary technology and know-how from The Regents of the University of California (UC), which we believe cover brincidofovir. If we fail to comply with our obligations under our agreement with UC or our other license agreements, or we are subject to a bankruptcy, the licensor may have the right to terminate the license, in which event we would not be able to develop or market products covered by the license, including in the case of the UC license, brincidofovir, which would have a materially adverse effect on our business.

We may be involved in lawsuits to protect or enforce our patents, the patents of our licensors or our other intellectual property rights, which could be expensive, time consuming and unsuccessful.

Competitors may infringe or otherwise violate our patents, the patents of our licensors or our other intellectual property rights. To counter infringement or unauthorized use, we may be required to file legal claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours or our licensors is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing. The initiation of a claim against a third party may also cause the third party to bring counter-claims against us.

We may not be able to prevent, alone or with our licensors, misappropriation of our intellectual property rights, particularly in countries where the laws may not protect those rights as fully as in the United States. Our business could be harmed if in a litigation the prevailing party does not offer us a license on commercially reasonable terms. Any litigation or other proceedings to enforce our intellectual property rights may fail, and even if successful, may result in substantial costs and distract our management and other employees.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the U.S. PTO and foreign patent agencies in several stages over the lifetime of the patent. The U.S. PTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process.

While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our licensors that control the prosecution and maintenance of our licensed patents fail to maintain the patents and patent applications covering our product candidates, we may lose our rights and our competitors might be able to enter the market, which would have a material adverse effect on our business.

Risks Related to Our United States Government Contracts and Grants

All of our immediately foreseeable future revenues to support the development of brincidofovir for the treatment of smallpox are dependent upon our contract with the Biomedical Advanced Research and Development Authority (BARDA), and if we do not receive all of the funds under the BARDA contract we anticipate that we will suspend or terminate our smallpox program.*

Substantially all of our revenues that support the development of brincidofovir for the treatment of smallpox have been derived from prior government grants and our current contract with BARDA. Our contract with BARDA is for the development of brincidofovir for the treatment of smallpox. It is divided into a base segment and four option segments. We substantially completed performance under the first option segment of the contract in August 2014 and are currently performing under the second option segments of the contract which is scheduled to end in June 2016. Subsequent option segments are not subject to automatic renewal and are not exercisable at our discretion. There can be no assurance that we will reach agreement with BARDA on the most appropriate development pathway or that the FDA will ultimately agree with the experiments which we perform or the appropriateness of the results of these experiments for approval of brincidofovir for smallpox. In addition, there can be no assurance that any of the subsequent option segments will be exercised or that we will continue to receive revenues under this contract once the current option segment is completed. We do not anticipate continuing this program without ongoing support from BARDA.

Additionally, the contract provides for reimbursement of the costs of the development of brincidofovir for the treatment of smallpox that are allowable under the Federal Acquisition Regulation (FAR), plus the payment of a fixed fee. It does not include the manufacture of brincidofovir for the Strategic National Stockpile. There can be no assurances that this contract will continue, that BARDA will extend the contract for additional option segments, that any such extension would be on favorable terms, or that we will be able to enter into new contracts with the United States government to support our smallpox program. Changes in government budgets and agendas may result in a decreased and de-prioritized emphasis on supporting the discovery and development of brincidofovir for the treatment of smallpox. In such event, BARDA is not required to continue funding our existing contract. Any such reduction in our revenues from BARDA or any other government contract could materially adversely affect our financial condition and results of operations. In addition, if we do not receive all of the funds under the BARDA contract, we anticipate that we will suspend or terminate our program for the development of brincidofovir for the treatment of smallpox.

There can be no assurances that we will be able to enter into a contract with BARDA to act as the sole supplier for the procurement of brincidofovir for the treatment of smallpox.*

On April 13, 2015, BARDA posted a notice of intent to use other than full and open competition to award a sole source contract to us for the procurement of brincidofovir for the treatment of smallpox. The notice stated that BARDA anticipates that it will announce the award of this contract by the end of September 2015. On May 22, 2015, BARDA posted an approved justification for the use of other than full and open competition for the contract. In July 2015, BARDA issued a request for proposal (“RFP”) to Chimerix entitled “2015 Procurement of a Second Smallpox Antiviral Drug for the Strategic National Stockpile“. Notwithstanding the issuance of the RFP, there can be no assurances that we will enter into a contract with BARDA to act as the sole supplier for the procurement of brincidofovir for the treatment of smallpox. Before we can enter into the contract we must negotiate its terms, including the price and delivery schedule. Additionally, as a governmental agency, BARDA’s ability to enter into a contract is subject to continued funding for this purpose, which can change at any time.

Unfavorable provisions in government contracts, including our contract with BARDA, may harm our business, financial condition and operating results.

United States government contracts typically contain unfavorable provisions and are subject to audit and modification by the government at its sole discretion, which will subject us to additional risks. For example, under our contract with BARDA, the U.S. government has the power to unilaterally:

- audit and object to any BARDA contract-related costs and fees on grounds that they are not allowable under the FAR, and require us to reimburse all such costs and fees;
- suspend or prevent us for a set period of time from receiving new contracts or extending our existing contract based on violations or suspected violations of laws or regulations;
- claim nonexclusive, nontransferable rights to product manufactured and intellectual property developed under the BARDA contract and may, under certain circumstances, such as circumstances involving public health and safety, license such inventions to third parties without our consent;
- cancel, terminate or suspend our BARDA contract based on violations or suspected violations of laws or regulations;
- terminate our BARDA contract in whole or in part for the convenience of the government for any reason or no reason, including if funds become unavailable to the applicable governmental agency;
- reduce the scope and value of our BARDA contract;

- decline to exercise an option to continue the BARDA contract;
- direct the course of a development program in a manner not chosen by the government contractor;
- require us to perform the option segments even if doing so may cause us to forego or delay the pursuit of other opportunities with greater commercial potential;
- take actions that result in a longer development timeline than expected; and
- change certain terms and conditions in our BARDA contract.

The U.S. government also has the right to terminate the BARDA contract if termination is in the government's interest, or if we default by failing to perform in accordance with the milestones set forth in the contract.

Termination-for-convenience provisions generally enable us to recover only our costs incurred or committed (plus a portion of the agreed fee) and settlement expenses on the work completed prior to termination. Except for the amount of services received by the government, termination-for-default provisions do not permit recovery of fees.

In addition, we must comply with numerous laws and regulations that affect how we conduct business with the United States government. Among the most significant government contracting regulations that affect our business are:

- FAR, and agency-specific regulations supplements to the FAR, which comprehensively regulate the procurement, formation, administration and performance of government contracts and implement federal procurement policy in numerous areas, such as employment practices, protection of the environment, accuracy and retention periods of records, recording and charging of costs, treatment of laboratory animals and human subject research;
- business ethics and public integrity obligations, which govern conflicts of interest and the hiring of former government employees, restrict the granting of gratuities and funding of lobbying activities and incorporate other requirements such as the Anti-Kickback Act and the Foreign Corrupt Practices Act;
- export and import control laws and regulations; and
- laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

Furthermore, we may be required to enter into agreements and subcontracts with third parties, including suppliers, consultants and other third-party contractors, in order to satisfy our contractual obligations pursuant to our agreements with the U.S. government. Negotiating and entering into such arrangements can be time-consuming and we may not be able to reach agreement with such third parties. Any such agreement must also be compliant with the terms of our government contract. Any delay or inability to enter into such arrangements or entering into such arrangements in a manner that is non-compliant with the terms of our contract, may result in violations of our contract.

As a result of these unfavorable provisions, we must undertake significant compliance activities. The diversion of resources from commercial programs to these compliance activities, as well as the exercise by the U.S. government of any rights under these provisions, could materially harm our business.

Our business is subject to audit by the U.S. government, including under our contract with BARDA, and a negative audit could adversely affect our business.

United States government agencies, such as the Department of Health and Human Services (DHHS), routinely audit and investigate government contractors and recipients of federal grants, including our contract with BARDA. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards.

The DHHS can also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs

already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including:

- termination of contracts;